

European Union Support to Municipal Development – EU PRO

*Description of Action
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Republic of Serbia



Implementing partner

Executive Summary

The European Union Support to Municipal Development – EU PRO Programme¹ will contribute to a more balanced socio-economic development of Serbia, by enhancing competitiveness and social cohesion of 99 municipalities, in two regions: Šumadija and Western Serbia and South and Eastern Serbia.² The Programme will create a more conducive business environment for Small and Medium-sized Enterprises (SMEs), develop/improve business enabling and social infrastructure, and assist implementation of a more efficient local government service in land management.

Specifically, the Programme will contribute to: improved technological structure of SMEs and their ability to export through provision of equipment and services; enabling of business support organisations (BSOs) and civil society organisations (CSOs) to strengthen their ability to provide specialised services to SMEs by supporting targeted projects; enabling administrative environment for infrastructure investments and business operations by supporting local administration structures to develop geographic information systems (GIS), urban plans related to economic development and project technical documentation for projects contributing to economic development; facilitating of investments on the local level by development/ improvement of small-scale infrastructure; social cohesion by supporting projects for improvement of the living conditions and quality of public infrastructure and activities enhancing inter-ethnic dialogue and cooperation.

The direct beneficiaries of the EU PRO are local administration structures, local SMEs, civil society organisations (CSOs) and business support organisations (BSOs). The final beneficiaries are the inhabitants of 99 municipalities.

The EU PRO builds on the development momentum created by its predecessors, six projects funded by the European Union and the Government of Switzerland,³ and takes into account the lessons learned during their implementation over the past ten years. The Programme is based on the National Priorities for International Assistance in the Republic of Serbia 2014-2017, with projections until 2020 (NAD)⁴, significant for Serbia's EU accession process and socio-economic development. Its activities will be undertaken in partnership with the Government of Serbia and in cooperation with national and local institutions, while respecting the national strategies, laws and relevant development documents, in order to ensure national ownership and help develop national capacities.

¹ The Programmes is based on Serbia Local Development Action Document within the Instrument for Pre-accession Assistance (IPA) 2016 <http://europa.rs/eu-assistance-to-serbia/ipa/ipa-2016/?lang=en>

² Forty-five municipalities are from the third and the fourth category of development, 44 are from the first and the second. The two regions, Šumadija and Western Serbia and South and Eastern Serbia, are less developed comparing to Belgrade and Vojvodina.

³ PRO 1, PRO 2 in the Southwest Serbia, MIR 1 and MIR2 in the South Serbia, EU PROGRES in 25 municipalities of the South and Southwest Serbia (<http://www.euprogres.org/oprogramu.php>), and European PROGRES in 34 municipalities of the Southeast and Southwest Serbia (<http://www.europeanprogres.org/kosmo/en/55/>)

⁴ Available at: [http://www.evropa.gov.rs/Documents/Home/DACU/12/74/NAD%202014-2017%20with%20projections%20until%202020%20\(english\).pdf](http://www.evropa.gov.rs/Documents/Home/DACU/12/74/NAD%202014-2017%20with%20projections%20until%202020%20(english).pdf)

The Ministry for European Integration⁵ will preside over the Programme Steering Committee (PSC) meetings, while other PSC voting members will be from the Ministry of Economy, the Ministry of Construction, Transport, and Infrastructure, and the donor. The representatives of the Public Investment Management Office (PIMO) and the Development Agency of Serbia (RAS), the Standing Conference of Towns and Municipalities (SCTM) will participate in the work of the PSC as observers. Close coordination will be established with other line ministries,⁶ but also with the Chamber of Commerce and Industry of Serbia, the Government of Serbia Coordination Body for the Municipalities of Preševo, Bujanovac and Medveđa (CB), the Republic Geodetic Authority, the Association of Consulting Engineers of Serbia (ACES) and the Serbian Chamber of Engineers.

The European Union (EU) has allocated 25 million Euros for the implementation of the Programme during 36 months. The United Nations Office for Project Services (UNOPS) was selected for indirect management, through a Call for Expression of Interest.⁷ The EU PRO Programme is complimentary to a CHF 6.9 million Swiss Government funded project focussed on enhancing good governance and social inclusion on the local level in Serbia. The synergies will enhance the outcomes and results of both interventions, but also contribute to increased accountability, transparency and efficiency of all beneficiary institutions.

The risks, which may impede fulfilment of the Programme's objectives, have been carefully analysed and adequate mitigation measures were proposed. For example, beneficiaries may have low capacities that could lead to the lack of sustainability of the projects or delays in the implementation. In order to minimise this risk and ensure wide understanding, intensive communication about the Programme with all stakeholders will be conducted continuously. Furthermore, the field presence of the Programme's personnel will also provide opportunity for close contact and mentoring support to the beneficiaries.

The EU PRO's Communications and Visibility Strategy will be in line with the Communication and Visibility Manual for European Union External Actions.⁸ The primary goal of the communications will be to contribute to the improvement of the overall visibility of the EU support to Serbia and promote the development opportunities for beneficiaries, the Programme's results, while linking them to the EU integration process and EU values. The EU PRO's logo will prominently feature the EU flag.

Predominantly, the projects will be selected through open and restricted calls for proposals, which are transparent solicitation methods, respecting fairness and integrity. Using UNOPS grant methodology in management of projects will also contribute to national ownership of the activities, with the national partners leading in implementation, and UNOPS maintaining

⁵ Previously the European Integration Office of the Government of the Republic of Serbia (SEIO), is the National IPA Coordinator (NIPAC), tasked with programming, preparation, implementation as well as sustainability and effects of this Programme

⁶ E.g. the Ministry of Public Administration and Local Self-Government

⁷ The Call was organised by the Delegation of the European Union (DEU) in cooperation with the then European Integration Office of the Republic of Serbia (SEIO) in July 2016. The criteria included adequate administrative, financial and technical capacity, as well as criteria related to the quality of the Concept Note, including relevance; consistency with the objectives, results and activities of the Action, expected impact; sustainability and cost-effectiveness.

⁸ Communication and Visibility Manual for EU External Actions <https://goo.gl/jDI5Km> and the DEU Visibility Guidelines <http://europa.rs/eu-visibility-guidelines/>

advisory and monitoring role. All Programme's financial and administrative records will be kept according to the UNOPS rules and procedures, using double entry bookkeeping system.

Monitoring of the EU PRO implementation will be in accordance with the EU rules and procedures, with the aim to track progress over time against the planned targets within the logical framework matrix (LFM). No funding has been budgeted for the evaluation of the entire Programme. However, the European Commission may carry out a mid-term, a final or an ex-post evaluation of the entire Programme and/or its components via independent consultants, through a joint mission or via an implementing partner.

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Abbreviations

ACES	Association of Consulting Engineers of Serbia
AD	Action Document
BSO	Business Support Organisation
CB	Government of Serbia Coordination Body for the Municipalities of Preševo, Bujanovac and Medveđa
CFP	Call for Proposals
CRPD	Central Registry of Planning Documents
CSO	Civil Society Organisation
CSP	Country Strategy Paper
CSR	Corporate Social Responsibility
DEU	Delegation of the European Union
DoA	Description of Action
EC	European Commission
EIB	European Investment Bank
EU	European Union
FIDIC	International Federation of Consulting Engineers
GDP	Gross Domestic Product
GIS	Geographic Information System
GRI	Global Reporting Initiative
INSPIRE	Infrastructure for Spatial Information in Europe
IPA	Instrument for Pre-accession Assistance
IT	Information Technology
LED	Local Economic Development
LFM	Logical Framework Matrix
LSG	Local Self-government
MoU	Memorandum of Understanding
NAD	National Priorities for International Assistance in the Republic of Serbia 2014-2017, with projections until 2020
NGO	Non-governmental Organisation
NIPAC	National IPA Coordinator
NMC	National Minority Council
PIMO	Public Investment Management Office
PM	Prime Minister
PRINCE2	Projects IN Controlled Environment
PSC	Programme Steering Committee
RAS	Development Agency of Serbia
RDA	Regional Development Agency
SAA	Stabilisation and Association Agreement
SCoE	Serbian Chamber of Engineers
SCTM	Standing Conference of Towns and Municipalities
SDG	Sustainable Development Goals
SEIO	European Integration Office of the Government of Serbia
SME	Small and Medium-sized Enterprise
UNOPS	United Nations Office for Project Services
USAID	United States Agency for International Development

1 Background

The European Union Support to Municipal Development – EU PRO is based on the Serbia Local Development Action Document within the Instrument for Pre-accession Assistance (IPA) 2016,⁹ with its actions conceptualised so that they increase municipal capacities for attracting investments, improve competitiveness and business development, create new jobs and contribute to social cohesion at local level. Specifically, the Programme will create a more conducive business environment for Small and Medium-sized Enterprises (SMEs) and entrepreneurs, fund infrastructure interventions that will have positive impact on local economy and quality of life and it will assist implementation of a more efficient local government service in land management and issuing of permits.

The EU PRO builds on the development momentum created by its predecessors, six projects funded by the European Union and the Government of Switzerland,¹⁰ and takes into account the lessons learned during their implementation over the past ten years.

The European Union (EU) has allocated 25 million Euros for the implementation of the Programme during 36 months. The United Nations Office for Project Services (UNOPS) has been selected, after a call for expression of interest, as the implementing partner. A complimentary Swiss Government funded project focussing on enhancing good governance and social inclusion on the local level in Serbia is currently being developed.

1.1 Government Policy

The Programme is based on the National Priorities for International Assistance in the Republic of Serbia 2014-2017, with projections until 2020 (NAD)¹¹, which covers nine sectors¹², three thematic areas¹³ and two cross-cutting issues¹⁴, significant for Serbia's EU accession process and socio-economic development. It is fully synchronised with the Government strategies and laws, as well as action plans, in the fields of economy and finance, public administration, urban and spatial planning, infrastructure, employment and improvement of the position of the vulnerable groups.¹⁵

One of the key documents, whose implementation will be supported through the Local Development Programme is the Government of Serbia's Economic Reform Programme 2017 – 2019 (ERP),¹⁶ which defines a range of structural reforms necessary for preservation of

⁹ <http://europa.rs/eu-assistance-to-serbia/ipa/ipa-2016/?lang=en>

¹⁰ PRO 1, PRO 2 in the Southwest Serbia, MIR 1 and MIR2 in the South Serbia, EU PROGRES in 25 municipalities of the South and Southwest Serbia (<http://www.euprogres.org/oprogramu.php>), and European PROGRES in 34 municipalities of the Southeast and Southwest Serbia (<http://www.europeanprogres.org/kosmo/en/55/>)

¹¹ The document was prepared by the SEIO in cooperation with the national authorities, after a wide consultation process with development partners and civil society. Its objective is to help donors align international financial assistance with national sector priorities, eliminate duplication and rationalise donor activities. The document is available at:

[http://www.evropa.gov.rs/Documents/Home/DACU/12/74/NAD%202014-2017%20with%20projections%20until%202020%20\(english\).pdf](http://www.evropa.gov.rs/Documents/Home/DACU/12/74/NAD%202014-2017%20with%20projections%20until%202020%20(english).pdf)

¹² Justice, Home Affairs, Public Administration Reform, Competitiveness, Energy, Environment and Climate Change, Transport, Human Resource and Social Development, Agriculture and Rural Development

¹³ Civil Society, Media, Culture

¹⁴ Local /Regional Development, Gender Equality

¹⁵ <http://www.gs.gov.rs/english/strategije-vs.html>

¹⁶ [http://www.mfin.gov.rs/UserFiles/File/strategije/ERP%202017-2019\(1\).pdf](http://www.mfin.gov.rs/UserFiles/File/strategije/ERP%202017-2019(1).pdf)

macro-economic stability and contribution to creation of stable and predictable business environment. The ERP reconfirms Government's commitment to remove obstacles to economic growth, to stimulate private investments, entrepreneurship, innovations, development of knowledge based economy, and employability.

The Fiscal Strategy for 2017, which includes projections for 2018 and 2019, also confirms the Government's pledge to continue reforms related to competitiveness and creation of more conducive business environment. The Strategy envisages further measures to accelerate development of small and medium-sized enterprises (SMEs), while the planned structural reforms should enhance overall efficiency including increase in production, export and employment - ultimately resulting in enhanced competitiveness of Serbia's economy.¹⁷

This Programme's overall and specific objectives are consistent with the Spatial Plan of the Republic of Serbia (2010-2014-2020)¹⁸, which defines country's long-term model of sustainable development, including environment, economic, social and institutional progress. The Plan lists balanced regional development, regional competitiveness, improved social cohesion, strengthening of rural development, and better infrastructure as the priorities.

Furthermore, the activities are aligned with Serbia's Strategy for Support to Small and Medium-sized Enterprises (SMEs), Entrepreneurship and Competitiveness 2015-2020,¹⁹ whose one pillar envisages strengthening the sustainability of SMEs and increase of their ability to offer products and services that meet the quality standards of the markets in a competitive manner.

In addition, the Programme's actions are harmonised with the main strategic priorities from the National Employment Strategy 2011 – 2020²⁰ and its Action Plan for 2017²¹ i.e. promoting employment in less developed regions and enhancing human capital and greater social inclusion, and improving institutions and local market. Provisions of the new Strategy for Social Inclusion of Roma for 2016-2025²² have also been taken into account during the Programme's design.

Finally, the Serbian National Policy of Urban Development,²³ which is being formulated, will include urban renewal and regeneration, promotion of brownfield locations development, planning of industrial and commercial areas/zones, rational use of land and combating

¹⁷ The Fiscal Strategy of the Government of the Republic of Serbia for 2017, with Projections for 2018 and 2019

<http://www.mfin.gov.rs/UserFiles/File/dokumenti/2017/Fiskalna%20strategija%202017%20engleski.pdf>

¹⁸ [http://195.222.96.93//media/zakoni/Spatial%20Plan%20of%20the%20Republic%20of%20Serbia_2010-2020_abridged%20\(1\).pdf](http://195.222.96.93//media/zakoni/Spatial%20Plan%20of%20the%20Republic%20of%20Serbia_2010-2020_abridged%20(1).pdf)

¹⁹ <http://www.privreda.gov.rs/wp-content/uploads/2015/06/Strategija-mala-i-srednja-preduzeca1.pdf>

²⁰ http://www.nsz.gov.rs/live/digitalAssets/0/302_nacionalna_strategija_zaposljavanja_2011-2020.pdf

²¹ <http://www.minrzs.gov.rs/lat/dokumenti/zaposljavanje/plan-zaposljavanja>

²² <http://www.minrzs.gov.rs/lat/dokumenti/medjunarodna-saradnja/strategija-za-socijalno-uklju%C4%8Divanje-roma-i-romkinja-u-republici-srbiji-za-period-od-2016-do-2025-godine>

²³ The policy will be aligned with the Toledo Declaration on Urban Development

http://ec.europa.eu/regional_policy/archive/newsroom/pdf/201006_toledo_declaration_en.pdf and the Urban Agenda for the EU 2016 http://ec.europa.eu/regional_policy/sources/policy/themes/urban-development/agenda/pact-of-amsterdam.pdf

“urban sprawl”, urban-rural, high quality public spaces and preservation of cultural heritage, which are also in the core of this Programme.

1.2 Features of the Sector and Problems to be Addressed

Serbia, according to the European Commission (EC) 2016 Progress Report²⁴, “is moderately prepared in the area of public administration reform” and “developing a functioning market economy”. The EC Report also praised the efforts in strengthening the tax administration and reform of local government finance but pointed that “preventing corruption in local government requires greater attention”.

The EC report recognised the progress that the country made to facilitate economic recovery. It acknowledges the improvements at policy level and in conduct of structural reforms, while highlighting fiscal consolidation efforts. The document, however, reconfirms that “private sector is underdeveloped and hampered by weaknesses in the rule of law, and difficult access to finance.” It indicated the need for continuation of economic reforms, while among other calling for further improvement of business environment, stimulation of private investments, and enhanced preparation and implementation of public infrastructure projects.

According to the Fiscal Council of Serbia, the country achieved budget deficit of around two per cent of GDP, while in 2016, the second year of fiscal consolidation in Serbia, the growth of public debt was halted.²⁵ Compared to the same period in 2015, Serbia's Gross Domestic Product (GDP) grew by 2.5% in the last quarter of 2016, thanks to expansion in agriculture, forestry and fishing, wholesale and retail trade, industry and private sector services.²⁶ It is estimated that the size of shadow economy, which is one of the key obstacles to corporate sector development, is at 21% to 30.1% of GDP.²⁷

Serbia's overall external trade, in 2016, was 30.8 billion Euros, an increase of 8.4% compared to 2015.²⁸ Its export was 13.4 billion Euros, an increase by 11.5%, while imports rose to 17.3 billion Euros, i.e. increased by 6.1%. Looking at the regions, Šumadija and Western Serbia contributed with 26.3% and the South and East Serbia by 15.8% to the exports. The country's major foreign trade partners were Italy, Germany, Bosnia and Herzegovina, Romania and the Russian Federation.²⁹ Main export sectors are production of road vehicles (2175.1 million USD), electric machines and appliances (1122.5 million USD), fruit and vegetables (669.9 million USD), wheat (663.3 million USD), and colour metals (646.0 million USD). Export of these five sectors represents 36.1% of total Serbian export.³⁰

Although the national unemployment rate in the Q4 2016 was the lowest since 2014 - 13%,³¹ and the employment rate peaked in comparison to the past three years (45.5%), regional

²⁴ https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/key_documents/2016/20161109_report_serbia.pdf

²⁵ http://www.b92.net/eng/insight/opinions.php?yyyy=2016&mm=12&dd=23&nav_id=100051

²⁶ <http://www.stat.gov.rs/WebSite/public/PublicationView.aspx?pKey=41&pLevel=1&pubType=2&pubKey=4047>

²⁷ By the United States Agency for Development (USAID) http://pdf.usaid.gov/pdf_docs/pnaec461.pdf

²⁸ <http://www.stat.gov.rs/WebSite/public/PublicationView.aspx?pKey=41&pLevel=1&pubType=2&pubKey=4004>

²⁹ *ibid*

³⁰ <http://www.pks.rs/MSaradnja.aspx?id=0&>

³¹ <http://www.ekapija.com/website/sr/page/1687537/Nezaposlenost-u-Srbiji-pala-na-13>

disparities remain high. For example, in South and South West Serbia municipalities, the unemployment is more than double than in the Belgrade Region.³² And, although the number of youth without a job was decreased, this was not only the result of the employment measures, but a decrease in demographic trends with a lesser number of people aged 15-24.³³ In the long term, these discrepancies, with economic growth concentrated in larger cities, and the highest poverty levels recorded in small towns and rural areas, pose a major constraint on economic growth.

The Government's Economic Reform Programme (ERP)³⁴ recognises progress that Serbia made to improve business environment and reduce grey economy acknowledged that numerous obstacles remained in place, such as limited access to finances for SMEs and entrepreneurs. It also recognised advancements related to industrial development and establishment of more efficient state system for promotion of investments and export. It, however, indicated that for further development there was a need to technologically upgrade the production, especially in sectors where the country has competitive advantages, while the focus should shift towards creation of products with higher added value. The ERP also confirmed there is significant room to improve social protection system within existing financial framework, while identifying poverty, low quality of services, and weak mechanisms of control, monitoring and evaluation, as key issues.

Considering these analysis, the ERP among other recommends further improvement of business environment and incentives to private investments, establishment of schemes to support SMEs, continuation of public administration reform, and in particular establishment of more transparent and less burdening para-fiscal system. The ERP also calls for provisions of more adequate, better quality, and improved coverage of social protection services.

In order to revert the trend of significant disparities, Serbia needs to unlock its growth and job-creating potential through a more even territorial development, which will include the private sector (small and medium-sized enterprises (SMEs), competitiveness), the public sector (local administration, infrastructure.), and the civil society organisations (in terms of size and capacities to implement activities).

The SMEs sector represents an important segment of the Serbian economy. It is estimated that SMEs make 99.8% of active business entities, they provide 2/3 of employment and turnover in non-financial sector, participate with 43.2% in export of non-financial sector, and generate 32% of the Serbian GDP. The average number of employees per SME is 2.4, which indicates one of the key weaknesses of this sector compared to the European Union member countries, where the average number of employees is 4.2. This additionally points out high fragmentation and low competitiveness of the Serbian SMEs. Furthermore, every third enterprise operates in retail and wholesale sector, while SMEs in processing industries work in low technological areas, creating low value added products, which in turn means

³² http://www.nsz.gov.rs/live/digitalAssets/7/7026_bilten_nsz_01_2017_-_broj_173.pdf

³³ <http://www.ekapija.com/website/sr/page/1687537/Nezaposlenost-u-Srbiji-pala-na-13>

³⁴ [http://www.mfin.gov.rs/UserFiles/File/strategije/ERP%202017-2019\(1\).pdf](http://www.mfin.gov.rs/UserFiles/File/strategije/ERP%202017-2019(1).pdf)

weaker market position and lower profit margins. SMEs are insufficiently export oriented: from the total number of registered SMEs only 4.3% are exporters.³⁵

The SMEs in South and East Serbia have half the productivity compared to the Belgrade Region, while those in Šumadija and Western Serbia are around about 70% behind.³⁶ The conditions for start-up activities and enterprise development are equally uneven with significant differences in survival rates. Lack of new technologies and development of new products are among the key obstacles to the development of the SME sector. Furthermore, many enterprises miss specific skills and expertise that can be obtained only outside companies. Even when the SMEs develop or upgrade the products, they lack international connections, quality certifications and visibility of their products. The Programme will therefore support the SMEs to acquire or introduce new technology, which should result in increased productivity, lessened costs of production, increased quality, technological complexity and value of products, and which should lead to improvement of their export competitiveness, and enable creation of new jobs. It will also provide institutional advisory support to SMEs to address the lack of management, technical and operational expertise, and to improve corporate governance.

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

The LSGs in the Programme area in particular lack geodetic data for the adequate entry of information on property rights into the Republic Geodetic Authority database; digitalisation of geo-spatial data, including cadastral and planning documentation. The second important feature is the low level of efficiency in the functioning of the local administration and its poor capacity to provide reasonable conditions for doing business. Long and complicated local administrative procedures slow-down business operations and adversely affect the local economy. Entrepreneurs point out to challenges such as the lack of information, transparency and speed in the resolution of cases, lack of application of ex-officio procedures for the obtaining of documents, unclear and non-uniform submission forms at local level. A new and unified procedure exists for the issuance of construction permits; but the lack of capacities for processing and funds for effective implementation hamper its use.

Public property management also faces serious deficiencies caused by poor record keeping of property ownership, use and valuation, especially when it comes to underground line infrastructure, legal status of many facilities, unresolved property issues, illegal construction,

³⁵ The Strategy for Development of Small and Medium-sized Enterprises, Entrepreneurship, and Competitiveness 2015 – 2020 http://www.privreda.gov.rs/wp-content/uploads/2017/01/Strategija-I-Plan_eng_poslednie.pdf

³⁶ <http://www.privreda.gov.rs/wp-content/uploads/2016/09/Izvestaj-O-Stanju-MSPP-2014-25-Decembar-2015.pdf>

lack of archival material and staffing and technical deficiencies in the LSGs. Systematic recording of underground line utility infrastructure has not started yet.

Another area of concern is the limited Geographic Information System (GIS) development, which is an important planning and development tool to capture, combine and interpret local data from different sources. The key weaknesses of the spatial data, according to the Strategy for Establishment of Spatial Data Infrastructure in the Republic of Serbia³⁷, are the insufficient use of standards, poor accessibility, duplication of costs and efforts, unclear copyrights, and lack of coordination of responsible institutions. Some of those obstacles should be overcome by the implementation of the Law on Planning and Construction³⁸ that foresees a unique, simplified, procedure for issuing of building permits, as well with upcoming adoption and implementation of the Law on National Spatial Data Infrastructure (NSDI)³⁹.

A system that would integrate infrastructure information such as water, sewer, phone, hydro and gas services with municipal land, that will provide easy access to information for investors and citizens, would also allow businesses to better identify economic development opportunities. The local governments (LSGs) in this Programme have various degrees of organisation of the system for the management of geo-spatial data, and none of them has the complete institutional and legal framework necessary for the GIS. This also hinders the urban planning process and issuance of construction conditions. Therefore, the Programme will extend support to LSGs to gather data, digitalise them and thus improve quality and increase quantity of the geospatial information. That should lead to evidence-based decision-making and creation of mechanisms for advancement of institutional, technical and human resource capacities for better urban planning and land management and local development in general.

Municipalities progressed in the area of preparing planning and technical documentation, in particular those relevant for development of technical designs for small local social infrastructure projects. However, the LSGs continue to seriously lack documentation for interventions that would facilitate their economic development, and this will be an area where the Programme will extend support.

Investors prefer locations with business sites that are both equipped with adequate infrastructure and/or have ready project documentation, unencumbered by legal issues. In the Programme area, there are a number of semi-developed business sites that require additional support to be fully operational. In order to increase investment potentials of municipalities, this Programme will support the LSGs to develop urban planning documents, as well as selected project technical documentation in order to increase investment potentials.

³⁷ http://www.rgz.gov.rs/web_preuzimanje_datotetka.asp?LanguageID=1&FileID=512

³⁸ http://www.rgz.gov.rs/web_preuzimanje_datotetka.asp?LanguageID=1&FileID=512

³⁹ http://www.rgz.gov.rs/web_preuzimanje_datotetka.asp?LanguageID=1&FileID=1939

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

Furthermore, EU PROGRES' analysis "Obstacles to Infrastructure Development"⁴⁰ indicates that project management skills and public procurement procedures are not on a high level. This, from the project management side, can create bottlenecks and arbitrary selection of projects, while on the procurement side, results in the poor quality of technical sections of infrastructure related tenders. By using the grant implementation methodology,⁴¹ the Programme will support further capacity building of municipalities in project management and procurements.

Some of the key obstacles for investments in Serbia in LSGs, as identified by the EUROCHAMBERS report,⁴² are related to infrastructure: access to land, transport, electricity and telecommunications. Still, there are a number of partially developed business sites in the Programme target area that could become attractive for investors after development of communal infrastructure.⁴³ For example, in central Serbia there are 127 Brownfield locations were identified, out of which 56 could be quickly revitalised.⁴⁴ This would be a prerequisite to interest investors, which could lead to better production capacities and new jobs. The Programme will establish close cooperation with the line ministries and the Development Agency of Serbia (RAS) and known investors to identify municipalities where such infrastructure development is feasible, taking into consideration specific needs of the potential investors.

Despite fiscal consolidation and some positive economic developments, the Poverty Map of Serbia Report for 2016, which was produced by the Statistical Office of Serbia and the World Bank, with inputs from the Social Inclusion and Poverty Reduction Unit (SIPRU) showed that 24.5% of population or just under 1.8 million people in Serbia are at risk of poverty.⁴⁵ Analysis further indicates that poverty levels were the highest in the Southern and Eastern Serbia and Šumadija and Western Serbia Regions, with 33% and 32.3% respectively. The predicted poverty rates reveal considerable heterogeneity across municipalities and for example they range from 4.8% in parts of Belgrade to 63% in Bojnik and 66% in Tutin. The Report reaffirms relevance of the Programme's geographic coverage on the one hand and of activities that support enhanced social inclusion and cohesion.

⁴⁰ http://www.euprogres.org/dokumenti/sr/3_46_Obstacles_To_Infrastructure_16_July_Final.pdf

⁴¹ Details are described in Section 4 of this document

⁴² The Obstacles to Investing in Western Balkans - the View of the Private Sector, available at: <http://goo.gl/oqSyqd>

⁴³ <http://goo.gl/kfNm3i>

⁴⁴ Catalogue of Brownfield locations in Central Serbia, <http://www.redasp.rs/download.html>

⁴⁵ <http://pubdocs.worldbank.org/en/859541477472336209/Poverty-Map-of-Serbia.pdf>

The Programme will also focus on improvement of social infrastructure (such as kindergartens, schools, health care and cultural institutions), provision of access to water supply and sanitation, communication infrastructure, aiming to improve living standards for population in rural areas and smaller towns. This is particularly important for young unemployed people, educated and qualified labour force who migrate from rural to developed areas, searching for better economic and social services.

The ethnic structure of the population in the South East and South West Serbia is diversified, with national minorities representing a high percentage of the total population.⁴⁶ Roma, especially women, are the most discriminated, while other vulnerable groups include persons with disabilities and people with low qualification, who are long-term unemployed. In some parts of South and South West Serbia⁴⁷ the minorities form majority population: e.g. 70% inhabitants of Bosilegrad are Bulgarian, 89% Preševo and 55% of Bujanovac are populated by Albanians, 90% of Tutin, 77% of Novi Pazar and 74% Sjenica residents are Bosniaks.

Language and cultural barriers are preventing a more intensive social cohesion in a number of municipalities, which is important for overall local development. The Programme will support institutions to establish mechanisms for enhancing integration of minorities and improving collaboration between communities of different ethnic backgrounds.

1.3 Beneficiaries and Parties Involved

The EU PRO will focus on 99 municipalities in the two regions: Šumadija and Western Serbia and South and Eastern Serbia. Its key stakeholders but also direct beneficiaries are local administration structures, local SMEs, civil society organisations (CSOs) and business support organisations (BSOs). The final beneficiaries are the inhabitants of the areas where the Programme will be implemented.

The key institutions that the Programme will be coordinating with are:

- The Ministry of Economy, the Ministry of Public Administration and Local Self-Government, and the Ministry of Construction, Transport and Infrastructure
- Development Agency of Serbia (RAS), which provides support of direct investments and export promotion, and leads in supporting the economic and regional development
- The Public Investment Management Office, tasked to perform expert, administrative and operational coordination of the implementation of projects of reconstruction and improvement of public facilities.

Other institutions and organisations involved in the Programme implementation include, but are not limited to, the Chamber of Commerce and Industry of Serbia, the Government of Serbia Coordination Body for the Municipalities of Preševo, Bujanovac and Medveđa (CB), Republic Geodetic Authority, regional development agencies, civil society organisations,

⁴⁶ <http://popis2011.stat.rs/>

⁴⁷ 2011 Census <http://popis2011.stat.rs/?lang=en>

Standing Conference of Towns and Municipalities (SCTM), Association of Consulting Engineers of Serbia (ACES) and the Serbian Chamber of Engineers.

Finally, the Ministry of European Integration of the Government of the Republic of Serbia (MEI)⁴⁸, which has the lead coordination role for the Action Document for Serbia Local Economic Development Programme, the EU, which is the donor of this Programme, and the Swiss Government, which is funding a complementary programme focussed on enhancing good governance on the local level in Serbia, are the key parties for the implementation of the Programme.

1.4 Justification

Indicative Country Strategy Paper

The Indicative Strategy Paper for Serbia 2014-2020⁴⁹ provides information on the priorities that should be met by the country in order to meet the accession criteria. The Programme is directly linked to the following expected results:

- Public administration governance and service delivery to citizens and businesses is improved, including upgraded e-Government service
- Capacity for the EU funds management is enhanced, as evidenced by timely procurement and contracting
- Quality and quantity of both public and private research and innovation increased to enable it to better contribute to economic development
- Investment project preparation is substantially improved both at the central and local government level, resulting in mature investment projects
- Enhanced cooperation of civil society organisations with public institutions
- Functioning of the business sector, especially SMEs, improved, including by provision of better access to finance
- Inclusive growth is enhanced through implementation of the employment and social reform programmes
- Social dialogue is strengthened
- The education and training system is reformed to better match the needs of the Serbian labour market
- Active labour market policies better targeted and implemented
- Social protection supporting labour market participation and employment is enhanced
- Increased social inclusion of the most vulnerable groups, especially people with disabilities, women, children and Roma, following implementation of community-based solutions in education, health, housing and job creation, and improved child-care provision
- Balanced territorial development in rural areas, including diversification of economic activities and investments in rural infrastructure.

⁴⁸ The European Integration Office of the Government of the Republic of Serbia (SEIO) that was among other responsible for planning, programming, monitoring and reporting on development aid, ceased to exist in June 2017 when the National Assembly of the Republic of Serbia adopted the Law on Amendments to the Law on Ministries. The amendments included establishing the Ministry for European Integration (MEI) that took over SEIO competencies.

⁴⁹ <http://www.evropa.gov.rs/Documents/Home/DACU/12/74/235/ISP%20Serbia.pdf>

Stabilisation and Association Agreement

The Programme is contributing to the aims of the Stabilisation and Association Agreement (SAA) between European communities and its member states and the Republic of Serbia,⁵⁰ i.e. to support the efforts of Serbia to: “strengthen democracy and the rule of law”, “contribute to political, economic and institutional stability”, “to develop its economic and international cooperation”, “complete transition into a functioning market economy”, “to promote harmonious economic relations and gradually develop a free trade area between the Community and Serbia” “foster regional cooperation in all fields”.

Europe 2020 - A Strategy for Smart, Sustainable and Inclusive Growth⁵¹

The EU PRO intervention is in line with the three priorities of the European Commission’s Strategy for Smart, Sustainable and Inclusive Growth:

- Smart growth: developing an economy based on knowledge and innovation.
- Sustainable growth: promoting a more resource efficient, greener and more competitive economy
- Inclusive growth: fostering a high-employment economy delivering social and territorial cohesion.

In particular, the Programme will contribute to Strategy objectives by improving the business environment and through social cohesion activities. Furthermore, the Programme supports less developed parts of the country, which should contribute to Serbia’s territorial cohesion and is in line with the Europe 2020 inclusive growth objective.

2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs)

The Agenda,⁵² which provides new global sustainable development framework, was adopted at the United Nations General Assembly session in 2015. The EU will fully integrate the SDGs in its policy framework and priorities. In particular, the priorities from the Agenda that are relevant for the key challenges in Europe, and for this Programme, include new boost for jobs, growth and investment, including investment in quality education and training and in young people.

National Priorities for International Assistance in the Republic of Serbia 2014-17 (NAD)

The National Priorities for International Assistance in the Republic of Serbia 2014-17 (NAD) within Competitiveness and Public Administration Reform (PAR) Sectors identifies a range of priorities and measures that should increase the competitiveness and innovation of enterprises within a well-functioning market economy and contribute to creation of efficient, effective, transparent and professional public administration.⁵³ The EU PRO will directly contribute to implementation of measures envisaged under the Priority 1 of the Competitiveness Sector: improving the quality of products and services and raising levels of

⁵⁰ https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/serbia/key_document/saa_en.pdf

⁵¹ <http://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%20%20007%20-%20Europe%202020%20-%20EN%20version.pdf>

⁵² https://ec.europa.eu/europeaid/sites/devco/files/communication-next-steps-sustainable-europe-20161122_en.pdf

⁵³ [http://www.evropa.gov.rs/Documents/Home/DACU/12/74/NAD%202014-2017%20with%20projections%20until%202020%20\(english\).pdf](http://www.evropa.gov.rs/Documents/Home/DACU/12/74/NAD%202014-2017%20with%20projections%20until%202020%20(english).pdf)

productivity, while the action will also positively affect PAR sector priority related to increasing the effectiveness, efficiency and transparency of public administration.

Serbia 2016 Report

The European Commission Report on Serbia's progress in 2016⁵⁴ recognised efforts that the country made to establish the functioning market economy. The document highlights reduction of fiscal deficit and preservation of financial stability, public administration reform steps and some progress made on restructuring of publically owned enterprises. It reaffirms that economic reforms created momentum for economic growth on the basis of expansion of export and the new investment cycle that was launched in 2015. The Report also praises improved registration of enterprises and simplified issuing of construction permits as steps that contributed to creation of more friendly business environment, as well as some progress regarding provision of support to SMEs and entrepreneurs.

The Report, however, confirms that SMEs continue to face significant challenges that primarily relate to business environment, a high level of para-fiscal charges, and difficult and costly access to finance. This indicates high relevance of SME support schemes that would, in particular, enable them to enhance their market competitiveness. Although the investments have increased they remained still below the Serbia's economy needs and there is a need to enhance public and private investments. The Report calls for improved investment planning, prioritisation, and management, and this is another area where the Programme will contribute.

The Report confirms that legal and institutional framework for the protection of fundamental rights is in place but calls for its consistent implementation across the country, while highlighting the need to improve position of the most discriminated social groups. It recognises efforts to improve the position of national minorities but encourages a more comprehensive approach to the integration of national minorities, full implementation of the action plan on national minorities and of the Strategy for Roma Inclusion.

The Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey

The Programme intervention is aligned with the Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey from 2015. Specifically, the EU PRO will help Serbia to implement the recommendations pertaining to stimulation of private investment and increase of public investment, for example by establishing public schemes to support lending to SMEs and research activities in companies, or by improving preparation and speeding up the implementation of public projects.⁵⁵

The Global Competitiveness Report 2016-2017

The World Economic Forum Global Competitiveness Report 2016-2017⁵⁶ put Serbia on 90th position out of 138 assessed economies, which is improvement by four places compared to

⁵⁴ Serbia 2016 Report, pages: 5, 24-30, 52, 60-65

[http://www.seio.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/godisnji_izvestaj_16_eng\(1\).pdf](http://www.seio.gov.rs/upload/documents/eu_dokumenta/godisnji_izvestaji_ek_o_napretku/godisnji_izvestaj_16_eng(1).pdf)

⁵⁵ <http://www.consilium.europa.eu/en/press/press-releases/2015/05/12-ecofin-joint-conclusions/>

⁵⁶ The Global Competitiveness Report 2016–2017, Pages: 4-5, 7, 314-315

http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf

the previous year. The Report records progress against ten out of twelve global competitiveness index pillars. Advancements are more significant in the pillars related to macroeconomic environment, goods and labour market efficiency, and financial market development, but further progress is needed as Serbia continues to lag behind countries in the region in these areas.

Despite slight improvement, Serbia was ranked 120 in terms of innovations and business sophistication. Deeper analysis of this competitiveness sub-index indicate, among other, a need for improvement of local supplier quantity and quality, cluster development, value chain breadth, and production process sophistication. Furthermore, it is necessary to enhance capacities for innovations and spending on research and development. This also justifies the Programme's planned support to SMEs and BSOs, which will exactly address some of the above noted weaknesses.

The World Bank's Doing Business Report 2017

The World Bank's Doing Business Report 2017⁵⁷, that compares business regulations for domestic firms, highlighted Serbia as one of the ten economies that has made the biggest improvements. The country was ranked 47 out of 190 assessed economies, which is improvement by seven places compared to 2016 Report. The Report positively assessed Serbia's efforts to further simplify starting a business by reducing time needed for registration of company, enhanced efficiency in issuing of construction permits following the introduction of e-permitting system, and introduction of time limits for property transfer process.

The Report, however, indicates room for further improvements, especially considering the Government's plan to ensure that Serbia reaches the top 30 countries.⁵⁸ For example, despite progress, Serbia holds only 56th place with respect to "registering property", which demonstrates the need to continue reforms that should, among other, include the land administration system that is captured by this set of indicators.

1.5 Other Interventions

The EU PRO is paired with the complimentary CHF 6.9 million intervention that will be funded by the **Swiss Government**, focussed on **enhancing good governance and social inclusion on the local level in Serbia**. Specifically, that project will strengthen LSGs competences for applying good governance principles in planning, implementing and monitoring developmental processes and projects (activities 2.1.1, 2.1.2, 2.2, 3.1 and 3.2 of this Programme); and support to LSGs to develop and implement policies and mechanisms to address non-discrimination GG principle and promote human rights (activity 3.2 of this Programme).

⁵⁷ World Bank Group Report: Doing Business 2017, Equal Opportunity for All, Pages: 14, 29-30, 183, 236

<http://www.doingbusiness.org/~media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB17-Report.pdf>

⁵⁸ The Government of Serbia Web Portal: Prime Minister's Activities, text headlined *Serbia's advancement on "Doing Business" list exceptional recognition for government*, available on <http://www.srbija.gov.rs/vesti/vest.php?id=119108>

This Programme is complementary with the **Support to Competitiveness and Innovation Programme** that will be funded by the European Union (EU) with 23.7 million Euros, with an aim to improve the conditions for the development of SMEs by providing better access to finance and to high quality advisory support, as well as by improving conditions for research and innovation. More specifically, this Action will develop fresh financial instruments and roll them out in order to reverse the long trend of credit stagnation for SMEs in Serbia. The first expected result is the contribution to the increase of funding for SME development, by setting up a special window for Serbia under the Guarantee Facility of the Western Balkans Enterprise Development and Innovation Facility (WB EDIF).

Private Sector Development Programme (PSD), which is financed by the Government of Switzerland through the Swiss Agency for Cooperation and Development (SDC), aims to contribute to economic growth by increasing employment and income opportunities. The project supports development of market by using the Making Markets Work for the Poor (M4P) approach, which should ensure that the poor people benefit from economic development. The intervention focuses on wood and furniture industry, horticulture and non-timber forest products, and tourism sector, with objective to generate jobs and income in SMEs, and primarily for youth and women.

The SDC also funds the Rural and Regional Development Support to Serbia Programme that will be implemented from 2015 to 2019. The overall objective of the Programme is to enable LSGs to access additional financial resources to deliver on their competences, and lead to the provision of more quality services to citizens and the private sector. Project interventions are expected to yield three specific outcomes:

- Outcome 1: All relevant institutions share and drive a common vision of rural and regional development based on the concept of functional spaces and promoting bottom up innovation; Parliament, Ministries, State Agencies approve new regulatory framework, strategies, programmes and action plans reflecting the new vision.
- Outcome 2: At least three combined regional and rural development initiatives inspired by the new vision demonstrate country wide the feasibility and usefulness of the functional spaces approach while fulfilling EU funding criteria and increasing Serbia's EU funding absorption capacity.
- Outcome 3: The models of regional and rural development inspire policy makers, and LG stakeholders to apply for EU regional and rural development pre accession funding to (co-)fund their own initiatives.

USAID's Business Enabling Project launched in January 2011 contributing to improved competitiveness of the Serbian economy and its private sector businesses, is coming to an end. A follow-on, four-year project, aiming at improved conditions for broad-based economic growth through improvements in Serbia's business enabling environment is expected to be initiated by the end of 2017. The activity will have two objectives: (1) Improve the business environment and related administrative efficiency in selected areas; and (2) Improve SME access to finance.

USAID Competitive Economy Project launched in July 2017 is a four-year 12 million \$ effort based on systematic upgrading of competitiveness by creating a replicable model for increased sales as a key benchmark of success. The activity will focus on fruit and vegetable processing industry, by providing market intelligence, contributing to expansion of vertically integrated food processing system, facilitating entry of new companies/ enterprises into industry and stimulation of product innovation and diversification and organising production base to ensure standards at the farm level.

The EU will fund from IPA 2016 implementation of Roma inclusion project. The project objective is to contribute to changes at the local level in line with the Strategy for Social Inclusion of Roma for the 2016-2025 period through enhancement of administrative capacities and effectiveness of service provision by LSG units. Support will be provided for the development of Local Action Plans for Roma inclusion; establishment of new and support to existing local Roma Mobile Units; legalisation of housing units and creation of urban planning documents; and implementation of municipal projects tackling a variety of issues (such as employment). Also from IPA 2016, the EU will fund Improvement of accessibility for persons with disabilities – preparation of technical documentation for social infrastructure with 3.5 million Euros. Works will be carried out in municipalities across Serbia to improve access for persons with disabilities to municipal buildings such as courts, schools, city halls. Up to 90 such buildings will be refurbished with accessibility options thereby considerably helping local communities and its disabled citizens. The Programme will coordinate activities related to social inclusion and cohesion and explore opportunities for synergies.

Furthermore, the EU will fund a project supporting the formulation of different national-level policies pertaining to gender equality and strengthening the role of the Coordination Body for Gender Equality. Some of these activities may be linked to proposed Programme activities related to social inclusion and social cohesion.

2 Intervention

2.1 Overall Objective

To contribute to a more balanced socio-economic development in Serbia.

2.2 Purpose

To enhance competitiveness and social cohesion of the less developed areas by better market positioning and more competitive SMEs and developing/improving business enabling and social infrastructure.

2.3 Results

There are three results that the Programme will achieve:

- Result 1: Improved technological structure of SMEs and their ability to export
- Result 2: Improved conditions for business operations through more efficient administrative service provision, better land management and specific infrastructure investments

- Result 3: Better social cohesion and attractive living environment through improvement of small scale public infrastructure and social relations

2.4 Activities

Result 1: Improved technological structure of SMEs and their ability to increase their market share

Activity 1.1 Grant scheme for SMEs

The grant scheme that will be implemented through the call for proposals (CfP)⁵⁹ for small and medium-sized enterprises (SMEs) which will focus on advancing technologies and development of higher quality of SMEs products, which should lead to better market positioning and more competitive export, and creation of new jobs. The activity will be implemented in cooperation with the Ministry of Economy, which will provide strategic guidance for the intervention, and the Development Agency of Serbia (RAS) that will participate in implementation of particular sub-activities. In addition, the EU PRO will provide focused technical assistance to RAS to strengthen its project, contract and financial management as well as monitoring and evaluation of similar grant schemes.

The restricted CfP will have two LOTS: the first will focus on the newly established enterprises (operating less than three years) and the second on those SMEs that had been operational from three to five⁶⁰ years.

The CfP criteria and documentation, respecting national strategies, will be developed in consultations with the Ministry of Economy and the RAS. The selection criteria will follow the EU State Aid rules in order to ensure that no support is provided to ineligible activities. Eligible activities could include procurement of equipment and provision of services, with the aim to enhance quality of existing products, support development of products with higher added value, enable introduction of innovations, and facilitate market expansion. The activity will support interventions that contribute to creation of value-added chains, in particular those that enable establishment of cooperation between SMEs and larger companies and investors. Projects that provide benefits for a wider community through corporate social responsibility (CSR) interventions and to the vulnerable will be encouraged through the CfP criteria.⁶¹

The size of the grants and required co-financing will be defined in cooperation with Ministry of Economy and the RAS. Grants can be used both for the purchase of equipment and provision of services. The projects can last up to 12 months. The Programme Steering Committee (PSC) will approve the criteria before the Call is launched.

In order to ensure good response to the Call, the Programme shall organise outreach campaign:

1. At least five, structured, information sessions will be held in regional/district centres, in cooperation with the respective Regional Development Agencies (RDAs) and the Regional Chambers of Commerce

⁵⁹ The Call will be conducted respecting the provisions of UNOPS Serbia Standard Operating Procedure on the Calls for Proposals, which ensures transparent, effective and efficient competition

⁶⁰ That are still not strong enough to obtain a commercial loan.

⁶¹ The proposed CSR intervention must rely on the core business of the applicant

2. Engagement and close cooperation with the relevant stakeholders that can promote the Call further, such as: the Local Economic Development (LED) offices, development agencies, associations, clusters, and on the national level the line ministries, the Serbian Chamber of Commerce and the RAS. In addition, information about the Call will be sent to eligible SMEs
3. Visibility promoting the Call, and the EU support for the action, including production of posters, media presentations and social media communication, and placement of the information on the line ministries, and relevant institutions' websites.

The CfP will be continually open for at least 12 months in order to provide sufficient time for development of quality projects. UNOPS team will evaluate the received projects and submit recommendations for funding to the PSC at least twice a year or more if necessary. The final approval of the projects will be the responsibility of the PSC.

Before signing any contracts, field missions will be organised to validate the all recommended proposals.⁶²

During implementation, the Programme will provide monitoring of the granted SMEs in financial and economic terms in order to maximise the impact. Financial monitoring will be conducted internally by the EU PRO personnel, while the monitoring of the economic aspect will involve expert consultants.

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

The assistance to Business Support Organisations (BSOs), such as RDAs, clusters, incubation centres, associations, chambers and non-governmental organisations (NGOs) to strengthen ability for provision of specialised services to the SMEs, will be provided through an open CfP. The activity should result in the increase of the SMEs productivity and business operations.

The successful applicants will need to demonstrate a clear methodology of how they intend to provide specialised services for SMEs to support them in improving technological structure and their ability to increase their market share. In order to enhance sustainability of the Activity 1.1, the focus will be on projects that envisage development and implementation of advisory services dedicated to the SMEs within the first or the second investment cycle, as well as to export oriented SMEs.

The selection criteria and documentation for the CfP will be developed, in cooperation with the Ministry of Economy and the RAS, during the inception period and approved by the PSC. The criteria will take into consideration experiences and lessons learned during 2016 Support to Business Institutional Infrastructure Programme.

⁶² This is in line with the UNOPS Serbia Standard Operating Procedure for Calls for Proposals

The grants can be up to 30,000 Euros, with at least 10% co-funding from the applicants.⁶³ The projects will be implemented over up to 18 months through UNOPS grant methodology. The Call will be open for at least 45 days.

The EU PRO will develop an outreach plan to ensure information about the CfP is provided to potential beneficiaries. Among other, it will use communications channels of the line ministry, the RAS and other relevant partners, national and local media, and it will organise at least four presentations in the field.

The evaluation of the projects will be conducted by the UNOPS team, while the final approval of the projects to be funded will be the responsibility of the PSC.

The projects will be implemented through the UNOPS grant methodology, which contributes to developing of project management skills among beneficiaries.

The UNOPS team will conduct ex – post review of all projects and will compile a report that will be delivered to the PSC so that it can use the information on lessons learned and the results for preparation of potential future similar actions.

Result 2: Improved conditions for business operations through more efficient administrative service provision, better land management and specific small scale infrastructure investments

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

Activity 2.1.1 Enhancing land management through development of GIS and improved access to geospatial data

Through a restricted CfP, the Programme will support LSGs to introduce or upgrade geographic information systems (GIS) and enter urban documents into the Central Registry of Planning Documents (CRPD). Support may include: introduction of GIS with provision of assistance for GIS institutionalisation, procurement of hardware and software, training of LSGs staff, and development of basic and specialised GIS applications; establishment of GIS that results from inter-municipal partnerships; and development of advanced innovative thematic GIS applications that contribute to valorisation of economic potential of LSGs.

Grants may range from up to 100,000 Euros for single applicants (one LSG) to up to 150,000 Euros for partnership projects (inter-municipal GIS projects), with co-financing of at least 15% in both cases.⁶⁴ Projects can last from 12 to 18 months, and they will be implemented in line with the UNOPS' grant methodology.

⁶³ The exact range of grant amounts and co-funding requirements will be re-confirmed during development of the criteria and approved by the Programme Steering Committee.

⁶⁴ The amounts for range of GIS grants is suggested on the basis of experience of EU PRO predecessor programmes, such as is European PROGRES. The amounts will be reconfirmed during implementation and approved by the Programme Steering Committee.

The criteria for support will be developed by the UNOPS in consultation with the Ministry of Construction, Transport, and Infrastructure and the Republic Geodetic Authority. The criteria will be approved by the PSC.

In parallel to the preparation of the Call, structured seminars on application of GIS will be organised for municipal representatives, to enhance their understanding of the GIS and raise interest for the call.

The Call for submission of concept notes will be published during the second half of the first year of Programme implementation and will last at least 45 days. The CfP criteria will be presented to potential beneficiaries in at least four field information sessions in cooperation with RDAs and through direct communications channels.

The evaluation of concept notes will last no more than two months and will be done by UNOPS. The shortlisted municipalities will be asked to submit full applications within 45 days.

The UNOPS will also be responsible for evaluation of full applications. The final approval of the projects to be funded will be the responsibility of the PSC.

This activity will also include technical assistance to grantees for entering available urban documents from the EU PRO municipalities into the Central Registry of Planning Documents. Where feasible, urban documentation developed through the Activity 2.1.3 will be entered into GIS and subsequently into the Central Registry of Planning Documents. This will enhance access to data to investors about potential locations for their project and public entities that are involved in issuing of construction permits.

All GIS related actions will follow the framework set by the Strategy for Establishment of Spatial Data Infrastructure and the general rules for establishing an Infrastructure for Spatial Information in the European Community (INSPIRE).

Activity 2.1.2 Development of urban plans related to economic development

Through an open CfP, projects for development of detailed regulation plans (DRPs) that can enhance economic development will be supported. DRPs contributing to urban renewal and regeneration, promotion of brownfield locations, development planning of industrial commercial zones, rational use of land, combating urban sprawl, urban rural, high quality public spaces and preservation of cultural heritage may be eligible.

Where feasible, and in synergy with the Activity 2.1.1, the regulation plans will have additional information that GIS applications allow, such as the location conditions, property values, utility investment requirements. This way, once entered in the Central Register of Planning Documentation, the plans will offer higher quality of information to investors.

The criteria of the Call will be agreed with the Ministry of Construction, Transport, and Infrastructure and approved by the PSC. Each grant can be up to 15,000 Euros, with co-funding of 10%.⁶⁵ Each project can last up to 18 months, and will be implemented through UNOPS grant methodology. The call will be open for up to 45 days, and the Programme will, in coordination with the RDAs, conduct activities to promote the call among the beneficiaries.

UNOPS team will evaluate the proposals. The final decision on funding will be made by the PSC.

Within this activity, the Programme will also provide assistance to the Ministry of Construction, Transport, and Infrastructure for introduction of electronic system for approval of planning documentation.

Activity 2.1.3 Development of project technical documentation for projects contributing to economic development

The CfP for development of project technical documentation will be continuously open for at least 12 months. The LSGs will be able to apply for development of technical documentation for public infrastructure that enhances conditions for new investments and development of local economy.

The EU PRO team will develop selection criteria in cooperation with the line ministry, the RAS and the PIMO, while the PSC will be responsible for approval of the CfP. Individual grants for this activity are estimated at 30,000 Euros, with 10% co-funding.⁶⁶ The projects can last from 12 to 18 months and they will be implemented through UNOPS grant methodology.

The UNOPS will evaluate the received projects every six months and submit recommendations for funding to the PSC, at least twice in a year.

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

Through this activity LSGs will be supported to develop and implement small-scale public infrastructure projects that will provide adequate conditions for investors already present in LSGs to extend their activities, or for the new investors that have demonstrated their intention to develop business. The activity will focus on infrastructure equipping of industrial zones but also include other infrastructure interventions that would clearly enable economic growth and employments, such as adaptation of business incubator centre facilities, technology parks etc. Municipalities with high relevance projects, which lack parts of technical documentation, will be encouraged to apply for support under Activity 2.1.3.

⁶⁵ The suggested amount for grant is based on experiences of EU PRO predecessor programmes as well as on market prices for development of planning documentation at the time of preparation of this document. The actual amounts will be approved by the Programme Steering Committee.

⁶⁶ The actual grant amount and co-funding requirements will be verified by the Programme Steering committee.

During the inception phase, the Programme team, in cooperation with the Ministry of Economy, will define the selection criteria for a CfP that will be continuously open, for at least 24 months. The criteria may include interest of potential investor, value of investment, number of new jobs, market orientation of investor (local/export), readiness of location for construction (ownership, readiness of planning and technical documentation). The project budgets will be between 200,000-1,000,000 Euros, with co-funding of at least 15%.⁶⁷

UNOPS team will, with the representatives of the PSC as observers, evaluate the received projects and submit recommendations for funding to the PSC at least twice a year or on an ad hoc basis if urgent. The final approval of the projects will be the responsibility of the PSC.

The projects will be implemented, over 12 months, in line with UNOPS grant methodology.⁶⁸ The Programme team of engineers will regularly monitor the project implementation and provide advisory services/on the job training to municipal project teams in order to secure efficient implementation and further increase LSGs ability to manage infrastructure projects.

The Programme will explore ways to enhance impact of this activity through synergies with other activities, primarily the ones related to support to SMEs and BSOs.

Result 3: Better social cohesion and attractive living environment through improvement of small scale public infrastructure and social relations.

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

This activity includes a grant scheme for implementation of municipal social infrastructure projects that contribute to improvement of living conditions. It will be implemented in cooperation with the PIMO.⁶⁹ The Programme will utilize the PIMO assessment methodology and criteria on the readiness of collected needs of municipalities as the base for preparation of the CfP. The key precondition for all applicants will be readiness to build – clear ownership and valid building permit. Eligible types of projects may include:

- All public infrastructure that will contribute to better living conditions (schools, hospitals or health facilities, kindergartens, water supply systems, other public buildings)
- Environment protection, improvement of solid waste management, waste water treatment, reduction of pollution and enhancement of energy efficiency
- Improvement of living conditions of vulnerable groups, in particular Roma, through advancing and upgrading of existing social and communal infrastructure.

Provision of equipment will also be eligible as long as this cost does not exceed 30% of the total grant value.⁷⁰

⁶⁷ The actual amounts and co-funding requirements will be reconfirmed during development of criteria and approved by the Programme Steering Committee.

⁶⁸ UNOPS Grant methodology for infrastructure projects is described in the section Methodology of the Concept Note.

⁶⁹ The PIMO developed assessment criteria on the readiness of the collected needs of the municipalities

⁷⁰ The percentage may be amended with approval of the Programme Steering Committee.

In order to ensure equal opportunities for all applicants, the criteria will take into account the level of development of municipalities, with a special focus on the LSGs from the third and the fourth group.

The projects will also be assessed in relation to their contribution to improved local governance through integration and application of Good Governance principles of accountability, transparency, participation, non-discrimination and efficiency.

The Call will be open for 45 days, with the individual grants up to 150,000 Euros and co – financing of at least 15%. The projects can last up to 12 months.

The CfP criteria will be presented to potential beneficiaries through organisation of at least five field information sessions in cooperation with RDAs and use of direct communications channels.

The CfP evaluation team will consist of the UNOPS personnel, and the representatives of the PSC as observers. The evaluation will last up to three months. The PSC will verify the final selection of projects.

The implementation of the projects will follow UNOPS grant methodology, which enhances national ownership and capacities.⁷¹

In addition, the EU PRO will provide technical assistance to PIMO to strengthen its policies and procedures for the conduct of similar grant schemes in accordance with the European Union regulations.

Activity 3.2 Supporting projects enhancing inter – ethnic dialogue and cooperation, improving social cohesion and social integration in multi – ethnic communities

This activity will be implemented in the LSGs where ethnic minorities are majority population, or in those with significant number of particularly vulnerable groups, such as Roma. The intervention will include grants for partnership projects of LSGs and CSOs. The projects will be selected through a restricted CfP and will be focussed on social inclusion, integration of national minorities (including resolving of language barriers) and improvement of inter-ethnic dialogue and inter-cultural cooperation.

This activity will also support implementation of projects, submitted throughout the programme lifecycle that facilitate the application of national policies and improves the position of national minorities while promoting social integration, ensuring an inter-cultural approach. The projects will be identified and developed in cooperation with the relevant national institutions, and LSGs during the first year. The PSC will verify the approved projects. This group of projects will also be implemented through grant methodology, where the grantee will be CSOs, national or local institutions.

⁷¹ UNOPS Grant methodology for infrastructure projects is described in the section Methodology of the Concept Note.

The PSC will approve the criteria of the Call-proper that will be drafted by the Programme team, in cooperation with the line ministry(-ies), the Government of Serbia Coordination Body for the Municipalities of Preševo, Bujanovac and Medveđa, Commissioner for Equality and other national institutions that work on social inclusion, human and minority rights issues. The grants will range from 10,000-15,000 Euros, with at least 10% co-funding.

There will be two stages in the Call: the first to prepare concept note, lasting up to 45 days, and the second for development of full applications, not exceeding 30 days. The evaluation of the submissions will be conducted by UNOPS. The evaluation will last maximum two months. The PSC will verify the final selection of projects.

3 Assumptions and Risks

3.1 Assumptions at Different Levels

<i>Item</i>	<i>Assumption</i>	<i>Assessment</i>
1	Serbia remains politically stable, and continues to cultivate relations with the EU	The number of Serbian citizens in favour of EU accession has increased from 41% in June 2016 to 47% in December 2016, ⁷² while the Government's pledged to conduct reforms relevant for the EU integration process.
2	Government is committed to creation of environment more conducive for business, investments into economy and promotion of SMEs	Serbia's Strategy for Support to the Development of Small and Medium-sized Enterprises (SMEs), Entrepreneurship and Competitiveness 2015-2020, has been harmonised with the EU policy. ⁷³ The focus of the strategy is to improve the business climate, better access to sources of financing, continued development of human resources and strengthening the sustainability and competitiveness of SMEs. The document also sets out the steps that should be taken to provide better access to new markets, raise the entrepreneurial spirit and encourage women and youth entrepreneurs and social entrepreneurship. The Action Plan envisages the actions, which are related to promotion of SMEs and investments in economy.
3	Programme areas remain stable, without inter-ethnic and intra-ethnic/political tensions	Serbia has ratified all main international human rights instruments, though implementation of some should improve. ⁷⁴ Furthermore, the legal framework related to protection of minority and cultural rights is in place, and generally upheld, in line with the Framework Convention on National Minorities, to which Serbia is a party. Further improvements should be seen in implementation of policies and applying them more consistently while tackling regional difference, in particular in education, use of languages, and access to media. ⁷⁵ UNOPS experience to date, in implementation of the projects funded by the European Union and the Swiss Government, in cooperation with the Government

⁷² <http://www.seio.gov.rs/eng/news/357/189/335/details/47-of-citizens-support-serbian-membership-to-the-eu/>

⁷³ http://www.privreda.gov.rs/wp-content/uploads/2017/01/Strategija-I-Plan_eng_poslednje.pdf

⁷⁴ EC Report for Serbia 2016

⁷⁵ *ibid*

		of Serbia and local governments, shows that initiatives such as this Programme have been successful in reducing tensions, by focussing on the developmental issues and processes of common interest to all stakeholders. Being a United Nations agency, UNOPS can guarantee impartiality in approach to all Programme stakeholders.
4	Serbia continues macro and micro economic activities, with positive trends recorded in increasing employment and export orientation	<p>Although the economy is still facing challenges, the reform-oriented policy stance began to bear fruit through improved growth prospects, better sovereign credit rating and an improved business environment. Macroeconomic stability improved as a result and the economy returned to growth earlier than expected.</p> <p>Serbia's first employment and social reform programme marked an important step in addressing policy challenges in the employment and social areas. Positive trends were recorded in increasing employment, while country's export performance continued and import coverage of goods and services increased, resulting in reduction of the trade and current account deficits.</p> <p>Serbia's export performance continued and import coverage of goods and services increased, resulting in reduction of the trade and current account deficits.⁷⁶</p>
5	The key Programme stakeholders actively cooperate in implementation of the activities	<p>The SEIO⁷⁷, which was the national coordinator of IPA funding, has led consultations during preparation of the Programme, and liaised with the line ministries (Ministry of Economy and the Public Investment Management Office-PIMO) about the specific activities, which all stem from the national strategies and action plans. The Ministry for European Integration, which took over competencies of SEIO, will provide the Chairperson for the Programme Steering Committee (PSC) and remain the key coordinator of the national institutions.</p> <p>During the inception period, the Programme's team will present the activities and roles and responsibilities to other stakeholders, with emphasis on the benefits for the direct beneficiaries, and thus contribute to the sense of ownership, as well as inspire active cooperation for implementation of the activities.</p>
6	LSGs demonstrate clear commitment to development and/or enhancement of their capacities for provision of services to business investors, while striving to enhance social cohesion	<p>The Strategy for Public Administration Reform, as well as the Strategy for Professional Training of LSG Employees, envisage capacity building of municipal administrations as the key factor for establishment of a system of standards for better services to citizens and business entities. The Law on Social Protection foresees that each LSG must establish measures and activities for stimulation and development of existing and new social protection services towards enhancement of social inclusion. Finally, the consultations led by the SEIO, in drafting of this Programme, confirmed that LSGs are committed to enhancement of their capacities and better social cohesion.</p>

⁷⁶ *ibid*

⁷⁷ The Ministry for European Integration after Amendments to the Law on Ministries as of June 2017

7	SMEs are committed to adoption of new technologies as the path to greater productivity	<p>The SME sector provides 70% of the country's employment, however, as a result of economic stagnation the number of enterprises has been on the decline, and with it also employment rates.</p> <p>According to the EU 2016 Progress Report for Serbia,⁷⁸ some improvement has been made concerning support to the SMEs, though a number of challenges remain: unpredictable business environment, high level of para-fiscal charges, and difficult and costly access to finance.</p> <p>Investing in new technologies remains one of the key obstacles to the development of the SME sector and safeguarding jobs. Many enterprises need specific skills and expertise in introducing or upgrading technologies or developing new products that can be obtained only outside the company. Furthermore, once they develop or upgrade the products, they lack international connections, quality certifications and visibility of their products. These enterprises need specific expertise to strengthen their market position and become more bankable. Results of similar programmes have shown that, when provided with such services, 74% of supported enterprises increased their turnover, 56% increase their productivity and 67% increased number of employees.⁷⁹</p>
8	Severe weather and other natural disasters may delay, but will not endanger Programme objective and purpose	<p>Much of the territory covered by the Programme is subject to severe weather conditions: snowfall, droughts and floods. Additionally, there is a small risk of earthquakes, particularly in Kopaonik mountain area, and the Preševo Valley. The work plans will incorporate adequate tolerances for adverse weather conditions, while the technologically advanced construction methods and materials will be applied.</p> <p>In case of major natural disasters, the EU PRO activities could be modified, in consultations with the donor and the Government.</p>
9	Sufficient number of investors are interested to develop business in the Programme municipalities	<p>The Law on Investments from 2015 provides legal framework for investments, identifies national and local entities responsible to provide support to investors, and sets criteria for provision of subventions and incentives.</p> <p>Furthermore, the Government of Serbia in the Economic Reform Programme 2017 – 2019 (ERP) defines a range of structural reforms, with objective to preserve macro-economic stability and contribute to creation of stable and predictable business environment, which would in turn facilitate further economic growth and opening of jobs. The ERP reconfirms Government's commitment to stimulate private investments, entrepreneurship, innovations, and development of knowledge based economy.</p>
10	Changes in legislation will not negatively affect the implementation of the Programme	<p>As a potential EU member state, Serbia should comply with the EU legislation and hence any new policies will be respecting the framework of the accession negotiations.</p>

⁷⁸ https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/key_documents/2016/20161109_report_serbia.pdf

⁷⁹ EBRD Small Business Support in Serbia implemented between 2012-2014

3.2 Risks

	Risk	Probability	Likely Impact	Mitigation Measures
1	Low capacities of benefiting municipalities, institutions, SMEs, civil society and other organisations, may lead to inability of the Programme to ensure sustainability of the projects, decrease efficiency and effectiveness of the Programme, and impede fulfilment of the Programme's objectives	High	Med/High	<p>The EU PRO will be implemented in 99 municipalities, out of which 44 are devastated or underdeveloped. Intensive communications and raising awareness about the Programme, its objectives and methodology will be conducted during the first six months of the implementation, to ensure wide understanding among the key parties and beneficiaries. Furthermore, the EU PRO will continuously monitor and provide on-the-job support to the grantees to ensure understanding of contractual obligations and implementation of projects with the available budget, in the agreed timeframe and to the scope.</p> <p>The evaluation of the project proposals will be conducted in line with the UNOPS regulations,⁸⁰ and will include validation of projects through field visits to applicants, which will minimise the space for contracting those entities with poor capacity.</p> <p>The field presence, which may be limited due to available resources, will also provide opportunity for close contact and awareness rising among the beneficiaries.</p> <p>Finally, by setting the clear tolerances and showing readiness to cancel projects that do not comply with the contract, activation of reserve lists of projects, and the use of local languages in communication with the beneficiaries, will also contribute to mitigation of this risk.</p>
2	Some stakeholders or local beneficiaries may push for implementation of certain projects, without adequate selection and abuse the Programme activities and results for political promotion	High	Med/High	<p>The selection of the projects for funding will be conducted in fair, transparent and competitive process, in line with the Programme's Description of Action (DoA) and UNOPS regulations. The details of the Calls will be clearly communicated to all stakeholders and beneficiaries.</p>
3	The Programme will issue a large number of grants and conduct complex procurements which could negatively impact the implementation dynamics as well as costs and delivery	High	Med/High	<p>This risk will be mitigated by meticulous planning, taking into account dependencies and ensuring synergies of the activities, both for the Programme's and involved parties' sake. In addition, there will be flexibility for the Programme to use direct procurement, justified by the economies of scale. Finally, the grant methodology include strong monitoring mechanism and advisory support, and will entail strong outreach to diverse stakeholders.</p>
4	Changes in the municipal	High	Med	Should the parliamentary elections be announced/held

⁸⁰ And UNOPS Serbia Standard Operating Procedure on the Calls for Proposals

	management structures or regrouping of local political forces may jeopardise Programme implementation			<p>during the EU PRO lifespan, the team will plan/re-plan the activities so as to minimise impact on delivery, scope and budget, while the interventions will be focussed on the priorities identified by diverse stakeholders, regardless of their political affiliation. Depending on the stage of Programme implementation, this time could also be used for assessment, planning, or monitoring/evaluation activities.</p> <p>Furthermore, the communication will be directed to widely publicise Programme to the public, in an effort to build pressure of citizens for its implementation.</p> <p>After the elections/or following regrouping of the local political forces, additional communication efforts will be undertaken to quickly establish relations with the newly selected leadership. The EU PRO will work with all legally elected political parties in every municipality.</p>
5	<p>The projects to be funded through the Programme will be selected in competitive processes, while the priority will be given to those which demonstrate potentially higher impact. Consequently, smaller municipalities may not be in a position to compete for funding with cities and larger LSGs, which may lead to loss of interest for engaging with the Programme.</p>	High	Med	<p>While some activities, such as support to economic infrastructure projects, will be driven by potential impact, there are activities (and grant schemes) where LSGs development levels can be considered. For example, the criteria for selection of projects for social infrastructure will include development levels in order to encourage applications from smaller municipalities. Furthermore, the Programme, in some activities, includes technical assistance, and, in addition, social inclusion and social cohesion activities will primarily target less developed areas.</p>
6	<p>The outreach and communication/visibility of Programme's objectives, results and activities may be impaired due to the large geographical area covered</p>	High	Med	<p>The Communications team will prepare detailed plan for outreach, which will be intense in the first six months of the implementation and will continue vigorously when the calls for proposals are advertised. Furthermore, with the good field presence of relevant personnel, and provision of technical assistance/advisory capacity to beneficiaries, this risk will be mitigated.</p>
7	<p>Overburdening municipalities during implementation, and/or launching several time-consuming activities at the same time, may be a problem due to low capacities and result in smaller number and poorer quality of project applications, as well as lack of interest for the</p>	Med/high	Med	<p>One of the possible measures to mitigate this risk is to adopt different approaches for 'strong' and 'weak' municipalities that may not have the same capacities (e.g. uneven human and financial resources, seriousness of problems etc.). Other approaches may include appropriate planning of different calls, ensuring stronger technical assistance for some LSGs (e.g. those that are devastated or underdeveloped); introducing favourable criteria in calls for 'weaker' LSGs; or designing activities that benefit only weaker LSGs, sequencing the calls.</p> <p>Furthermore, Programme plans should be realistic and coordinated among sectors. The Programme activities</p>

	Programme			should be avoided during the inception period, when the management products and consultations with the stakeholders should be in focus.
8	The Mayors and municipal leadership are not supportive of teams tasked with development and implementation of projects proposals (such as the Local Economic Development Offices – LED, or IT/), which can lead to lessened effectiveness in implementation of the Programme and impede achievement of results	Med/high	Med	The Programme will communicate directly with the mayors and municipal leadership to explain the Programme's rationale and the methodology for implementation. In addition, a vigorous promotion of the Programme to all relevant stakeholders and parties involved will be organised in the first six months, for the same reason. Where relevant, the Programme shall propose signing of written agreements, such as the MoUs, in order to ensure stronger local ownership and engagement
9	Some of the SMEs that will be eligible for support may have negative impact on environment	Med	Med	The criteria for the CfPs will pay particular attention to environmental, financial and institutional sustainability of the projects. Furthermore, the EU PRO team will reach out to relevant institutions to enhance sustainability of the entire action.
10	Increased donor activity and the lack of cooperation with other interventions in the field may lead to confusion within municipal structures and create overlaps	Med	Med	The EU PRO team will hold extensive consultations prior to the start and during implementation with relevant donors/projects to prevent anticipated difficulties. The Programme Steering Committee meetings can facilitate this discussion and coordination.
11	SMEs that were previously supported by donors to start up enterprises, often have sustainability issues and cannot maintain the activities/ensure self-funding due to lack of managerial and organisational capacities	Med	Med	The criteria for the CfP will guarantee that only the entities who have solid business plans should be considered for the donation of the equipment or provision of services. In addition, during preparatory and implementation phase, the Programme will provide technical assistance and advise the SMEs how to maximise effectiveness of the grants and ensure sustainability of actions.
12	The recruitment of the experts from variety of fields, to provide technical support to LSGs, may be complicated, due to specificities of the assignments, which may impact the duration of the activities, but would not endanger the Programme's purpose and results	Med	Med	All internal and external resources will be planned carefully. UNOPS is an international organisation, which offers competitive packages for the locally engaged personnel. UNOPS will recruit the EU PRO personnel in open competition. To announce the vacancies, different tools will be used, including adverts on websites of relevant professional associations.

13	The municipalities engage consultants who are identifying themselves as the Programme staff, which may lead to confusion and misinterpretation of the Programme's mandate	Med	Med	The communications team will prepare messages that will be repeatedly used in communication with wide range of stakeholders, and will repeat them during all information session, on its website, as well as in the criteria of the CfP itself.
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4 Implementation

The United Nations Office for Project Services (UNOPS) was selected for indirect management of the Programme through a Call for Expression of Interest,⁸¹ organised by the Delegation of the European Union (DEU) in cooperation with the European Integration Office of the Republic of Serbia (SEIO)⁸² in July 2016. The funding has been provided from the Instrument for Pre-accession Assistance (IPA II) 2014-2020.

4.1 Methodology

All EU PRO activities will be undertaken in partnership with the Government of Serbia, in cooperation with the national and local institutions, while respecting the national strategies, laws and relevant development documents. This will ensure national ownership and help develop the national capacities. UNOPS will hold the overall responsibility for the results, maintain a monitoring and supportive role, and ensure good visibility of the European Union (EU) assistance.

Projects will be awarded through open and restricted **calls for proposals**, as described in the activities, which are transparent solicitation methods, respecting fairness and integrity. The Programme team will prepare the criteria for specific calls, in consultations with the national stakeholders. Calls will be advertised once approved by the PSC.

Efforts will be put to reach out to potential beneficiaries, while specificities of each target group will be considered.

The proposals will be evaluated and ranked according to the score, with recommendations for funding made to the PSC. The PSC reviews the recommendations and provides final decisions on funding of proposals.

UNOPS **grant methodology**, which is one of the proven approaches to ensure national ownership, encompasses:

1. Local and national partners lead in implementation, with UNOPS maintaining advisory and monitoring role. When the grantees are public entities, the Programme will require strict respect of public procurement procedures, and in other cases it

⁸¹ The criteria included adequate administrative, financial and technical capacity, as well as criteria related to the quality of the Concept Note, including relevance; consistency with the objectives, results and activities of the Action, expected impact; sustainability and cost-effectiveness.

⁸² The Ministry for European Integration after Amendments to the Law on Ministries as of June 2017

will insist that procurements are conducted through fair, transparent, and competitive process

2. Respect for agreements on project monitoring and reporting, roles and responsibilities
3. Payments are made against proven accomplishments of milestones, upon review and verification by UNOPS team. The monitoring visits allow for the assessment of progress, reflection on implementation, challenges, lessons learned and agreement on the next steps, through on-the-job mentoring
4. Protection of financial assets and recording of co-funding, as the grantees are required to open sub-accounts for projects approved by the Programme Steering Committee and contracted by UNOPS, after which they cannot block the allocated funding.⁸³
5. Support to SMEs in procurement of equipment will be done through customised grant methodology developed and piloted within European PROGRES programme that has secured fair, transparent and competitive procurement process, envisaged usage of procured equipment, and protection from misuse of provided support.

When implementing infrastructure grants, the contracts are based on the International Federation of Consulting Engineers (FIDIC) modalities⁸⁴ to ensure that the municipalities do not have additional re-measurements and payments upon commissioning of works.

In some cases, when higher efficiency is needed, direct implementation of projects, by UNOPS, may be required.

The EU PRO will initially retain the offices in Vranje, Niš, Novi Pazar and Belgrade⁸⁵ in order to ensure most efficient implementation and monitoring of the Programme with appropriate personnel levels. Depending on the geographic distribution of activities and (approved) projects, the Programme will, if necessary, in consultations with the DEU and PSC consider opening of additional and/or reorganisation of existing offices. Options for temporary usage of LSG or RDA office space will also be explored. Maintaining this flexibility in terms of office organisation is important as it will enable the Programme to ensure logistical efficiency, while adequate access to key projects and beneficiaries is also important for effectiveness.

4.2 Physical and Non-physical Means

The donor's funding will cover all Programme eligible costs as outlined in the ANNEX II - General Conditions for PA Grant or Delegation Agreements of PAGODA 2 contract format, including:

- Programme activities
- Human resources
- Office and IT equipment
- Logistics (travel and transport)
- Visibility.

⁸³ One of the key risks when cooperating with LSGs in Serbia

⁸⁴ Short form of contract for projects of less than one million Euros and with a duration of less than one year

⁸⁵ The offices are used by the development programme European PROGRES that is funded by the European Union and the Government of Switzerland and implemented by UNOPS, in partnership with the Government of Serbia

In full consultation with and approval from the DEU, vehicles, furniture and equipment from existing EU-funded programmes may be transferred to EU-PRO or disposed of in accordance with standard procedures.

The financial and administrative records will be kept according to the UNOPS rules and procedures, using double entry bookkeeping system. The Programme will keep:

- Accounting records (computerised or manual) from the UNOPS accounting system, such as general ledger, sub ledgers and payroll accounts, fixed assets registers, etc.
- Proof of procurement procedures, such as tendering documents (bids and evaluation reports)
- Proof of commitments, such as contracts and order forms
- Proof of delivery of services, such as approved reports, time sheets, transport tickets, proof of attending seminars, conferences and training courses (including relevant documentation and material obtained, certificates)
- Proof of receipt of goods such as delivery slips from suppliers
- Proof of purchase such as invoices and receipts
- Proof of payment such as bank statements, debit notices, proof of settlement by the subcontractor
- For fuel and oil expenses, a summary list of the distance covered, fuel and maintenance costs
- Personnel and payroll records, such as contracts, salary statements, time sheets. For local personnel recruited on fixed-term contracts, details of remuneration paid, duly substantiated by the person in charge locally, broken down into gross salary, social security charges, insurance and net salary.

4.3 Organisation and Implementation Procedures

The Ministry for European Integration is the National IPA Coordinator (NIPAC), tasked with programming, preparation, implementation as well as sustainability and effects of this Programme. The Ministry for European Integration will also preside over the Programme Steering Committee (PSC) meetings.

The line ministries and institutions of the Government of the Republic of Serbia, e.g. the ministry in charge of economy, the Development Agency of Serbia (RAS), regional development agencies, chambers of commerce, the Republic Geodetic Authority (and its local branches) shall actively participate in implementation of the activities related to the Results 1 and 2. The Public Investment Management Office (PIMO) and the Government of Serbia Coordination Body for the Municipalities of Preševo, Bujanovac and Medveđa will support activities within the Result 3.

Participating municipalities, from Mačvanski, Kolubarski, Zlatiborski, Moravički, Raški, Šumadijski, Pomoravski, Rasinski, Podunavski, Braničevski, Borski, Zaječarski, Toplički, Nišavski, Pirotski, Jablanički and Pčinjski districts, are the key stakeholders and financial

contributors to the Programme that have responsibility of taking the ownership of the activities implemented on their territory.

The United Nations Office for Project Services (UNOPS), the Programme's implementing agency, will provide strong capacity building in project management, infrastructure and procurement, which are UNOPS' mandated expertise. The incumbent European Progress Programme Manager will continue to lead this Action and is responsible for the overall oversight and management of the Programme and is accountable for the achievement of the Programme's objectives. He acts as primary point of contact for the Programme, provides strategic direction, monitors progress, approves major plans and resources and ensures coordination. Any proposed changes in Programme senior international or core national senior management will be discussed and agreed with DEU and PSC Chairperson prior to any action as per the requirements of all major EU-funded programmes.

4.4 Timetable

The Programme will last 36 months.

4.5 Programme Steering Committee

The Programme Steering Committee (PSC), for this Action will be established during the inception period, with the Ministry for European Integration providing the chairperson and the overall coordination. Other voting members of the PSC will be from the Ministry of Economy and Ministry of Construction, Transport, and Infrastructure, and both donors. Representatives of the PIMO and the RAS and other relevant national institutions, such as the Standing Conference of Towns and Municipalities (SCTM) will participate in the work of the PSC as observers.

During the inception period, the PSC will reconfirm validity and modify as necessary the Description of Action and the work plan, confirm project tolerances and the scale for severity ratings of issues.

During the implementation of the EU PRO, the PSC will provide unified direction to the Programme, including decisions on the overall design, approval of completed products (such as Programme reports) and completion of each stage, endorsement of requests for funding of sub-projects, authorisations of stage tolerances and starts of the next stage, it will ensure effective decision making and verify that the risks and issues are managed appropriately, and contribute to the effective communication of the key stakeholders.

At the end of the Programme, the PSC will provide assurance that all products were delivered satisfactorily, confirm acceptance of products, approve the end of Programme report and ensure that issues, lessons learned and risks have been documented and passed to the appropriate body, authorise Programme closure.

The PSC will meet on a quarterly basis in terms of the EU funded Action but 6 monthly for the Swiss-funded Action, ideally not later than 15 working days of the end of a Programme

stage. The Chairperson or the DEU may request extraordinary meetings, and/or decide to organise consultations/voting through email.

The Terms of reference and implementation modalities for the Joint Programme Steering Committees of both the EU and Swiss funded Actions will be agreed prior to the first joint-PSC.

4.6 Costs and Financing Plan

The Programme budget is 25 million Euros. As agreed with the Delegation, 500,000 Euros out of this budget is transferred to a contingency reserve which will predominantly be used for budget line 1.2.1 National consultants - support to programme. No-Objection Letter Methodology would be used to draw down on this contingency in 100,000 Euros lots on an as needed basis.

5 Factors Ensuring Sustainability

UNOPS approach to sustainability is rooted in the organisation's vision of "a world where people can live full lives supported by appropriate, sustainable and resilient infrastructure and by the efficient, transparent use of public resources in procurement and project management. Furthermore, UNOPS mission 'is to help people build better lives and countries achieve sustainable development'. In line with UNOPS Strategic Plan 2014-2017, all implementation approaches are based on three dimensions of sustainability: equitable economic growth, social justice and inclusion, and environmental impact. In 2015, UNOPS was one of the first UN organisations to prepare its Sustainability Report, following the Global Reporting Initiative (GRI) guidelines.

The EU PRO is complementary to a project that will be funded by the Swiss Government, which focuses on incorporating good governance processes into specific activities (e.g. development or improvement of local infrastructure, or land management and introduction of GIS). These synergies will enhance the outcomes and results of both interventions, but also contribute to overall sustainability, increased accountability, transparency and efficiency of LSGs, and other public entities, in development and implementation of projects.

Finally, one of the key criteria in the selection of any projects for funding will be sustainability of their actions.

5.1 Social

UNOPS contributes to social sustainability by respecting international human rights principles and by engaging local communities. This Programme will be implemented in the multi-ethnic areas, and is conceived to encourage accountable and non-discriminatory municipal administrations, fostering participation of citizens through open communication and exchanges of experiences between different ethnic groups living on the same territory. It will promote tolerance, dialogue and good cooperation, not only on the local level, but on the regional and national levels as well.

The EU PRO will also upgrade the skills of local communities for their own cultural production and its promotion. Within its third result, through a call for proposals for civil society organisations (CSOs), specific projects in the field for social cohesion and inter-ethnic cooperation will be supported. Women will be economically empowered, through the grant scheme for SMEs, and opportunities for additional income.

Other Programme activities, such as small infrastructure may focus on access to water supply and sanitation, communication infrastructure, and improvement of social infrastructure, including, but not limited to kindergartens, schools, health care and cultural institutions.

5.2 Environmental

Environmental sustainability involves making decisions and taking actions that are in the interest of protecting the natural world, with emphasis on preserving the capability of the environment to support life. UNOPS developed its Environmental Management Policy for Infrastructure in 2013 and it continually strives to improve monitoring and control of the environmental impacts of all projects, from planning to execution phase.

The Programme will consider what effects the projects may have on environment protection, and will try to address remediation of human negligence on environment and mitigation of adverse impacts. In addition, whenever possible, preference will be given to the modern technology and improved production processes, the most environment friendly materials, sourced locally, in order to reduce the negative impact on environment.

Reconstruction of potential Brownfield sites and communal equipping of Greenfield sites should contribute to positive effect on land, air and water. Any buildings that will be constructed will result in energy-efficient solutions, water-efficient kitchens/bathrooms, and increasing resilience to natural disasters.

5.3 Economic

The objective of this Programme is to contribute to more balanced socio-economic development of Serbia, with the focus on improving the life circumstances for the extremely poor. Its activities are linked to relevant national strategies for economic reforms and development of entrepreneurship and competitiveness.

The EU PRO results will set the strategic direction in achieving coherent sub national support service scheme aiming at creating jobs, business activation, attracting knowledge and boosting economic development. By creating a coordinated and a more effective mix of services such as finance for SMEs, access to high quality public services and business and social infrastructure, a sustainable support system in the less developed areas will be created. The system will help enterprises to overcome the challenges they are currently facing and strengthen their prospects for increasing productivity and raising their competitiveness in the global markets.

Positive impact will be made on livelihoods, as the expansion and modernisation of the SMEs will lead to creation of more jobs and income opportunities at the local level. Regarding equity, the benefits of the Programme will be felt by all members of society, as the implementation approach is rooted in equal opportunities for all. The Programme will pay special attention to minorities and vulnerable groups in activities, e.g. when designing the criteria for the grant scheme for SMEs or small scale infrastructure.

At the macro level, capacities of municipal administrations as well as business support organisations to prepare and implement projects, adhering to the good governance principles, will contribute to sustainability.

Finally, UNOPS has been recruiting its senior management locally, which is also an important factor for economic sustainability as it not only contributes to creating work for local people but uses the knowledge from the local environment.

5.4 National Capacity

Sustainability is primarily guaranteed through the fact that all EU PRO activities stream out of the existing policies and legislation and are defined in a way to support implementation on the local level, ensuring multi-sector development. In this way, the Programme is ensuring sustainability on mid-term and long-term perspective. For example, interventions related to the SMEs will follow the Strategy for Supporting Development of the Small and Medium-sized Enterprises, Entrepreneurship and Competiveness 2015 – 2020, development of technical and urban documentation will be done in accordance with the Law on Planning and Construction, municipal projects will have to be embedded in local development plans, while social inclusion activities will support implementation of policies for this field, such as the Strategy for Social Inclusion of Roma 2016-2025.

The national ownership of the Programme will be ensured on several levels: the PSC will include relevant national institutions and the key stakeholders, who will thus secure continued input and involvement in all activities; activities will be implemented in consultation and, in some cases through formalised cooperation, with the line ministries and national institutions; the Programme will be predominantly implemented through grant methodology that gives ownership over (sub)projects to the grantees.

The EU PRO will ensure that all policies that are produced as its result will ensure inclusive and evidence-based legislative development. Also, institution-building under this action will respect effective lines of accountability between institutions (agencies and parent institutions), therefore avoiding any possible fragmentation of administration. Addressing the quality of administrative services, by improvement of procedures and standards will contribute to sustainability of the activities after the Programme is finished.

Part of the activities will be implemented with co-funding from the beneficiaries as this enhances their ownership and commitment and hence additionally contributes to sustainability.

6 Communications and Visibility

The primary goal of the communications will be to promote the objectives of the Programme, development opportunities for beneficiaries, its activities and results, while linking its outcomes to the EU integration process. The Programme will thus contribute to the improvement of the overall visibility of the European Union (EU) support to Serbia but also to better understanding of the EU values. Such an approach should ultimately lead to better understanding of EU accession process.

The Programme's Communications and Visibility Strategy will be prepared during the inception period, in line with the Communication and Visibility Manual for European Union (EU) External Actions,⁸⁶ and in consultation with the DEU, the Ministry of European Integration of the Republic of Serbia (MEI) and the key stakeholders. The Strategy will provide details about the communications objectives and principles, target audiences and tools and techniques to be used for outreach, key messages, approach to monitoring and evaluation, as well as the available resources. One section will be dedicated to risks as well as to approach to crisis communication.

All communications activities will be presented in the overall Communications Action Plan, which will serve as the basis for the detailed quarterly plans. Still, the first six months of the Programme's implementation will be crucial to disseminate information in innovative and intensive plan for outreach to 99 participating municipalities. Such an approach will require a good communications team, but also field presence.

The Programme's logo will prominently feature the EU flag, while the overall EU visibility will be enhanced by visibility boards at the infrastructure projects and by branding the equipment donated to the beneficiaries.

The organisation of events and visits of high officials of the DEU and the Government of Serbia to the project sites, handover ceremonies and work with media through meetings, trips and provision of different multimedia inputs, will be among the main activities to communicate Programme's achievements to a wider audience.⁸⁷ Information about the Programme outputs, outcomes and results will also be disseminated through social media channels, website and newsletters. Opportunities to establish partnership with a broadcaster with national licence, or the public information service – Radio Television of Serbia – will be explored. This will result in wider awareness of the EU's support to Serbia, as well as potentials of municipalities.

The Communications team will prepare monthly, quarterly, annual and final reports, which will be integrated into the Programme reports. Other reports, such as briefing notes for the high level meetings/visits, analysis and speaking notes, may be drafted, upon the request of the donor or the Ministry for European Integration.

⁸⁶ Communication and Visibility Manual for EU External Actions <https://goo.gl/jDI5Km> and the DEU Visibility Guidelines <http://europa.rs/eu-visibility-guidelines/>

⁸⁷ Details will be presented in the Communications Strategy

Monitoring and evaluation of the communications activities may include,⁸⁸ but not be limited to: measuring of volume and tone of the media coverage and the number of website hits, number of followers on Facebook and Twitter, list of participants in the events and surveys of their satisfaction, and continuous feedback from the stakeholders (through formal and informal meetings, focus groups).

The Communications Strategy will undergo mid-term evaluation, when relevance, efficiency and effectiveness of the communication activities will be analysed, and the lessons learned documented. If recommended, the alternations in the approach to communication in the remainder of the Programme will be introduced to the Strategy. The success of the communications efforts outlined in this Strategy will be evaluated at the end of the Programme.

7 Monitoring and Evaluation

7.1 Reporting Requirements

The Programme reports will be prepared with the intention to inform a wide variety of stakeholders about progress in implementation of activities. Specifically:

Inception Report

The Inception Report will provide details about activities conducted during the inception period (three months from the Programme's official start date). The conclusions of all consultations with the stakeholders, including those from the inception workshop, about the objectives and relevancy of the Programme, the Programme's Logical Framework Matrix (LFM) and the indicators, methodology for implementation, cross cutting themes as well as integration of lessons learned from previous similar initiatives, will be outlined in this report. Any deviations from the original Description of Action (DoA) will be clearly highlighted and proposal for alterations made. The Programme Steering Committee and the donors must approve any changes proposed in the Inception Report through formal correspondence.⁸⁹

The Inception Report, which will also include the work plan for the first quarter of implementation, will be submitted to the Programme Steering Committee (PSC) within ten working days upon completion of the inception period.

Monthly Report

The main purpose of the monthly reports will be to facilitate efficient sharing of information with the internal stakeholders, to contribute to their monitoring of progress and provision of early warning signals to some issues. Upon request, this report can be submitted to the donor.

Quarterly, Annual and Final Reports

⁸⁸ *ibid*

⁸⁹ Either through the minutes of the meeting, letters or email correspondence.

Quarterly, Annual and Final Reports, will provide complete insight into all relevant aspects of the EU PRO implementation for the respective period: progress of activities; degree of achievement of results (measure by quantifiable indicators); contribution towards the objectives; difficulties encountered, mitigations measures as well as lessons learned; information on communications/visibility; overview of resources utilised and costs incurred; if applicable, a request for payment, work plan and budget for the next reporting period.

The Quarterly Reports will be submitted to all members of the PSC, within ten working days of each calendar quarter,⁹⁰ in English language.

The Annual Report will be prepared at the end of each year of implementation, and will substitute the Quarterly Report of the last quarter it covers. It will be prepared within 15 working days after the end of the reporting period and submitted to all PSC members in English language, while Serbian translation will be provided for the broader audience. This report will accentuate the outcomes of the Programme.

The Final Report will be submitted as stipulated in the contract with the donors, and will aim to assess the Programme's impact, measured against the LFM indicators, with a focus on the key problems occurring during implementation as well as lessons learned.

When requested, the Programme can provide ad – hoc reports to the donors within the Programmes' area of responsibility.

Finally, UNOPS was one of the first UN organisations that prepared a Sustainability Report for 2015⁹¹ using the Global Reporting Initiative (GRI) framework. UNOPS Serbia will contribute to these corporate reports, to show economic, environmental and social sustainability of its activities through this Programme.

7.2 Monitoring

Monitoring of the Programme implementation will be in accordance with the EU rules and procedures. The progress will be monitored both by internal and external experts with the aim to track progress over time against the planned targets within the LFM.

While the LFM will define what will be measured, the Monitoring and Evaluation Plan, which will be prepared during inception period, will provide information on where, how, by whom and how often will the data be collected.

Internally, the Programme Manager will lead/or appoint a member of the personnel to monitor the Programme progress, in order to ascertain whether:

- The identified activities and results are produced as planned
- The risks and issues have been mitigated according to the foreseen measures

⁹⁰ There are four quarters each year: Q1 (January, February, March), Q2 (April, May, June), Q3 (July, August, September) and Q4 (October, November and December).

⁹¹UNOPS (2016) Sustainability Report 2015, available at: https://www.unops.org/SiteCollectionDocuments/Publications/Sustainability/unops_sustainability_report_2016_online.pdf

- Any changes are needed to already planned work in the subsequent stages
- Any lessons have been learnt during implementation.

The findings will be presented in Programme's reports (monthly, quarterly and annual). If tolerances for a stage are exceeded, the Programme Manager will seek guidance from the PSC.

The quality of the Programme implementation and products will be monitored during internal quarterly assurance meetings, which rate the Programme in relation to the UNOPS standards of project management and procurement.

Externally:

- Result Orientated Monitoring (ROM) system, led by DG NEAR, which will provide independent assessment of the ongoing or ex-post performance of the Programme
- The National IPA Coordinator (NIPAC)/Ministry of European Integration of the Government of the Republic of Serbia (MEI), which will monitor implementation and sustainability and effects of the Programme, thus increasing the national ownership in achieving the objectives, results, outcomes and impact
- The Programme Steering Committee will meet quarterly and discuss the Programme's progress, obstacles in implementation, deviations to the plans, as well as mitigation measures
- The Delegation of the European Union (DEU) may also decide to monitor the Programme, within its annual assurance strategy process.

7.3 Evaluation

The EU PRO team will evaluate the results of the Calls for Proposals (CfP) or grants given within the Programme activities, in line with the internal guidance. The Programme Manager will identify the team that will be responsible for the evaluation of sub-projects. Lessons learned during implementation of the Programme's predecessors, related to improvement of the evaluation questionnaires and gathering of feedback from the beneficiaries of activities shall be applied during development of the criteria for the CfP/grants. The evaluation of the communication activities shall be outlined in the Programme's Communications Strategy.

No funding has been budgeted for the evaluation of the entire Programme. However, the European Commission may carry out a mid-term, a final or an ex-post evaluation of the entire Programme and/or its components via independent consultants, through a joint mission or via an implementing partner. The evaluations will be carried out as prescribed by the DG NEAR guidelines. In addition, the Programme might be subject to external monitoring in line with the European Commission rules and procedures set in the Financing Agreement, while the Ministry for European Integration, as the NIPAC, may also conduct evaluation of the Programme.