



**USAID Business Enabling Project in Serbia  
Scope of Work for Consultant  
Technical Assistance to the Ministry of Economy  
on Improving State Aid Programs Relating to Private Sector Development**

**About the Project**

The Serbia Business Enabling Project (“BEP”) is a five-year USAID-funded project awarded to Cardno Emerging Markets USA, Ltd. to assist the Government of Serbia (GoS) to strengthen the business environment, fiscal and macroeconomic management, financial market development, and business education throughout the country. It provides long-term technical assistance and other financial support to help advance legal and regulatory reforms, build institutional and professional capacity, and carry out other activities as requested by the GoS. The project is organized around three components, each implemented by a resident team of Serbian and international professionals: Component 1 – Business Regulation and Economic Governance; Component 2 – Macroeconomic Policy and Public Financial Management; Component 3 – Financial Markets Development.

The main counterpart for this assignment will be the Ministry of Economy (MoE).

**Background to SoW**

USAID and the BEP team included improvement of state aid programs in the Project's 2012 and 2013 Work Plans because of the low impact and at times harmful effects previous and current GoS state aid programs were having on private sector access to finance and competition. In addition, GoS state aid programs have not in all cases been consistent with EU policy on state aid.

The policy of state aid in the EU is to limit sectoral (vertical) aid to some industries and companies as much as possible, but to allow regional and horizontal assistance. This is because vertical assistance is intended for clearly defined companies and industries, which disrupts both free market competition and trade. Unlike vertical or structural aid, horizontal aid refers to state support that can be used by companies from different industries and is not in advance intended to be received by specific companies.

There are several types of aid that are not allowed by the EU. Prohibited categories include standard subsidies and other mechanisms that can be used to influence the outcome of market competition, including subsidies; tax breaks; soft loans; loan guarantees; exemptions from customs duties; excises and para-fiscal charges; debt or tax forgiveness; purchase of shares of troubled companies; lowering of environmental or other standards; and making land or services available for use at below market prices. This list is not exhaustive, but rather mentions only the most frequent forms of state aid.

State aid provided in Serbia differs from state aid in the EU in its amount, structure and objectives. The amount of state aid in the EU stands at 0.6% of GDP on average, while in Serbia this figure is between



2% and 3% of GDP. State aid in the EU is 80% horizontal by structure, while it is about 20% horizontal by structure in Serbia, while the rest of it is either sectoral or vertical. This is a negative due to the fact that sectoral state aid carries the greatest danger of destroying competition. Objectives of state aid in the EU are shifting towards activities that help development, research, employment and environment protection, while in Serbia they are still related to activities which cause losses. The most of the aid was given in subsidies (close to 60%) or as tax incentives (32.6% of the total). The impact of this kind of state aid is very questionable: for instance, many companies that have used the Development Fund as a source of financing, instead of to assist entry into foreign or domestic markets, have gone bankrupt. Non-performing loans account for almost one-half of the Development Fund's portfolio and another 20 percent have reached partial maturity and have delays in payment.

What follows is that state aid in Serbia will have to be changed fundamentally in order to be in a line with the principles and the concept of providing state aid in EU if the process of accession to the EU continues.

Serbia 2013 Progress Report by EU Commission suggests that there is ample room for improvement in better targeting programs and designing more consistent policies. There is clearly a need for closer examination of the present state aid system, which should lead to a set of concrete recommendations on how to strengthen its regulatory framework, management, and effectiveness.

USAID BEP has already provided technical assistance to the Department of State Aid Control (DSAC) of the Ministry of Finance and Economy (MoFE); this support was aimed at strengthening state aid management and ensuring compliance with EU-mandated principles of aid control. This assistance resulted in the adjustment of the Law on Professional Rehabilitation and the Employment of Disabled Persons, Law on Employment and Unemployment Insurance, and the Rulebook on Criteria and Implementation of Active Employment Policy Measures, and enabled the DSAC to meet the obligations imposed by the EU Stabilization and Association Agreement and the Interim Agreement on Trade and Trade-Related Matters.

In addition, USAID BEP awarded a grant and developed a study on "Strengthening Regulation, Management, and Effectiveness of State Aid in Economic Sphere" in order to help the Government streamline state aid according to the effectiveness of individual programs and evaluate the performance of various economic-related state facilities. Unfortunately, in the absence of relevant data on selected state aid programs from the Ministry of Finance and Economy, Department of State Aid Control and other relevant agencies, the Grantee was not able to complete the evaluation of programs against criteria outlined in the methodology developed.

Recognizing the importance state aid can play in helping to stimulate economic activity in certain sectors, many policymakers, including Minister of Economy and Minister of Finance, have cited the need for better analysis and external review.

Hence, the MoE requested USAID BEP to analyze the goings-on at the Development Fund, and, in particular, the objectives of state aid, how specific programs helped to achieve these development objectives, and what the effects of state aid programs were, in order to transform the Development Fund and establish a new model of assistance which would be available to all instead of to some companies only. Going forward, based on the priority needs identified and the commitment of the MoE,



USAID BEP will provide assistance to the MoE in reviewing the performance and efficiency of selected Development Fund Programs (general overview with a detailed analysis of jointly selected programs). The MoE will fully cooperate with USAID BEP, make all existing data available, and bear full accountability for these data placed at our disposal.

Technical assistance under this assignment will help the MoE to review the performance and efficiency of selected Development Fund programs. This assignment will be part of activities of USAID Business Enabling Project's Component 3 (Financial Market Development). The assignment includes work under USAID BEP's Component 3, Objective 4 ("Improving access to finance for small and medium enterprises and entrepreneurs"). The assignment will contribute to Component 3 Task 4 ("Improve Effectiveness of State Financing Support").

### **Objective**

The main objective of this assignment is to assist the MoE improve the effectiveness of state aid in the economic sphere and so enable better utilization of public resources aimed at increasing the competitiveness of the private sector and reviving economic growth.

Detailed activities are covered by the task areas listed below. The Consultant will plan and implement the work schedule in cooperation with the Project, and will report to USAID BEP Component 3 Expert, Sandra Rodic. The consultant will work together with the other consultants engaged for this assignment as well as with USAID BEP staff and under the instructions received from Mr. Dusko Vujovic.

### **Task 1 – Retroactive Ex-Ante and Ex-Post Analysis of Sectors of Operation of Selected Development Fund Programs**

The consultant will analyze, review and evaluate sectors of the economy in which selected Development Fund programs (selected companies) operated at the time of loan approval and disbursement, in accordance with criteria set by valid and accepted analysis standards and requirements listed below, determining whether those sectors (in which all 20 specified companies operated at the time of loan approval) did or did not provide solid investment and growth opportunities warranting the use of Development Fund resources. The assessment should include an analysis of conditions and future prospects of all of these sectors, both at the time the loan application was processed and at the time the assessment is carried out.

Using a cross-sectoral analytical approach and the appropriate methodology, the specific actions required will be focused on but not limited to the following:

- 1) Sector characteristics: (i) Baseline Market Assessment; (ii) Market Drivers; (iii) Market Barriers; (iv) Key market actors and stakeholders;



- 2) Current activities and significance of each sector: (i) Current market; (ii) Market size; (iii) Trends to watch;
- 3) Assessments of the impact of each sector on the economy: (i) Output and Employment; (ii) Productivity; (iii) Exports;
- 4) Long-term sector growth: (i) Size and opportunity for future growth; (ii) Barriers to growth and scope for government action; (iii) Strategic partnerships with key sectors;

Sector analysis serves to provide the Consultant engaged to evaluate Development Fund programs with information on how well a selected group of programs (companies) were expected to perform as a whole, and compare it to the longitudinal perspective.

As the assessment proceeds, additional technical issues and constraints may be identified. Additionally, the MoE will work closely with the consultant and, as a result, new questions may arise. It will be important that these additional issues are thoroughly described and addressed to the extent possible with the time allocated for this assignment.

## **Task 2 – Prepare credit file data base**

The Consultant will prepare a comprehensive and detailed database of all relevant credit and collateral-related documentation, based on existing documents and those available in credit files and/or other relevant databases within the Development Fund, with respect to the 20 specified companies;

The Consultant will ensure that the above documentation is collected, filed and made available so that it enables efficient, timely and accurate access and search (i.e. available through relevant spreadsheets, drop boxes, or other appropriate registers) and updated and maintained to assist the efficient running of administration functions;

The Consultant will oversee and supervise database inputs, provide timely feedback and ensure the information is accurate both for external and in-house purposes;

The Consultant will create and maintain a register of missing documentation and provide such information to Consultants to allow for affective follow-up;

As the assessment proceeds, additional technical issues and constraints may be identified. Additionally, the MoE will work closely with the consultant and, as a result, new questions may arise. It will be important that these additional issues are thoroughly described and addressed to the extent possible with the time allocated for this assignment.

## **Period of Performance**

The period of performance of this SoW is November 1 2013 to December 31, 2013. The maximum number of days under this LOE cannot exceed 25 days.



## **Deliverables**

In addition to the advisory inputs, specific work product to be developed by Consultant includes:

- 1) Draft Sector Analysis Report containing analysis, review and evaluation of Sectors of Operation of Selected Development Fund (selected companies) operated in the period of credit approval and disbursement, and in the period of report preparation.  
Draft Sector Analysis Report should include all the relevant calculations and list of data sources used, along with a set of preliminary recommendations for review by the other consultants and USAID BEP staff.
- 2) Prepare a comprehensive and detailed database of all relevant credit and collateral-related documentation, based on existing documents and those available in credit files and/or other relevant databases within the Development Fund, with respect to the 20 specified companies;
- 3) Final Sector Analysis Report outlining findings, recommendations, and other relevant information to help the other consultants and USAID BEP staff in preparing the final report to be delivered to the MoE.
- 4) Written final STTA report/memo on the work performed and results achieved.

All legal drafts and recommendations and the final report/memo on activities should be prepared in Serbian.

Drafts of all deliverables need to be supplied for comments to the designated USAID BEP Assignment Manager before delivery. The Consultant will make adjustments to the deliverables in line with Cardno Emerging Markets' comments within a week after such comments have been provided. The final memo should be provided in ten working days after the end of the period of performance.

### **To apply:**

#### 1. Requirements for eligible candidates:

- Bachelor's degree in economics or finance from a leading university (Master's degree, MBA, or Certified Financial Analyst charter will be considered as an advantage and given priority).
- Proven expertise and significant experience with minimum 5 years of relevant work experience in policy oriented or applied microeconomics or in financial services (such as banking or related consultancy services);
- Strong analytical and quantitative skills, including knowledge and facility of relevant MS Office programs, other database/analytic software and information providers;



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- Contains significant knowledge and necessary data to be able to complete the tasks within the period of performance stated in the SoW.
- Excellent written and oral communication and presentational skills in English.

2. Applications including CV clearly showing required background and relevant work experience should be sent by e-mail to: [info@bep.rs](mailto:info@bep.rs), by October 31, 2013. Only short listed candidates will be contacted.