

STATEMENT OF WORK

I. TITLE OF ACTIVITY

Growth Opportunities for Serbia (GO Serbia)!

II. PURPOSE

The United States Agency for International Development (USAID), in Serbia and Montenegro, Office of Local Economic Growth (LEG) requires technical assistance to: a) generate rapid, sustained, and broad-based economic growth in Serbia, b) substantially increase the productivity, competitiveness, and growth of private enterprises in high potential sectors; and c) substantially improve the business enabling environment through policy and institutional development within the high potential sectors.

III. EXECUTIVE SUMMARY

USAID plans to launch a targeted set of market-driven, development activities aimed at generating rapid, sustained, and broad-based economic growth in Serbia.¹

The Project will be carried out under USAID's new multi-year Strategy for the Republic of Serbia, new Country Operational Plan for FY 07, and Strategic Objective 1.32: Enterprise Growth Increased in High Potential Sectors and Municipalities, focusing on IR.1.32.2.

"Competitiveness in targeted sectors increased."²

¹ The new Office of Foreign Assistance (F) strategic framework defines the Economic Growth Program Objective in terms of generating "rapid, sustained, and broad-based economic growth." For purposes of the Project: (a) "rapid" refers to material economic growth that occurs during the life of the Project measured in terms of quantifiable economic impact attributable to USAID technical assistance; (b) "sustained" refers to strategic economic growth that endures beyond the life of the Project, that is, growth that lies at the other end of the spectrum from one-time, transient, or other unsustainable growth; and (c) "broad-based" refers to economic growth that is not overly concentrated in terms of its economic base, geographic scope within the country, or beneficiaries. For purposes of the Project, these F framework terms of art translate to sector selection and technical assistance criteria. Sectors will be selected based on their potential for rapid, sustained, and broad-based economic growth and technical assistance will only be provided if it is reasonably calculated to lead to rapid, sustained, and broad-based economic growth.

²USAID's Strategy for the Republic of Serbia (particularly its Strategic Objective and Intermediate Results framework) and Country Operational Plan for FY 07 call for a sector-based approach to promoting microeconomic growth. For purposes of the Project, the term "sectors" is used in an encompassing, inclusive manner to include manufacturing and non-manufacturing sectors and sub-sectors, value-chains, areas of opportunity, and groups of firms that confront similar constraints or share similar opportunities and that can benefit from collaborative action or similar technical assistance. Targeted, sector-based technical assistance aimed at achieving aggregate economic impact is to be distinguished from non-strategic, firm-level technical assistance that targets individual firms, one-by-one, with little or no opportunity for leveraging USG resources or achieving economic impact that extends beyond the confines of the financial statements of the individual firms assisted.

The Project will be implemented in targeted sectors with high potential for generating rapid, sustained, and broad-based economic growth, throughout the Republic of Serbia. Following receipt of a sector based “**Opportunities/Constraints Study**,” a limited number of high potential sectors will be selected in consultation with USAID based on criteria designed to identify sectors capable of generating the ROI results and economic impact envisaged by the Project. The following list summarizes the selection criteria that will inform the Study and the process USAID and the Contractor will employ to rank and select the high impact sectors targeted for technical assistance and to screen out sectors that do not satisfy the criteria or rank low on the list of candidates³:

- Potential for generating *rapid, sustained, and broad-based* Economic Growth (as those terms are defined for Project purposes)
- Potential for generating a comparatively high Return on Investment (ROI) for each dollar of USAID technical assistance provided
- Potential for generating higher value-added exports (and reduction of imports) that contribute materially to reduction of Serbia’s trade deficit
- Potential for generating increased Foreign Direct Investment (and also domestic investment that increases exports and reduces reliance on imports)
- Potential for “job creation” – with equal employment opportunities for youth, women and other disadvantaged groups, and with special emphasis on creating higher value employment opportunities that replace relatively low wage, low productivity jobs
- Potential for benefiting significantly during the life of the Project from high impact ICT-enabled applications
- Potential for benefiting significantly during the life of the Project from innovative technologies, whether new or adaptive
- Potential for benefiting significantly during the life of the Project from targeted human and institutional capacity technical assistance (e.g., realizing the workforce development, research and development, and technology transfer benefits associated with Centers of Excellence”⁴)
- Such other secondary selection criteria as may be proposed in the Contractor’s technical proposal and Opportunities/Constraints Study, as approved by USAID

USAID will take into account the rankings of sectors and recommendations made in the Study, but will have no obligation to accept each of the sectors proposed by the Contractor for targeted technical assistance. Similarly, USAID will retain the option to add and delete sectors during the life of the Project based on consultations with the Contractor regarding changed circumstances including new opportunities, priorities and constraints that arise during Project implementation

³ The methodology for sector selection proposed by the Contractor in its technical proposal as further refined and developed in its Opportunity/Constraints Study should screen out low value, dying sectors, with little or no potential for high economic impact, while screening in and ranking for ROI purposes high economic impact sectors of strategic importance to Serbia’s economy.

⁴ There is no single definition or model for a Center of Excellence. A COE refers to a collaborative effort between private industry and one or more educational institutions. Typically, the education element of a COE is intended to respond to the needs of the marketplace and often emphasizes the creation of opportunities for new entrants. A typical purpose of the Research and Development element of a COE is to identify and conduct high quality research and promote applied knowledge. The technology transfer element of a COE ensures that the results of R&D are widely disseminated, applied, implemented and utilized effectively.

so long as such changes in mid-course to planned resources do not undermine the Contractor's ability to achieve planned results.

To achieve the ROI and economic impact results envisaged, the Contractor will work with private sector enterprises, business associations, Serbian ministries, departments, and agencies, at the local government level, as well as at the national level, educational institutions (e.g. high schools, universities, Centers of Excellence, etc.) and local NGOs such as economic think-tanks capable of providing sector level analyzes and quantifiable economic impact data and evaluations.

IV. OBJECTIVES

The overall, broad development objectives of the Project are to:

1. Transformational Diplomacy Economic Growth Objective: To generate rapid, sustained, and broad-based **economic growth** in Serbia that results in:

- a) More globally and regionally competitive private enterprises in high potential sectors, with special emphasis on high potential, export-oriented, job-creating SMEs;
- b) Increased higher value-added cross-border and international trade and investment; and
- c) More and better employment opportunities in high potential sectors.

2. Strategic Objective and Intermediate Results: To substantially **increase private enterprise growth**, especially the growth of SMEs in high potential sectors resulting in:

- a) Substantially increased capacity of key sectors and businesses to compete effectively in global, regional and domestic markets;
- b) An improved business climate, including the local business climate, viewed from the sector specific perspective in which these high potential enterprises operate.

3. Program Area and Program Element Objectives and Results: To **improve private sector competitiveness** by improving the capacity of targeted sectors to penetrate and integrate into domestic and international markets through:

- a) Increases in productivity; and
- b) Improvement of the business enabling environment.

The Project will undertake a coherent set of market-driven, targeted development assistance measures that will realize a high Return on Investment (ROI), that is, a high rate of return on USAID's investment in the Project measured in terms of economic impact.⁵ This will be

⁵ The financial tool of Return on Investment (ROI) will be used at two stages in the life of the Project: First, at the sector selection stage, ROI will be used to help identify and rank sectors with high potential for strategic economic impact. Second, ROI will be used to measure progress and results during the period of Project implementation and upon its conclusion. ROI is a cost/benefit tool to be developed by the Contractor that should take into account the timing as well as differing "values" of potential benefits. For purposes of the Project, "cost" refers to Project costs invested in technical assistance, including a share of Project overhead, allocable to the sectors targeted for assistance. "Return" refers to the economic benefits, that is, the aggregate economic impact attributable to the technical assistance provided by the Project. Project benefits will be quantified based on a methodology that takes into account the objectives of substantially increased higher value-added exports, Foreign Direct Investment, and employment opportunities. Although no two projects or economies are identical, based on experience elsewhere, it

accomplished by advancing Serbia's ability to achieve quantifiable results measured in terms of substantially increased higher value-added exports, Foreign Direct Investment, and employment opportunities attributable to the assistance provided by the Project.

V. BACKGROUND

As the social, political, and geographic crossroads between Western and Eastern Europe, Serbia is the key republic in the Balkans for ensuring regional stability and regional economic growth. Although Serbia has achieved significant progress within the last five years, important steps remain to ensure stability and sustained economic prosperity. The transition from a central planned economy dominated by inefficient, subsidized State and Socially Owned Enterprises (SSOEs) to a globally and regionally competitive, free market economy still remains uneven and incomplete. To generate rapid, sustained, and broad-based economic growth — a key transformational diplomacy objective of the U.S. for Serbia — further measures to ensure the private sector's ability to compete in national, regional and global markets and create jobs are necessary.

Macroeconomic Overview

The Serbian economy has recovered substantially since the reform started in 2001. Economic growth has been strong (averaging over 5% annually); The Serbian Government has stated that the GDP per capita will be \$4,028 at the end of 2006 (in 2004 it was \$3,285).

Real GDP growth for 2006 is estimated at 5.8% due to stronger than expected growth in the first half of 2006, especially in manufacturing and expansion of trade, financial services, construction industry and transport and communications. Average annual real GDP growth in 2007-08 is estimated at 5.4%, down from 6.8% in 2005. Leading drivers include investment in newly privatized companies, robust consumer demand, real wage growth, expansion of commercial bank lending, and increase in public investment.

After rising sharply in 2005, consumer price inflation is estimated at below 8% for the 2006, partly because of appreciation of the Dinar and slower growth in commercial bank lending due to actions taken by the National Bank of Serbia to slow potentially inflationary growth in consumer lending. Consumer price inflation is expected to drop to about 7% by the end of 2008 assuming economic policy remains generally prudent.

Fiscal performance in 2007-08 will depend to a large extent on whether the government can cut subsidies to state and socially owned enterprises (SSOEs), keep public-sector wage increases below inflation, and maintain sufficient controls over expenditures on pensions.

In 2006, the substantial strengthening of the Dinar, attributable to record inflows of FDI and external borrowing by commercial banks, led to disagreements among policy makers (the

is not unrealistic to target a ROI of 10:1 or better in which each \$1 of USAID funding generates \$10 or more of economic benefits for the economy of Serbia. ROI targets for each sector assisted will be included in the Contractor's work plan based on the methodology proposed in the Contractor's proposal, as subsequently refined and approved in the work plan following the selection of sectors.

position of NBS and Ministry of Finance versus the position of the Ministry of Economy) over exchange-rate policy.

Employment

National Employment Office (NEO) data show that unemployment stood at nearly 912,000 in June 2006, representing 30% of the working population. When the grey economy is taken into account, a more representative level of joblessness is thought to be around 20%. According to NEO data, youth unemployment in Serbia is exceedingly high, with nearly 49% of 19-27 year olds unemployed. There are some indications from an impact assessment of privatization in Serbia that job losses are mostly hitting redundant administrative personnel and unskilled workers while newly privatized companies are focusing on recruiting younger skilled workers. Because high unemployment remains a serious economic, social, and political problem in Serbia, job creation is one of the key cross-cutting themes of USAID's new Strategy for Serbia.

Foreign Direct Investment

Serbia attracted record levels of Foreign Direct Investment (FDI) in 2006 estimated at US 4.1 billion for the year, largely due to extraordinary gains realized from privatization. However, given perceptions of risk and instability, winding down of the privatization process, and stalled progress towards membership in the EU, record levels of FDI are not sustainable. Inconsistent messages and non-coordination of public information functions within the Government of Serbia hinder attempts to improve Serbia's reputation in international markets and to counter perceptions of instability and risk influenced by negative international press over lack of full cooperation with the ICTY, resolution of the status of Kosovo, ethnic conflict, stalled EU accession negotiations, and resurgence of extreme nationalism symbolized by the popularity of the Serbian Radical Party.

Current Account Deficit and Trade

Serbia ran a balance-of-payments trade deficit of US 3.35 billion in January-July 2006, nearly a 22% year-on-year increase. The current-account deficit is large, almost 9% of GDP, owing to an increase in the merchandise trade deficit.

In 2005, Serbia exported primarily to Bosnia and Herzegovina (16.4%), Italy (14.4%); Germany (9.8%) and Macedonia (5.8%). Principal exports included manufactured goods (33.8%), Food (18.4%), and Miscellaneous manufactured articles (15.6%). In 2006, nearly 60% of Serbia's export revenue was generated from the EU. In 2006, Serbia posted foreign trade surpluses with Bosnia & Herzegovina, Macedonia, and now independent Montenegro.

Serbia imported primarily from Russia (15.8%), Germany (10.3%), Italy (8.6%), and China (4.8%) in 2005. Principal imports included Machinery, apparatus & transport articles (25.4%), Manufactured goods (21.1%), and Mineral fuels & lubricants (19.3%).

Since 2002 trade within south-east Europe has increased, however trade and investment in the region will continue to be held back by a host of non-tariff barriers related to shortcomings in

these countries' business environments—especially licensing procedures, deficient infrastructure, lack of market knowledge and differing product standards. CEFTA, the Central European Free Trade Agreement aims at harmonizing trade rules in the region and incorporates new provisions covering trade in services, intellectual property rights, public procurement, and investment promotion. CEFTA will replace the network of 32 bilateral agreements in South Eastern Europe. It is designed to expand economic activity and attract investors who might otherwise avoid small markets known for bureaucracy, weak infrastructure and low product quality. However, there are different expectations as to how much of a boost this will give to intra-regional trade. Just the same, it is hard to assess how much effect the bilateral free-trade agreements have had on trade volumes within south-east Europe until now, since most of these agreements have only been in force for a couple of years.

Promoting Serbia as a potential investment destination, the Serbian Investment and Export Promotion Agency (SIEPA) cites that the country's comparative advantages include high profit margins, high skilled, low-wage labor, and low taxes. An EU-funded Draft Export Strategy for Serbia (July 2006) submitted to the Ministry of International Economic Relations (MIER) asserts that Serbia's industry and services sectors are seriously unready for international competition, losing markets at home and failing to win them abroad, and not able presently to provide a prosperous future for Serbia in conditions of global competition. Although this situation is slowly improving, the measures to bring about rapid change and progress are either insufficient or absent. Therefore Serbia must transform itself into a supplier of value-added goods and services to the most competitive economies in the world and into a centre of excellence for the Balkan region. To accomplish this, Serbian businesses must concentrate on becoming competitive with EU businesses.

Small and Medium Enterprises (SMEs)

Serbia signed the European Charter for Small Enterprises in June 2003. The Charter, a Pan European initiative endorsed by all the EU member states (and EU candidate countries, the countries of the Western Balkans), outlines ten **policy areas** which are instrumental to improving the business environment for small companies. These include regulatory reform, access to finance, business advocacy, entrepreneurship education, competitiveness, etc. Under the framework of the EU Charter, the Serbian government identified a set of targets related to initiatives designed to help small businesses. Progress on target implementation is reviewed annually in a report prepared by the Serbian government and published by the European Commission. It has been evaluated that Serbia is somewhere between level 2 and 3 (out of 5) in meeting those targets. Therefore the development agenda for Serbia remains unfinished and challenging.

The Ministry of Economy has prepared a Plan for Stimulating SMEE (Small and Medium size Enterprises and Entrepreneurs) Development 2005-2007. The Plan's objectives are to improve the conditions in which SMEs, shops and sole traders operate and to encourage entrepreneurship. Accordingly, the Republic Agency for SME Development, through a network of Regional SME Agencies, offers a range of business and advisory services to entrepreneurs as well as training courses. The services and programs offered by these agencies are mainly focused on start-ups.

Consequently, there is no adequate system of advisory services at the higher level, tailored to the needs of those SMEs which have been operating for some time at the Serbian market.

Regarding the **financial assistance to SMEs**, the Government has established several instruments: the **Development Fund for the Republic of Serbia** provides favorable credits for SMEs. In October 2006, the Ministry of Economy reported that the Development Fund has earmarked more than EUR 100 million to encourage development of SMEs with a view to helping create an estimated 16,000 jobs. In addition, The Government of Serbia also established a **Guarantee Fund** for the purpose of stimulating SMEs, entrepreneurs, and farms. The main function of the Guarantee Fund is to stimulate loans by taking part of the risk for bank loans to SMEs, by issuing guarantees, usually 50% to 80% of the loan amount. In the period, July 2004-March 2005, 1,050 guarantees were issued with a total value of EUR 8.5 million. As support to export oriented companies, the **Fund for Insurance and Crediting Foreign Trade Activities (SMECA)** was established in 2004 as a specialized financial organization providing specialized financial products, such as: insurance cover for export order; funding of working capital for production of export goods; factoring or purchase of receivables based on exports; and issuing guarantees for different export related activities. The World Bank and the Italian government provided the fund with working capital.

The **banking sector** has progressed very rapidly in the past two years. Lending to the SME sector has increased significantly, with banks offering a wide array of SME loan packages and being satisfied with their market share. In addition, several international donors, financial institutions and foreign governments offer attractive credit lines specifically designed for SMEs. The scope of SME lending has also expanded through the availability of leasing arrangements. From May 2003, when the Financial Leasing Law became effective, until early 2005, some EUR 220 million of leasing arrangements were realized, of which 60% was for vehicle purchases and 40% for equipment.

Though complaints from prospective borrowers over lack of access to credit are not uncommon in Serbia (or in other more developed economies for that matter); overall, the “access to credit” problem of SMEs in Serbia is more a shortage of “creditworthy borrowers” as distinguished from a shortage of prudent financial institutions with adequate capital ready, willing and able to lend to qualified enterprises and individuals. In addition to improved private sector productivity, improvement in the functioning of collateral laws, enforcement of contract rights, decrease of the gray economy, prevention of corruption, more reliable financial reporting, increased professional competence of the audit profession, and improved political stability would further expand access to credit.

Conclusion

Although Serbia has made noteworthy economic progress since 2001 by putting in place much of the legislative framework, the economic growth reform agenda remains unfinished. The implications for the Project are as challenging as they are clear. Serbian private enterprises need to produce more value-added products and services; export more; attract more investment; and create more and better employment opportunities throughout the country. To achieve these results, Serbia must integrate into world markets, thus private sector productivity must be

increased through a host of market-based, demand-driven interventions. Additionally, the public sector must provide an improved business enabling environment more conducive to long term investment and sustainable growth. To achieve these results, the Project will provide primarily the private, but also the public sectors in Serbia with much needed, but targeted, demand-driven development assistance in sectors with high potential for value-added exports, Foreign Direct Investment, and job creation. To achieve measurable, quantifiable results, only technical assistance calculated to achieve a comparatively high Return on Investment will be provided during the life of the Project.

USAID Strategy for the Republic of Serbia

USAD has developed its new, multi-year development assistance Strategy for the Republic of Serbia, covering the period 2006-2012. The Strategy derives from an overall vision of a democratic, prosperous Serbia moving toward Euro-Atlantic integration. Key themes include: improved governance accountable to constituents and responsive to the needs of the private sector that, in turn, improves conditions for a market economy; more targeted assistance to sectors to foster private sector growth; and increased political stability through strengthened democratic processes and structures, as well as more specific interventions in vulnerable areas.

Given the crucial economic and democratic components embedded in each theme, integration of strategic elements reflects the philosophy that democratic and economic reforms are not only critical to an overall successful transformation in Serbia, but also inextricably linked to achieving successes in each reform area; democratic processes are an essential component of Serbia's economic growth and stability, and economic growth is essential to create the conditions for a continuing stable democracy. Reform in the social sector is also necessary; however, given the relative priority of economic and democratic challenges and the scarcity of resources to impact reform, it is not a priority theme of the Strategy. These strategic priorities coincide with the three key and interlinked transformational diplomacy objectives of the U.S. for Serbia: Economic Growth, Governing Justly & Democratically, and Peace and Security.

The new Strategy has three Strategic Objectives (SOs):

- I. Strategic Objective 1.31: Democratic Governance of the Market Economy Strengthened. This SO concentrates on work at the republic level, strengthening policy and legal frameworks and implementation of those frameworks. A key component of the SO is improved governance, with better balance and delegations of authorities, cohesive policies and accountability to the public.
- II. Strategic Objective 1.32: Enterprise Growth Increased in High Potential Sectors and Municipalities. This SO captures the local dynamic for private sector growth by improving the business climate and the capacity of key sectors and businesses to compete in the market.
- III. Strategic Objective 2.11: Risk of Political Instability Reduced. This SO will focus on the support of key democratic structures and processes at all levels Republic-wide to increase political stability. It will also improve conditions in specific, vulnerable

areas, by increasing economic opportunities, civic participation and community interventions.

Seven cross-cutting key areas recognized in the Strategy and integrated in the Project are: cross-border integration, job creation, human and institutional capacity development, youth, gender, media/public information, and anti-corruption/governance.

USAID Projects Supporting Strategic Objective 1.32: Enterprise Growth Increased in High Potential Sectors and Municipalities.

During the projected life of the “GO Serbia” Project, additional activities will be implemented by the Local Economic Growth Office of USAID/Serbia under its SO 1.32 portfolio. Ongoing and contemplated SO 1.32 activities that complement the objectives of “GO Serbia” include:

- **Municipal Economic Growth Project (MEGA)** - focuses on developing skills of local governments and local business groups to foster economic growth and job creation and to enhance opportunities for cooperation between the public and private sector to create a business friendly environment;
- **Opportunity (OI) International Savings and Loan** – provides banking services to entrepreneurs and clients normally not eligible for credit, as well as to viable SMEs that demonstrate growth potential;
- **Development Credit Authority (DCA)** - provides partial USG credit guarantees to reduce the risk and promote lending to new sectors, new regions and/or new borrowers;
- **Small Enterprise Assistance Fund (SEAF)** – a newly establish investment fund that provides equity and quasi-equity (long-term debt) financing to SMEs which are generally underserved by traditional equity sources, due to their higher risk and proportionally high transaction costs; and
- **A new multi-year Agribusiness project** designed to increase the value of Serbian agricultural product sales and increase rural employment.

The following SO 1.32 activities are scheduled to end in 2007:

- **The Serbia Enterprise Development Project (SEDP)** is scheduled to end in April 2007. Since July 2003, SEDP has provided advocacy and policy reform technical assistance as well as sector and firm level technical assistance in Fruit/Food, Apparel, ICT, Tourism, and Clinical Research sub-sectors.
- **Community Revitalization through Democratic Action – Economy (CRDA-E)**. This project has stimulated local economic development and growth at the regional and municipal levels to bring immediate improvement in people’s living conditions, through community development program mechanisms.

VI. SCOPE OF WORK

Overview of Development Assistance Considerations Applicable to All Components

The purpose of the Project is to provide the types of technical assistance that meet U.S. Transformational Diplomacy objectives, thus contributing directly and substantially to *rapid*, *sustained*, and *broad-based* economic growth during the timeframe of the activity. These three defining characteristics will influence the choice of sectors the Project will work in, as well as the selection of technical assistance to be provided.

The choices of sectors and activities will also be influenced by USAID's Strategy for the Republic of Serbia and its SO 1.32 Enterprise Growth Increased in High Potential Sectors and Municipalities, focusing on IR.132.2. Competitiveness in targeted sectors increased. Consequently, because choices must be made, the Project will concentrate only on high potential sectors. As discussed in the Executive Summary, for the purpose of the Project, "high potential" refers to high potential for rapid, sustained, and broad-based economic growth and high potential for increased higher value-added exports, Foreign Direct Investment, and job creation.

The choice of sectors to work in and the types of technical assistance to be provided must be informed and influenced by the necessity of demonstrating development "impact" — quantitatively, as well as qualitatively — during the defined term of the Project.

The criteria for sector selection are summarized in the Executive Summary.

Additionally, the annual work plans shall support and directly address the several cross-cutting themes of USAID new Strategy for the Republic of Serbia: cross-border integration, job creation, human and institutional capacity development, youth, gender, media/public information, and anti-corruption/governance. All activities related to these themes must, however, be demand-driven and influenced by the Transformational Diplomacy and Strategic Objective imperatives outlined above. Activities in these areas must be linked directly to increased private sector productivity and competitiveness and an improved business enabling environment.

In view of the scheduled phase-out of USAID technical assistance in the economic sphere by 2012, sustainability is critical. The annual work plans must include a clear strategy and coherent set of implementing activities for promoting sustainability through reducing reliance on expatriate technical assistance and strengthening local human and institutional capacity in preparation for the phase-out of USAID's program in Serbia.

Key Public and Private Sector Counterparts, Stakeholders and Other Donors

Key public and private sector counterparts and stakeholders are not specified in this SOW. The choice of sectors and the problematic conditions encountered in those sectors selected for assistance will identify the array of counterparts and stakeholders with implementing and supporting roles to perform during the course of the Project. An illustrative list of possible

counterparts, stakeholders and other donors during the term of the Project include:

- Government of Serbia
- Ministry of Agriculture, Forestry and Water Management
- Ministry of Economy
- Ministry of International Economic Relations
- Ministry of Trade, Tourism and Services
- Ministry of Labor, Employment and Social Policy
- Ministry of Education and Sport
- Ministry of Science and Environmental Protection
- Ministry of Diaspora
- Ministry of Finance
- Serbia Investment and Export Promotion Agency (SIEPA)
- Department for Development of SMEs, Ministry of Economy
- Republic Agency for SMEE Development and Regional Agencies/Support Centers
- Regulatory Reform Council
- Republic Development Bureau
- National Employment Service and its Business Centers
- Republic Institute for Information Technology and Internet
- Tourism Organization of Serbia, Tourism Organization of Belgrade
- Danube and Sava River Commissions
- Municipalities (particularly those targeted by the MEGA project)
- Local Economic Development Commissions/Offices
- National Alliance for Local Economic Development
- Standing Conference of Towns and Municipalities — Committee for LED
- Diaspora (e.g. Serbian Unity Congress)
- Foreign Investors Council
- American Chamber of Commerce
- Chambers of Commerce
- Universities, high schools, and vocational education and training centers
- Local economic think tanks
- Development and Guarantee Funds of the Republic of Serbia
- Small Enterprise Assistance Fund (SEAF), as well as other investment funds
- Opportunity International Savings and Loan (OI), as well as other commercial banks
- World Bank
- European Agency for Reconstruction
- GTZ
- UNDP
- Other relevant donors

Core Component: Increased Private Sector Productivity and Competitiveness in High Potential Sectors

Tasks:

1. The Project will be implemented throughout the Republic of Serbia in targeted sectors with

high potential for generating rapid, sustained, and broad-based economic growth. From the array of industrial, construction, and service sectors that make up the Serbian economy, a limited number of high potential sectors will be selected in consultation with USAID based on criteria designed to identify sectors capable of generating the results and impact envisaged by the Project. These include substantially increased higher value-added exports, Foreign Direct Investment, and employment opportunities attributable to the assistance provided by the Project.

In accordance with the deliverables section of this RFTOP, The Contractor shall conduct and deliver to USAID an “**Opportunities/Constraints Study**”. The Study shall recommend high potential sectors for targeted technical assistance to be provided by the Project.⁶ The study shall have a two-step approach: the first should present a market opportunity evaluation of approximately 12 sectors; the second part will limit the number of sectors in which in-depth value chain analysis should be conducted. The Study shall set forth a compelling methodology and rationale for sector selection and providing technical assistance to these sectors. Although the importance of export-led growth for Serbia is emphasized, high impact opportunities for import substitution will not be overlooked in the Study. In addition, the Study shall also analyze the potential for high impact ICT-enabled applications on the candidate sectors i.e. how the ICT sector can contribute to the growth of the non-ICT sectors. Similarly, the Study shall analyze the potential benefits to be derived from interventions that promote human and institutional capacity development (e.g., realizing the workforce development, research and development, and technology transfer benefits associated with Centers of Excellence”).

The Study could also include an assessment of whether any sectors should be selected due to their high impact potential by reason of planned development of Serbia’s Danube River and Sava River waterways. Selection of potential sectors may also be influenced by recent potential interest of foreign investors in “greenfield projects” in Serbia.

The completed Study will inform the selection of high potential sectors by USAID and the development and approval of a sector-based work plan that details proposed technical assistance and numerical Return on Investment targets, sector by sector. The ultimate decision for selection of sectors for technical assistance resides with USAID, not the Contractor.

The final scope and format of the Study shall be outlined in an annex to the Contractor’s first annual work plan.

2. The contractor shall provide market-based and sector-driven, targeted technical assistance in accordance with the Contractor’s approved work plan that increases private sector productivity and competitiveness in the high potential sectors selected for assistance.

Because the Project is a market-driven, flexible technical assistance facility, the Contractor will have and maintain the flexibility to adapt to changed circumstances and address opportunities for high impact and private sector productivity and competitiveness and improvement of the business enabling environment in areas that fall outside of sectors specifically targeted for on-

⁶ USAID intends to exclude agriculture from the Opportunities/Constraints Study. An Agricultural assessment was conducted by a USAID team in July and August 2006. This assessment has been used to inform the design of a new, multi-year agribusiness project that will start in 2007 as a separate activity.

going technical assistance provided that flexibility is balanced against the need for longer term planning to achieve results. Changes of this nature will be proposed and approved through updates to the Contractor's annual work plans.

Specific activities the contractor will undertake are those that lead to increased higher value exports, increased Foreign Direct Investment (which might also include a coherent set of activities that lead to investment by Diaspora); and increased sustainable employment opportunities. Related expected results include enhanced productivity and product competitiveness on international markets, increases in the number of creditworthy borrowers in the sectors assisted by the Project, and improved access to available sources of finance (short-term, mid-term, and longer term; both debt and equity). Accordingly, the contractor shall prepare and *deliver as part of its work plan separate sub-Action Plans* at the sector level, for each of these specific activities. The Project will not engage in direct lending activities as a lender competing with existing lenders in the marketplace. Similarly, the Project will avoid direct or indirect subsidies to individual firms that distort markets by creating less than level economic playing fields.

3. The Contractor shall provide in its monthly and annual reports, and in accordance with the Contractor's approved Performance Monitoring Plan (PMP), quantitative and qualitative indicators, that monitor, measure and report progress, results and impact at country, sector and Project levels. These indicators should include quantitative measures of progress in increasing private sector productivity, competitiveness, higher value-added export growth, increases in Foreign Direct Investment, and increased employment opportunities attributable to Project activities. The PMP shall also incorporate a methodology for calculating the Return on Investment (ROI) that USAID realizes from Project implementation, overall, and sector by sector.

Illustrative areas of inquiry and private sector productivity enhancing interventions that the Contractor will consider include:

- Improve the capacity of businesses to integrate into domestic and international markets through increases in productivity.
- Advance the development and application of modern technology and marketing practices.
- Support application of best practices and technologies to achieve increased production and marketing of products and services.
- Support adoption of efficient production processes that improve labor productivity and environmentally-sound management.
- Facilitate the development and application of state-of-the-art systems that help industry groups and firms implement business, labor, product and process standards that enhance business competitiveness.
- Ensure application of professional, market-orientated business management, strategic planning, supply-chain management/operations, finance, sound corporate governance and management and financial accounting and reporting.
- Enhance the capacity of business, industry trade associations, universities, institutes and local government to develop strategies collectively to create supply and value chains for products and services that will compete nationally and internationally.

- Facilitate linkages among all components of supply and value chain members.
- Facilitate and support the development of indigenous technology capacity.
- Strengthen the ability of men- and women-owned firms to access both cutting edge and appropriate technology.
- Support the application of existing technology to new environments and purposes.
- Work with high potential industry, construction and service sectors to introduce new technology.
- Establish sustainable frameworks for business, trade unions and professional associations to organize and offer services to their male and female membership, with particular emphasis on training, greater inclusion of women in leadership roles, and providing information on competitiveness, analytical capacity to examine constraints on growth and introduce or advocate changes, and work with media to improve reporting on competitiveness issues and commercial information.
- Support healthy competition within and among private associations to reduce likelihood and incidence of vested business interests having disproportionate, non-competitive influence on competitiveness reforms.
- Promote research, training, advocacy, technology transfer roles and public-private dialogue.
- Increase access to business capacity development programs which include activities that help men- and women-owned firms and associations respond to international markets and create regional alliances.
- Support efforts to strengthen the private sector in such areas as equitable treatment of male and female workers and meeting business, labor, occupational safety and health, and environment standards.

The Project includes the following sub-components:

Sub-Component 1: Improved Policy and Institutional Development for better Private-Public Dialog and Advocacy

Tasks:

1. Throughout the life of the Project, the Contractor shall monitor, identify and address the most problematic constraints in the business enabling environment (including the local business enabling environment) to private sector productivity, competitiveness, exports, investments and job opportunities in the high potential sectors selected for Project assistance. The list of problematic constraints should include specifically identified forms of public sector and private sector “corrupt practices” encountered by businesses operating in the various sectors selected for Project assistance. Other constraints may include such legal and regulatory and administrative matters as inefficient, uneven, or inconsistent application of particular laws and regulations; unnecessary or onerous laws and regulations; absence of implementing regulations and forms; problems with enforcement of contract rights and judgments; lack of access to information; overly restrictive labor regulations; inadequate public infrastructure; non-tariff trade barriers; local licensing and permits; inspections and imposition of penalties, and other sector specific factors that hamper the business enabling environment.

The Contractor shall design, prepare and provide as an annex to the Contractor's monthly and annual reports, a Quality of Business Enabling Environment (QBEE) Report covering the most problematic constraints in the business enabling environment to private sector productivity and competitiveness in the high potential sectors selected for Project assistance. This QBEE monitoring and reporting should be undertaken pursuant to a rigorous methodology that facilitates comparisons across sectors and progress or backsliding over time, and shall be incorporated in the approved work plan. In accordance with the Contractor's approved Performance Monitoring Plan (PMP), each QBEE Report should include both quantitative and qualitative indicators that monitor, measure and report year-to-date positive and adverse changes in the quality of the business enabling environment, sector by sector.

2. The Contractor shall deliver in accordance with its approved work plan, sector level demand-driven technical assistance to business associations, NGOs, and other advocacy organizations and working groups aimed at improving the quality of the business enabling environment in the high potential sectors selected for Project assistance.

This demand-driven policy and advocacy technical assistance aimed at improving the business enabling environment should also include institutional capacity building resulting in sustainable mechanisms for effective public-private dialogue and advocacy. The objectives are to overcome dependence on donor sponsored and initiated dialogue and advocacy and to supplement, if not supplant, less inclusive and transparent forms of informal, ad-hoc dialogue. The Contractor shall ensure that assistance provided is complimentary and not duplicative to initiatives under other USAID activities and shall report progress in this arena including coordination with other USAID and donor activities, as part of its monthly and annual reporting.

Illustrative areas of inquiry and interventions that may improve the business enabling environment that the Contractor will consider include:

- Improve policies, laws, regulations, and administrative practices affecting the private sector's ability to compete nationally and internationally.
- Reduce barriers to competition and unwarranted distortions to market prices.
- Reduce policy and regulatory barriers to establishing, operating, and closing businesses.
- Strengthen the legal framework surrounding property rights, contract enforcement, and dispute resolution.
- Reduce incentives for corruption and promote transparent business practices.
- Strengthen the legal framework surrounding intellectual property rights.
- Improve laws and regulations affecting the creation, dissemination, and use of technology.
- Improve policies and regulations affecting technology choices and production behaviors with environmental impacts.
- Improve policies, laws, and regulations affecting hiring and firing of workers, wages, working conditions, and collective bargaining.
- Facilitate the creation, perfection and observance of secure and equitable property rights in land and improvements (rural and urban), movable property, intangible property, and intellectual property.
- Create new institutions or bolster existing institutions to resolve disputes and enforce

- property rights.
- Promote awareness of and reduce barriers that deny women their rights.
 - Facilitate the adoption of streamlined and inexpensive licensing, registration, and inspection regimes for different categories of businesses, including SMEs, joint-stock companies, and partnerships.
 - Protect investor and shareholder rights through transparent systems of corporate governance based on company law and corporate governance practices.
 - Support the creation of flexible labor practices with regard to such topics as workforce development, hiring and firing, elimination of any biases in the treatment of male and female workers, benefits and hours to assure competitiveness at the enterprise level. Encourage the adoption, implementation and oversight of fundamental commercial laws that support market-oriented economic transactions (including sales, leases, procurement, and contracts) and development of the regulations and institutions needed to implement, support and sustain such changes.
 - Assist public and private male and female stakeholders to develop capacity to establish and engage in transparent and responsive processes for drafting and amending legislation and regulations that include active participation of the business community and other stakeholders.
 - Assist the development of consumer protection policies, product standards and trade rules to facilitate competition and integration into the world economy.
 - Improve analytical and advocacy skills for a wide range of interested public and private stakeholder institutions to support ongoing improvements in the commercial environment that provide equitable opportunities to men and women.

Sub-Component 2: Improved Human and Institutional Capacity Development including Workforce Development

Tasks:

1. The Contractor shall prepare and deliver as part of its approved work plan and then implement a sector-based Human and Institutional Capacity Workforce Development Plan that supports private sector productivity and competitiveness in sectors targeted by the Project. The plan and implementing activities should concentrate on increasing access to essential education and training needed to close gaps in skills and knowledge that impede private sector productivity and competitiveness in those high potential sectors targeted for Project assistance. Because local institutional capacity development and sustainability are themes of critical importance to the success of the Project, the Contractor should not assume the role of a primary provider of education and training. The Contractor should support the reform and building of local institutional capacity that satisfies the workforce needs of the marketplace in those high potential sectors where the Project provides technical assistance. The Plan and implementing actions should improve access to education and training within academic faculty, trade associations, business centers, and other Serbian education, training and R&D institutions (e.g. “Centers of Excellence”), with an emphasis where possible on opportunities for youth and women, and on creating higher value employment opportunities.

This sub-component also will be market-based and sector-driven, which means that the Project

will have constant feed-back from the industries, listening to the demands of the producers and responding to the dynamics of new markets.

It should be noted that vast majority of the short term technical assistance which will be provided under the previous two sub-components also presents a form of human capacity development. Therefore the Project will explore all aspects of institutionalizing these technical capabilities making them permanently available and with broad impact throughout the Republic of Serbia.

Finally, taking into consideration the high unemployment rate of youth in Serbia (49%), and the relatively higher unemployment levels for women compared to men, the Contractor will attempt to include youth and women as beneficiaries to the activities developed, where possible.

2. The Contractor shall provide in its monthly and annual reports, and in accordance with the Contractor's approved Performance Monitoring and Evaluation Plan (PMP), quantitative and qualitative indicators, including leading indicators, that monitor, measure and report progress, results and impact at country, sector and Project levels with respect to implementation of the Human and Institutional Capacity Workforce Development Plan.

Illustrative areas of inquiry and human and institutional capacity building interventions that the Contractor will consider include:

- Support improvement of skills of workforce and potential for employment in high potential sectors served by the Project.
- Advance development of a workforce equipped to engage in higher value-added work activities in high potential sectors served by the Project.
- Cultivate pool of appropriately qualified candidates for employment opportunities in the high potential sectors served by the Project.
- Advocate for policies, programs, and systems that respond to labor market demands in the high potential sectors served by the Project.
- Assist youth in acquiring knowledge and developing skills, attitudes, and behaviors to find legitimate jobs, establish viable self-employment ventures, and stay employed and productive in the dynamic, high potential sectors served by the Project.
- Promote policies and initiatives that strengthen local capacity to provide quality, demand-driven formal and non-formal workforce development opportunities, with special consideration to gender issues and access to workforce education programs for male and female youth.
- Increase participation in and support new and existing networks among public and private civil society stakeholders to identify work force needs and coordinate efforts to create and sustain equitable, effective workforce development programs, especially for youth and women.
- Contribute to the building of collaborative dialogue and action groups among stakeholders such as business and industry, government, public and private education providers, labor associations, youth groups, and NGOs to plan, design and implement workforce development programs.
- Support pre-employment and employability programs for male and female youth and men and women in formal and non-formal settings.

- Support programs that develop foundational (pre-requisite or threshold) skills that are adaptable and necessary for entrance into the labor force, vocational training programs, and career-oriented higher education including skills such as critical thinking, teamwork, and communication.
- Support workforce readiness programs that target out-of-school and marginalized youth, or students in general education systems including programs that incorporate labor market and social support services and linkages with further technical skills development and career opportunities for both young men and women.
- Support the creation of sustainable career-enhancing education and training programs that are responsive to the current and future labor needs of local, regional, and international employers in the high potential sectors supported by the Project.
- Support programs that certify competence of youth, particularly new entrants, and female and male learners in accordance with industry standards applicable in the high potential sectors supported by the Project.
- Creating approaches, such as, so called “Centers of Excellence” or collaborative effort between the private industry and one or more educational institutions, as well as internship programs, with the intent to respond to the needs of the marketplace and emphasizes the creation of opportunities for new entrants, or to identify and conduct high quality research and promote applied knowledge, as well as to ensure that the results of R&D are widely disseminated, applied, implemented and utilized effectively.
- Encourage entrepreneurial, innovative technologies that can add to growth of or across targeted sectors.

Sub-Component 3: Public Information and Media Activities Increasing Public Awareness and Supporting Other Components

Tasks:

1. The Contractor shall prepare and deliver as part of its approved work plan and then implement a Public Information and Media Outreach Plan. In accordance with the approved Branding Implementation and Marking Plans, the Contractor will describe how public outreach will be undertaken in each of the components and overall throughout the period of the Project. USAID’s Strategy for the Republic of Serbia emphasizes that it’s critical to establish more effective communication between the government and its citizens — to explain the need for changes, to generate support for reforms, and to encourage open debate. Communications, information dissemination, and advocacy activities should be multi-pronged, advancing directly the primary objectives of each of the core components of the Project and promoting better outreach on the positive effect of government reforms on the investment climate. This public information, media, public education, and advocacy component is an integral, action-oriented, component of the Project.

Awareness building and similar activities outlined in the Plan should be designed and implemented to facilitate and promote consensus building, demand and support for needed reforms, and the development and implementation of appropriate strategies and action plans leading to concerted action and achievement of the development objectives and results envisioned by the Project.

At the same time, the Contractor shall assist in the dissemination of information regarding activities supported by USAID, making use of reports, newsletters, the Internet, and other appropriate tools to describe the Project and its current and planned activities and progress to date including success stories, other noteworthy events and accomplishments, and lessons learned.

All media, public information, and public education activities should be coordinated with USAID to ensure promotion of and consistency with U.S. diplomacy objectives. Additionally, the Contractor should ensure compliance with all applicable branding and related requirements, guidance, and instructions of USAID.

2. Provide in the Contractor's monthly and annual reports, in accordance with the Contractor's approved Performance Monitoring Plan (PMP), quantitative and qualitative indicators that monitor, measure and report progress, results and impact with respect to implementation of the Public Information and Media Outreach Plan.

Illustrative areas for activities under this sub-component will include:

- Highlight the contribution of the American people and the Government of Serbia to Serbia's improved economic growth, more innovative and competitive industries, growth in cross-border trade, attraction of Foreign Direct Investment, new employment opportunities, more business friendly legal and regulatory environment, more transparent and accountable institutions, and integration into Euro-Atlantic and regional institutions and markets.
- Summarize in user-friendly and compelling language and format the quantitative and qualitative accomplishments of the Project.
- Support the public diplomacy initiatives of the U.S. Embassy.
- Monitor domestic and international media and provided translations of program related articles to counterparts and USAID, as well as look for opportunities for positive domestic and international media coverage on the improved investment climate in Serbia.
- Coordinated press releases, press conferences, news coverage... with its counterparts and USAID/U.S. Embassy.
- Communications with investors and buyers; represent and promote Serbia in all issues related to foreign investment and exports.
- Other activities in support of the sectors could include: trade publication placement; develop channels of getting market information to companies/sectors and information on companies to their costumers; assist with promotion activities and developing promotional materials; advise on industry trends, pricing, standards...

Sub-Component 4: Small Grants Supporting other Components

Tasks:

1. The Contractor will design, manage and implement a program of up to \$2,000,000 in small cost sharing grants to eligible private enterprises, non-US NGOs, and others to support activities

directly related to implementing and achieving results and demonstrable development impact under any of the Project components. These grants are intended to provide a resource to overcome critical constraints to achieving Project objectives, or to act as seed money to enable significant institutional capacity building in the non-governmental sector. Matching support from the recipient group of an equivalent funding amount, in cash or kind, will be required (exceptions could be made only to limited number of institutions, if approved by USAID).

All grants made shall support the core component and one or more sub-components. In other terms, this means that grants might be, for example, used to support: development of sustainable economic think tanks capable of performing credible sector based analytical studies; reform of and curriculum development in select workforce development institutions; sector-level activities that spur higher value-added exports, presence at international markets, as well as for private-public dialogue and advocacy initiatives.

Within the timeframe approved in the Contractor's first annual work plan, the Contractor shall prepare and deliver to USAID for its review and approval a Small Grants Program Plan with eligibility criteria and other administrative terms and conditions consistent with the development objectives of the Project and the guidance provided above and such additional guidance as USAID may provide.

The Project will not engage in direct lending activities as a lender competing with existing lenders in the marketplace. Similarly, the Project will avoid direct or indirect subsidies to individual firms that distort markets by creating less than level economic playing fields.

2. The Contractor shall provide as part of its monthly and annual reports a year-to-date Small Grants Program Report categorizing and summarizing the salient features of all grants made pursuant to the Contractor's approved Small Grants Program and highlighting the results and development achieved, quantitatively and qualitatively.

Illustrative interventions that the Contractor will consider in designing and managing a small grants program include the use of small grants to leverage resources and embed incentives that:

- Support development of sustainable economic think tanks capable of performing credible sector based analytical studies useful for performance monitoring and evaluation and public policy purposes.
- Support reform of and curriculum development in select workforce development institutions.
- Support sector-level activities that spur higher value-added exports, cross-border integration, entering new markets, Foreign Direct Investment, new employment opportunities (especially for youth, women and other disadvantaged groups), access of creditworthy SMEs to credit, prevention and control of corruption and promotion of good governance, and private-public dialogue and advocacy initiatives aimed at improving the business enabling environment.

VII. EXPECTED RESULTS:

The overarching results envisaged for the Project are:

- Globally, regionally and domestically competitive targeted sectors, populated with more competitive, export-oriented, job-creating SMEs
- Higher value-added exports from targeted sectors to regional and global markets
- Foreign and domestic Investment realized in targeted sectors
- Sustainable employment opportunities created in targeted sectors (with special emphasis on realization of new and more equitable employment opportunities for youth and women).

The envisaged results attributable to the Project include rapid, sustained, and broad-based economic growth realized in targeted, high potential sectors as measured by the indicators defined in the PMP. Below illustrative indicators and targets shall be projected for each year over the life of the project and may be revised on an annual basis if economic conditions justify it:

- TBD% increase in higher valued-added exports across targeted sectors attributable to Project activities
- US \$TBD million in Foreign Direct Investment realized in targeted sectors attributable to Project activities
- TBD% increase in employment opportunities in targeted sectors attributable to Project activities
- an overall Return on Investment (ROI) ratio of TBD:1 or greater based on the application of an approved cost-benefit methodology
- achievement of specified quantifiable targets in private sector productivity, competitiveness, improvement of the business enabling environment, access to finance, and human and institutional capacity development attributable to Project activities.

Final indicators and targets shall be determined after selection of the sectors, together with the submission of the final PMP and the first Annual Work Plan.

With justification, the Contractor may propose other or supplementary country level and sector level indicators and numerical targets provided that the indicators and targets proposed are designed to capture the development impact of the Project consistent with the overarching development objectives elaborated in this Statement of Work.

VIII. REPORTS AND DELIVERABLES OR OUTPUTS

In addition to the requirements set forth for submission of reports in Sections I and J of the basic IQC, and in accordance with AIDAR clause 752.242-70, Periodic Progress Reports, the Contractor shall submit reports, deliverables or outputs as further described below to the TOCO and/or TOCTO.

The cover page of all reports prepared by the Contractor, pursuant to AIDAR 752.242.70, shall include a descriptive title, the author's name(s), the activity name, the activity number, the IQC

contract and task order number, the Contractor's name, the name of the USAID activity office and the TOCTO, and the publication or issuance date of the report.

The Contractor shall be responsible for delivery of draft reports, schedules, plans, and other documents that are described below. Such documents as schedules or plans that do not readily conform to the forgoing format will be presented in a form to be agreed to by TOCTO. All written documents will be provided in English on diskette or other appropriate electronic media.

On hard copy and electronic copy of all reports must be submitted to the following address:

U.S. Agency for International Development
Local Economic Growth Office
Kneza Milosa 50
11000 Belgrade

1. Work Plans

Within 30 days of the Task Order award, the Contractor must submit to the TOCTO, for review and approval, annual work plans describing how the Contractor intends to organize each year's work, both overall and by component. These should be coherent, realistic, evolving work plans, developed with full participation of USAID, other USAID-funded implementing partners, other donor organizations, and project counterparts, as appropriate.

Within 70 days of the Task Order award, The Contractor shall submit a final draft Work Plan for Year One, delineated by months or quarters, to the CTO for review and approval. The Work Plan shall be a follow-on to the "Opportunities/Constraints Study" which will serve as the basis for selecting the sectors this project will assist.

The Work Plans for succeeding years will be submitted by the Contractor for review and approval by the CTO no later than 30 days upon the start of the next 12 month work period. To accommodate USAID reporting requirements, USAID will designate the 12 month period for work plans and annual reports to comply with the fiscal year i.e. from October 1st throughout September 30th.

The work plan shall include a schedule of activities and tasks planned to be conducted, and the inputs planned to be provided, by the Contractor, including a description of planned activities and tasks and an estimated budget — organized by component and, as appropriate, by sub-component. The Contractor shall design, prepare and provide as an annex to the Contractor's monthly and annual reports, a Quality of Business Enabling Environment (QBEE) Report covering the most problematic constraints in the business enabling environment to private sector productivity and competitiveness in the high potential sectors selected for Project assistance. The work plan must also describe contract-level results that the Contractor expects to achieve during the period, linked to the performance indicators set forth in the Performance Monitoring Plan (PMP). The work plan should further include an explanation of how inputs, outputs and results are expected to contribute to SO and IR level results as well as Program Objective, Program Area, Program Element, and Program Sub-element results.

The Contractor will incorporate any required revisions into a final work plan no later than 15 days after receipt of such comments. The USAID CTO will provide a written approval of the final work plan to the Contractor. Should revised activities, performance indicators or performance targets become necessary, the Contractor shall submit a revised work plan to USAID for approval.

2. Monthly Performance Reports

The Contractor shall submit brief monthly performance reports to the TOCTO within 15 days of the end of each month reflecting results and activities of the preceding month. The report shall describe the plan for the reporting period (as set forth in the annual work plan) and assess overall progress to that date in relation to agreed-upon performance indicators for the month as well as key benchmarks for the following reporting period. A description of the specific accomplishments of the Contractor during the month should also be provided, including information on all activities, both ongoing and completed. The monthly reports shall highlight any issues or problems that are affecting the delivery or timing of services provided by the Contractor and any necessary alterations to the work plan and initial timetable. The reports will also track and summarize coordination and interactions with both public sector and private sector counterparts and with other donors.

Each report should include sections summarizing new developments regarding actual and proposed changes in laws, regulations, strategies, policies, action plans, and institutional developments relevant to the scope of the Project. This includes new reports and developments originating from or supported by government ministries and agencies, other donors, and NGOs such as the Foreign Investors Council, American Chamber of Commerce, Union of Employers, and other advocacy and business related associations and groups.

Within the monthly report (as an annex), the Contractor shall include a Quality of Business Enabling Environment (QBEE) Report covering the most problematic constraints in the business enabling environment to private sector productivity and competitiveness in the high potential sectors selected for Project assistance.

The 6th monthly report of each reporting year shall also serve as the Project's semiannual report and shall present year-to-date information summarizing key developments and information for the preceding six-month period as well as pertinent information for the preceding month.

3. Financial Reporting

The Contractor shall submit to the TOCO, TOCTO, and to the USAID FMO Vouchers/expenditure reports which will contain a summary page which shows spending by category for the month, cumulative spending to date, available funding for the remainder of the Project and any variances from planned expenditures. If there are significant accrued expenditures being reported upon which for some reason have not yet been billed to the contract, the Contractor will include a brief note to that effect, with the specific amount involved, thus enabling the TOCTO to accurately track the Project's expenditure rate. These reports will be submitted for each month. The precise deadline for the submission of each financial report will

be specified by USAID.

For USAID financial management purposes, the contractor will submit to the TOCTO a brief overview of accrued expenditures for each quarter, at least 15 days before the end of the related quarter.

4. Annual Reports

The Contractor shall submit a draft annual results report describing Project progress and impact overall and by component, but quantitatively and qualitatively, as contemplated by the Performance Monitoring Plan (PMP). This report shall be submitted in draft to the TOCTO by an agreed-upon date that allows sufficient time for it to be used for USAID annual reporting purposes. The TOCTO will provide comments within 15 days, and the Contractor shall then submit a final draft to the TOCTO for approval within 15 days of receipt of the TOCTO's comments. A copy of the final approved Annual Report shall be forwarded to the TOCO.

The annual report should be submitted in conjunction with the annual work plan and covering the fiscal year, which is from October 1st throughout September 30th.

The Contractor must demonstrate in its annual reporting how activities conducted by the Project contributed substantially and directly to improvements in country and sector level indicators of performance and progress. If any of the numerical targets are not achieved, or if the Contractor becomes aware that any may not be achieved, the Contractor shall immediately advise USAID/Serbia in writing and, in the next monthly report required, provide a complete explanation.

5. Short-term Consultant Reports

Unless otherwise agreed to in writing by the TOCTO, the Contractor shall submit within 10 days following departure of a Consultant, a brief written report that describes the purpose of the consultancy, progress made, and any observations to be shared; identified issues and/or problems encountered; and details expected follow-on activities by resident Contractor staff as well as actions to be performed by participating counterparts.

6. Other Project Reports

The Contractor shall prepare and disseminate, as directed in the Annual work plan or otherwise by the TOCTO, other reports and deliverables needed to accomplish the objectives of the Project, such as policy papers, assessments, evaluations, Project descriptions, success stories, background information, presentations, and intermittent information needed for special or unforeseen events that occur during the life of the Project.

7. Demobilization Plan

Three months prior to the completion date of the task order, the Contractor shall submit a Demobilization Plan to the TO CO and CTO. The Demobilization Plan shall include, at a

minimum, an illustrative Property Disposition Plan; a plan for the phase out of in-country operations; a delivery schedule for all reports or other deliverables required under the task order; and a timeline for completing all required actions in the Demobilization Plan, including the submission date of the final Property Disposition Plan to the cognizant Contracting Officer. Both the illustrative and final Property Disposition Plans shall address all requirements under U.S. and Serbia law for the transfer of property and shall include the inventory schedule required by FAR 52.245-5, a plan for the disposition of property to eligible parties and a timeline for disposition of such property. The Demobilization Plan shall be approved in writing by the Contracting Officer.

8. Final Report and Self-Assessment

Two weeks before the end date of the Task Order, the Contractor shall submit a detailed Final Report, which will include, but not be limited to: a financial report showing, by line item, the amounts expended; a summary of the accomplishments of the Project including a compilation and synthesis of success stories; a discussion of problems encountered and a discussion where objectives were not achieved; lessons learned; a description of all key public and private sector institutions worked with in connection with components of the Project and suggestions concerning possible future, follow-on projects that merit the support of the GOS, international donors, and other interested parties in the public and private sectors.

The Final Report shall also contain a well organized table of contents of all reports, presentations, and other key documents produced under the Project. These key documents should be compiled and delivered to TO CO and TOCTO concurrently with the Final Report in a user-friendly, properly indexed, searchable electronic form (e.g. CD-ROM or equivalent media).

The Final Report shall include (as a separate, stand-alone annex) an objective quantitative and qualitative self-assessment of the Project in the nature of an impact evaluation of the Project, overall and by component. The methodology employed in preparing this evaluation should be an intellectually rigorous one that facilitates both comparative analysis and external validation by a third party, should USAID decide to undertake or contract for an independent third-party post-completion evaluation. To facilitate timely and thorough preparation and completion of the Contractor's evaluation, the Contractor should build this self-assessment evaluation feature into its technical approach and work plans and collect appropriate quantitative and qualitative data during the life of the Project. If project did not achieve all expected results, contractor shall provide a thorough explanation as to why the results were not achieved.

9. Subcontracting Report

The Contractor's will use the e-SRS to comply with the reporting requirement in FAR clause 52.219-9 "Small Business Subcontracting Plan" which will be made as part of this Task Order. Contractor will electronically route summary paper SF 295 report to the office of Small Disadvantaged Business (OSDBU) and electronically enter the SF 294 information into e-SRS. Also, soft or hard copies of SF 294 and SF 295 are to be submitted to the cognizant Contracting Officer for this Task Order, at the below address:

U.S. Agency for International Development
Regional Service Center, Regional Contracting Office
Bank Center, Granite Tower, 4th Floor
Szabadsag ter 7-9
1944 Budapest, Hungary

The Contractor's subcontracting plan dated TBD is hereby incorporated as a material part of this contract. Submission of

IX. PERFORMANCE MONITORING PLAN

The PMP is a management tool of critical importance for planning, managing, and documenting how quantitative and qualitative data is collected and used for monitoring, evaluating, and reporting progress, results, and development impact.

The Contractor is required to maintain throughout the term of the Project a performance-based monitoring, which shall be tailored to the development objectives of the Project.

The PMP must be capable of tracking, documenting, monitoring, and reporting both quantitatively and qualitatively, not only the provision of inputs, outputs and deliverables, but also the targets/indicators for all Project components particularly those designed to capture progress, results, and development impact attributable to the Project.

Because of new USAID reporting requirements, the PMP must be capable of generating credible and comparable information at the following levels:

- Country level (e.g. progress over time in comparison to other countries in the Balkans, new and old EU members, and OECD countries)
- Strategic Objective level (e.g. SO 1.32 Enterprise Growth Increased in High Potential Sectors and Municipalities)
- Intermediate Results level (e.g. IR 1.32.2 Competitiveness in Targeted Sectors Increased)
- Economic Growth Program Objective level ("To generate rapid, broad-based, and sustainable economic growth")
- Program Area level (e.g. Private Sector Competitiveness)
- Program Element level (e.g. Private Sector Productivity)
- Program Sub-element level (e.g. (i) Sector Supply and Value Chains sub-element; (ii) Business Management, Marketing and Governance Practices sub-element...etc.)

Indicators used in the PMP must permit and facilitate the measurement of progress over time and cross-border comparisons with international and regional benchmarks and with other countries. Proposed indicators shall meet USAID data quality standards for validity, integrity, precision, reliability, and timeliness as described in ADS 203.3.5.1.

Achievement of tangible, quantifiable results and development impact is the standard by which

the Project and the Contractor's performance will be monitored and evaluated. USAID will evaluate the Contractor's progress and success based on whether or not the tangible results and development impact envisaged by the Project (as set forth in this Statement of Work and the PMP) are achieved.

X. BRANDING STRATEGY

In accordance with ADS **320.3.2.1**, the Branding Strategy (BS) is part of the contract requirements, as such Contracting Officers must ensure that USAID contract solicitations include a Branding Strategy and instruct Offerors to prepare a Branding Implementation Plan (BIP) and Marking Plan (MP) to implement the Branding Strategy.

The **branding strategy** for this activity is as follows:

The program name and logo:

USAID projects will no longer have distinctive names nor project logos. Projects will be referred to in a generic fashion as a USAID project. In the case of GO Serbia the project will be referred to in all communications as USAID's Competitiveness Project and only the USAID logo will be used.

How the USAID logo will be positioned on materials and communications:

USAID policy requires exclusive branding and marking in USAID direct acquisitions. The Contractor is required to brand program-related deliverables, commodities, or communications to be produced and delivered under this task order. Exceptions can be made in instances where the branding would undermine the purpose of the communication. This rule applies to sub-contracts of contracts. Use of the translated version of the logo is preferred on materials for primarily Serbian audiences. Contractor and subcontractor's corporate identities are prohibited on all program materials. Marking is not required on contractor vehicles, offices, and office supplies or other commodities used solely for administration of this contract.

Desired level of visibility for the program:

Visibility for the program is a very important segment of program implementation. Establishment of a strong communications and public relations capability towards the clients, the partner organizations, the host government and other significant target audiences, such as media, local officials, citizens at large, and other interested parties, is essential to the success of the project in Serbia.

USAID policy requires exclusive branding and marking in USAID acquisitions. Exclusive branding requires the contract to position this project as USAID's, i.e., the USAID's Competitiveness Project. In order to comply with USAID requirement for exclusive marking, the Contractor will mark program-related communication materials only with the USAID logo.

Contractor and subcontractor's corporate identities are prohibited on all program materials. The ADS chapter also prohibits contractors and recipients from using the USAID Identity or letterhead (as specified in the Graphic Standards Manual) for administrative communications. Section 320.3.1.5 states this prohibition and includes some examples of "administrative communications."

The only other logo that can be used by the activity would be, where applicable, the host-country government, ministry, or other donor logo in the event of co-funding. This rule applies to sub-contracts of contracts. Grants under contracts must be branded and marked like grants, i.e., both USAID and the grantee's logos will be on communication materials provided under the grant.

Communication materials will target Serbian counterparts, government, private sector business, non-governmental organizations and the public at large. Because this program will be heavily involved in export and investment promotion target audiences could include individuals and organizations outside of Serbia.

Organizations to be acknowledged:

Serbian and international partner organizations significantly involved in an activity may be acknowledged. Examples of this could include Serbian government, associations of various kinds, non-governmental organizations, or private business.

END OF ATTACHMENT I