

ANNEX II: TERMS OF REFERENCE

“Provision of Services for External Financial Administrator”

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List of Acronyms

RAS	Development Agency of Serbia
SME	Small and medium Enterprises
MoE	Ministry of Economy
PEP	Programme for purchase of equipment
CfP	Call for Proposals
DEU	Delegation of the European Union
IPA	Instrument for Pre-Accession Assistance
ToR	Terms of References
KPI	Key Performance indicators
MSI	Management information system
IFI	International financial institutions

1. BACKGROUND INFORMATION

Partner country

The Republic of Serbia

Contracting authority

Development Agency of Serbia

Country background and current situation in the sector

Low competitiveness of Serbian enterprises is a result of challenges of the business environment faced by private sector. The Government has taken a comprehensive approach in addressing these challenges, aiming to reduce administrative costs by 15-20% until 2020. This resulted in a significantly improved ranking in the Doing Business Report, from 91st in 2014 to 48th place in 2018. More than 100 administrative fees have been abolished and it was made easier to deal with construction permits. Starting a business has been made simpler, the reliability of the land administration system was strengthened and enforcing contracts was made easier.

One of the elements of the business environment seriously affecting the competitiveness of Serbian enterprises is limited access to affordable finance. Over 69% of companies interviewed in USAID's Serbia Business Survey 2017 reported that they did not borrow to finance operations and growth. According to the same Survey, 84% of SMEs are financed from their own sources. The situation is particularly worrisome for small companies. The financing gap based on the potential demand from, for example, micro enterprises in Serbia, is estimated between 938 – 1,036 EUR million. The micro-financing and venture capital investment are impeded by lack of legal framework, and the unfavorable offer of loans by the banking sector is caused by high requirements for collateral, low credit rating and limited transparency of financial statements of the loan applicants. Lack of affordable financing is preventing Serbian enterprises to modernize their production and to invest

in innovation and commercialization, resulting in low productivity with only 9.2 % of manufacturing having high and medium high-technology products. This affects SMEs and particularly small companies with, for example, companies in the field of textiles, on average, using 35 years old machinery, followed by companies from the machine industry with equipment that is 34.5 years old. Equipment, tools and other productive resources are the most obsolete in the region of southern Serbia (41 years) and the least obsolete in the region of Bačka (18.5 years) and in Belgrade (20.5 years). Consequently, SMEs have less chance of producing high quality products able to compete on international markets on the basis of quality, quantity and unit costs.

The Competitiveness sector as a whole received EUR 1.782 billion of budget funds in the 2015-2018 period, which amounts to average of 5.78% of the total budgetary funds allocated to all sectors. In regard to the origin of resources, the Competitiveness sector was predominantly funded by allocation of the internal (national) resources. The funding from the internal resources amounted to 1.318 EUR billion, relative to 200 EUR million funding from the external resources. In the structure of external funding, international loans generally dominated over international donations and EU assistance. The disbursement rate of the loans is 71%, which is the second highest disbursement rate among all other sectors. The largest amount of funds was allocated to Entrepreneurship and Competitiveness, and Research and Development and Innovation. Over the four years, 78% of total funds for the sector were allocated for these areas, showing the Government's strategic commitment towards private sector support and the knowledge-based economy. In the 2015-2018, EUR 70 million were allocated for that purpose. In 2019-2021, it is planned that the sector receives EUR 1.376 billion of total allocations for all sectors. In the forthcoming three years, 9% (or 57 EUR million) of the internal resources allocation for the Entrepreneurship and Competitiveness will be directed for the development of entrepreneurship. It will include support to SMEs to purchase equipment, invest in business operations and increase competitiveness of their products and services.

As part of the comprehensive approach, Serbia needs to continue to improve access to finance to SMEs and diversify existing funding mechanisms.

The sector strategy covering the Action relevant to the Terms of reference is **Strategy to support the Development of SMEs, Entrepreneurship and Competitiveness (2015-2020) (SME Strategy): Pillar 1:** Improvement of business environment Dimension 1: Establishment of stimulating regulatory framework in accordance with demands and abilities of SMEs **Pillar 2:** Improvement of access to sources of funding Dimension 3: Improvement of the ability of SMEs to access various sources of funding; **Pillar 4:** Enhancing the sustainability and competitiveness of SMEs Dimension 1: Improvement the efficiency of the institutional support to business operations and development of SMEs and entrepreneurship Dimension 3: Improvement the functionality of the national innovation system.

Related programmes and other donor activities

This Action is part of the Country Action Programme for the Republic Serbia for the year 2019-EU Support to Competitiveness, Research and Development and Innovation. Jointly with other actions from the Country Action Programme it will contribute to its overall objective to increase the competitiveness of the Serbian economy. Specifically, it addresses the need to strengthen the private sector's impact on the economy by increasing its business efficiency and their share in turnover, GDP and profitability. Through providing financial support for purchasing of new equipment, the Serbian companies will be more competitive and that leads to an increase in competitiveness of the Serbian economy. Regardless COVID-19 related support instruments, there are several national and regional

EU funded project and initiatives which are relevant for improving access to finance for SMEs and with whom the proposed Action have supplementary scope and development approach. The Western Balkan Enterprise Development and Innovation Facility (WB EDIF) is improving access to finance for SMEs through its Equity (ENEF and ENIF), Lending (Regional Competitiveness Programme) and Guarantee instruments (GF I, GF II and „EU for Serbia –financing for SMEs”). Total funding for Serbia so far is more than EUR 205 mil and more than 1 200 SMEs benefited from the interventions. Nevertheless, instruments of this platform mostly support loans for working capital, equity investments or loans for upgrading production processes to EU standards in the fields of environmental protection, product safety and quality and occupational health and safety. Some instruments from WB EDIF have been extended at national level in Serbia: through “EU for Serbia – Finance for SME” (IPA 16) - 20 mil EUR for favorable loans for SMEs is allocated -, while “EBRD SME Competitiveness Support Programme” got additional 10 million EUR funding for Serbia from the IPA 18 allocation. Important positive influence in terms of boosting banks credit activity towards SME sector have guarantee schemes financed from EU programs, i.e. COSME, EaSI and InnovFin. As already stated, the Action represents scaling up of well-established national PEP which has been developed with the support from USAID BEP program, while MIS software has been acquired with support from German bilateral co-operation.

2. OBJECTIVE, PURPOSE & EXPECTED RESULTS

Overall objective

The overall objective of the Action is to contribute to increase competitiveness of the Serbian economy.

Action “IPA 2019 – Direct Grant to the Development Agency (Action) of Serbia – Scaled up and technologically improved production capacity solutions among micro and small enterprises and entrepreneurs” shall contribute to increased competitiveness of the Serbian economy by supporting investment of micro and small enterprises in modernization of production equipment and expansion of production.

The specific objective of the Action is to increase business efficiency of Serbian micro and small enterprises. In addition, action will strengthen capacities of national institutions to run complex future development of the programs, funded from national or EU funds and to provide inputs for adjustment of portfolio of support programs towards post- COVID19 recovery and long - term development needs.

The specific objectives of the Program could be summarized in the following micro and macro indicators:

- SMEs revenue growth;
- SMEs employment support;
- Internationalization of business and inclusion of SMES in the supply chains of large systems;
- Improvement of SMEs technological production processes;
- Improving SMEs competitiveness;
- Encouraging environmental protection;
- Improving the financing conditions of micro, small and medium businesses and entrepreneurs.
- Improving the Global competitiveness index (score)
- Maximizing the share of SMEs in the total turnover, GDP and profit of overall economy

Purpose

Purpose of the Action is to provide scaling up of very successful national program Programme for purchase of equipment PEP, which has been implemented in partnership with commercial banks and leasing companies for several previous years. Action will enable more favorable financing terms for SME investment loans, in terms of lower interest rates offered by the banks and elimination of hard collateral (i.e. mortgage), as requested collateral. Hence, it will support recovery of investments in SME sector after COVID-19 slow-down of the project. Through providing financial support for purchasing of new equipment, the Serbian SMEs will expand and technologically improve production capacity which would lead to an increase in competitiveness of Serbian SMEs and consequently economy as whole.

The purpose of this Contract is to support the financial organization of the Action in budgeting and ensuring sound financial management, compliance and reporting of the Action all of which to contribute towards the effective delivery of the Action.

Results to be achieved by the contractor

The Contractor shall provide full support, in the domain of professional and technical assistance in the scope of financial administration to the Contracting Authority to achieve the results and successful implementation of the Action.

The detailed description of the Contract Assignment and the work breakdown structure is stated within the point 4.2 of this document.

3. ASSUMPTIONS & RISKS

Assumptions underlying the project

- The Government maintains consistent policy and commitment to the EU accession;
- Existence of sufficient and efficient absorption capacities for EU funds within contracting authority administration and relevant stakeholders;
- Timely and efficient cooperation of all involved stakeholders and experts;
- Relevant legislation remains unchanged.

Risks

- Global trends in changes related to interest rate;
- Lack of interest of sub beneficiaries in post COVID period;
- Lack of interest of the financial intermediaries in post COVID period;

4. SCOPE OF THE WORK

General

Development Agency of Serbia (RAS) and Ministry of Economy have been awarded direct grant from IPA 2019 Programme, “IPA 2019 – Direct Grant to the Development Agency of Serbia – Scaled up and technologically improved production capacity solutions among micro and small enterprises and entrepreneurs” in 2021.

The duration of implementation of Action (i.e. grant) is foreseen to be 48 months.

Action shall be implemented through three main Components: Component 0 – Management of the Action; Component 1 – Implementation of PEP; Component 2 – Implementation of the Technical Assistance support.

The Component 0 - Management of the Action includes the activities regarding the project management process, the procurement of external expert's services as well as program supplies, all to achieve the purposes and the objective of the Action.

The Component 1 – implies to the implementation of the PEP in 2022 and to the Program Public Call.

The following activities under the Component 1 are envisaged:

- A1 - Establishment of the legal basis for annual PEP cycle, i.e. adoption of a Decree by the Government
- A2 - Implementation of the CfP for the banks and leasing companies and contracting short listed banks/Leasing Companies
- A3 - Launching CfP for grant beneficiaries and outreach
- A4 - Submission of grant application together with credit/leasing request and evaluation
- A5 - Contracting of sub-grant beneficiaries
- A6 - Payment
- A7- Monitoring of sub-grant beneficiaries and reporting.

Detailed PEP Programme Manual for the Public call in the year of 2021 and accompanying documentation is available on RAS websites following the link:

<https://ras.gov.rs/program-podrske-malim-i-srednjim-preduzecima-za-nabavku-opreme>

The Component 2 includes the Technical assistance in order to support the institutional strengthening and capacity building of the MoE and RAS, necessary for the smooth implementation of the PEP.

Therefore, Development Agency of Serbia is in a need for services, assistance and external expertise of External Financial Administrator.

4.1.1. Geographical area to be covered

The contract shall be implemented in the Republic of Serbia.

4.1.2. Target groups

Key target group of this Action and contract is Serbian private micro and small enterprises, including sole traders and co-operatives, engaged in manufacturing, construction and engineering.

Specific work

4.2.1. General tasks and responsibilities

External financial administrator shall:

- conduct financial and administrative activities throughout whole implementation process, within the Component 0 and 2– Procurement and Execution of the Technical Support services and goods as well as throughout the Component 1- Implementation of PEP, which will be conducted through Grant Scheme.
- conduct support to Development Agency of Serbia Financial affairs department and Project manager in the implementation of the Actions (i.e. direct grant). External financial administrator will sustain Development Agency of Serbia throughout the Action duration and activities identified within.
- contribute to the proper financial management of the Action in line with EU requirements, the Grant Contract requirements and legal frame of Republic of Serbia.

4.2.2. Specific tasks and responsibilities of the External financial administrator shall be:

The activities that shall be performed by the External financial specialist are, but are not limited to:

Activity 1- Bookkeeping related to the Action implementation:

- Develop and implement the accounting, monitoring, and reporting system, policies and procedures related to the Actions financial and administrative activities, according to its needs, dynamics and within the Action framework;
- Conduct formal and substantial control of financial documentation;
- Keep and manage all financial documentation for the needs of the Action-receipt, registration, dispatch and forwarding of Action documents submitted in physical and/or electronic form;
- Recording and bookkeeping all transactions occurred during the Action implementation and related to the Action - Overseeing all finance and accounting functions including asset management, cash flow management, bank and cash transactions, all incurred expenses, etc.;
- Manage, prepare and maintain all necessary Action financial records and reports (accounts payable, accounts receivable, inventory of assets; evidence of material, supplies and equipment purchased, contracts, timesheets, reports) ;
- Ensure that all financial and administrative procedures and practices are in accordance with generally accepted accounting and reporting principles and in strict compliance with the Action, the Grant Contract financial and administrative procedures, EU regulations and Republic of Serbia national legislation, rules and guidelines;

Activity 2 - Tax administration

Manage, conduct, control and execute all tax, levies and duty related activities, originated from the Grant Contract and the Action.

Please note that The Component 1 of the Action defined within the Grant Contract, shall be executed through the Grant Scheme model and it is foreseen that more than 1000 applicants shall apply. According to Tax Legislative of Republic of Serbia, projects funded by IPA funds are to be exempted for VAT and import levies. In order to act according to the Legislative, the contracts with the sub-grant beneficiaries have to be properly processed within the Tax administration. Therefore, under the Activity 2. of this ToR it is expected from the Contractor to administer the tax application process for the sub-grants.

Activity 3 - Analyze, control and report on financial aspect of Action implementation

- Analyze financial data, identify and solve issues in the field of budget-accounting;
- Control of all financial obligations and receivables occurred under the Action;
- Provide support to the preparation of Action and RAS work-plans focusing on operational and financial planning processes;
- Prepare financial reports according to and in compliance with the Action, Grant Contract and the project management needs:
 - Reconcile and monitor the budget and budget realization.
 - Prepare of Administrative orders-notifications to DEU regarding the changes of Budget defined within the Grant Contract

Activity 4 - Advice, reconcile and Action document management

- Provide advice, support, and information to Development Agency of Serbia staff on financial issues related to implementation of the Action;
- Provide relevant financial and administrative information to project implementation team;
 - Work closely with the Contracted sub-grants expenditure verification specialist;
 - Work closely and reconcile the financial Action data with the Development Agency of Serbia financial affairs department;
 - Prepare the documentation for the process of external audit DEU control – provide explanations and documentation of the Action process;

All activities mentioned are to be conducted simultaneously and the prioritization shall be made by RAS Project management. Therefore, the External financial administrator shall report to RAS Project manager.

It is estimated that during the first year of Contract implementation the activity number 2 will be realized entirely, while the Contract Activities 1, 3 and 4 proportionately during the Action implementation period and Action implementation dynamics.

Please note that the stated number of days are subject to adjustment during the Action implementation and are correlated to Action dynamics.

The above mentioned, tasks and responsibilities are not limited to the specification and could be subject to expansion and be dependable upon Action dynamics.

The following deliverables are expected

Name of report	Content	Time of submission
Preparation of various, ad hoc, financial reports according to national and international standards, in compliance with the Action and the project management needs	Any report that is a result from the dynamics and needs of the Action	Depending on the dynamics and needs of the Action. Time of the delivery-no more than 7 days after the Contracting Authority request.
Interim financial report	Interim financial report is prescribed as Annex to Action contract between RAS and DEU	Draft interim report – no later than 15 days after the end of each 6 month implementation period. Final interim report- No later than 30 days after the end of each 6-month implementation period.
Final financial report	Final financial report is prescribed as Annex to Action contract between RAS and DEU	Draft Final financial report - No later than 30 days before the end of the implementation period. Final report - Within 15 days upon receiving RAS comments on the draft of Final report.

4.3. Project management

4.3.1. Responsible body

Development Agency of Serbia

4.3.2. Management structure

The Contractor will work closely with 2 RAS advisors (one in charge for Action implementation and one financial officer from RAS Financial unit) that will be in charge for daily communication with Contractor.

Project Manager is responsible to give final approvals for tatted deliverables.

The overall team for implementation of the Action from which this contract is financed is comprised of:

Development Agency of Serbia (RAS) is the beneficiary of the direct grant and it is in charge of overall management and implementation of the entire Action. For the overall management of the Action, RAS has appointed high-rank official to act as Project manager. Project manager would rely on the support of RAS working group tasked with project management activities, as well as the team of individual experts. RAS Procurement unit and RAS Financial unit shall support the implementation of Action as well. Staff from IPA Unit of the MoE will also provide support to the Project manager.

Ministry of the Economy (MoE) is co-applicant and MoEs main responsibilities are preparation of the legal basis for PEP, launching Calls for Proposals (CfP) for selection of commercial banks and leasing companies, as well as a CfP to business entities for the award of grants, establishment and participation in Committee for selection of banks/ LCs and Grant Committee and oversees PEP implementation. MoE will ensure the national funding from the state budget, which is intended solely for PEP CfP in 2022.

Commercial banks and leasing companies are involved in PEP implementation. They are receiving the applications for grants and requests for credit or financial leasing, performing administrative checks of the submitted grant application, approve credit or financial leasing requests and perform monitoring of sub-grant beneficiaries. Accredited regional development agencies provide technical assistance to RAS in the implementation of monitoring of earmarked funds used.

Project Steering Committee (PSC) is established to perform overall monitoring and steering of the implementation of the Action.

5. LOGISTICS AND TIMING

5.1. Location

Operational base of the project will be in Serbia, unless otherwise agreed due to extraordinary circumstances (i.e. COVID-19). However, if necessary, for the completion of the assignment, other locations throughout Serbia may be considered.

Office accommodation for each expert working on the contract is not foreseen to be provided by the contractor. Contract authorities currently supports adaptability to remote work conditions according to COVID conditions Work from home, for certain activities, will also be accepted with the previous approval of PM.

The RAS office in Belgrade will be the main operational base of services required under this ToR.

5.2.Start date & period of implementation

The intended start of this contract is June 2022 and the period of implementation of the contract will be approximately 37 months - until the end of the Action (June 2025). Please see Articles 19.1 and 19.2 of the special conditions for the actual start date and period of implementation.

6. REQUIREMENTS

6.1.Staff

Note that civil servants and other staff of the public administration, of the partner country or of international/regional organizations based in the country, shall only be approved to work as experts if well justified. The justification should be submitted with the tender and shall include information on the added value the expert will bring as well as proof that the expert is seconded or on personal leave.

Financial administrator - the expert

The expert has a crucial role in implementing the contract. The Expert shall work under the guidance and follow the instructions of the Project manager of the contracting authority. The expert shall collaborate with the RAS team, other experts involved and the representatives of the relevant beneficiary institutions.

These terms of reference contain the required expert profiles. The tenderer shall submit CV, proofing documentation and statements of exclusivity and availability for the following:

External Financial administrator

The Expert - External Financial administrator to fulfil contractual tasks should:

- Have the ambition to work within dynamic environment
- Possess strong time, task and resource management skills
- Be able to propose solutions for financial and administrative procedures related to project management, including accounting settings, audit and control requirements
- Possess very good communication, verbal and written, skills
- Be creative and problem-solving oriented;
- Be independent

Qualification and skills

- Relevant training within the finance field
- Knowledge of relevant national regulations of Republic of Serbia as well as international Grant Contract regulations (e.g., financial management, public procurement, accounting and auditing, taxation, contracts management, etc.);
- Excellent knowledge in the field of budget finance and accounting
- Excellent knowledge of written and spoken English
- Experience in the usage of computers and office software packages (MS Word, Excel, etc.);

General work experience:

- At least 5 years of general postgraduate work experience;

Specific work experience

- Proven working experience as external financial advisor/auditor/controller/financial specialist within at least two grant projects/programs/contracts/ funded by International Financial Institution (EBRD, USAID, EU IPA funds, UNDP or similar) provided that minimum cumulative duration of projects is 3 years, and/or
- Proven working experience in the total duration of at least 3 years, within financial department of the government body and/or non-government sector and/or private sector, as financial controller/advisor/auditor/accountant/financial specialist.

The mentioned Specific work experience can be observed as combined.

Asset - Advantage

- Advanced university degree (e.g., M.Sc. /MA)
- Possession of ACCA or equivalent national certificate or certificates in the field of Project Financial Management or Financial Management Advisor or equivalent
- Working experience with PRAG guidelines or similar
- Working experience with foreign funds/e.g. IPA, USAID or similar
- Possession of English knowledge certificate at least B2 level

Time input

Expected time input of **External financial administrator** for provision of services required under this ToR is up to **228** working days. The Contractor will be reimbursed on the basis of timesheets approved by the Project manager.

6.2. Facilities to be provided by the contractor

The contractor must ensure that experts are adequately supported and equipped for performing the services under this ToR.

6.3. Equipment

No equipment is to be purchased on behalf of the contracting authority / partner country as part of this service contract or transferred to the contracting authority / partner country at the end of this contract. Any equipment related to this contract that is to be acquired by the partner country must be purchased by means of a separate supply tender procedure.

7. REPORTS

7.1. Reporting requirements

Aside from the deliverables expected, described within the article 4 the expert shall provide the following progress reports by using the templates provided by contracting authority:

- **Brief Monthly reports on the performed expert service** with a description of activities and outputs provided, at the end of each month under this assignment Monthly time sheet is component of this report.

- **Final report on the performed expert service**, no later than 2 weeks after completion of all tasks under this assignment. This report will include a description of all activities.

Reports shall include information on working hours spent for accomplishing task reported.

Submission & approval of reports

One copy of the reports referred to above must be submitted to the project manager of contracting authority identified in the contract. The reports must be written in English. The project manager of contracting authority is responsible for approving the reports.

The Contracting Authority shall, within 10 days of receipt, notify the Contractor of its decision concerning the documents or reports received by it, giving reasons should it reject the reports or documents, or request amendments. If the Contracting Authority does not give any comments on the documents or reports within the time limit, the Contractor may request written acceptance of them. The documents or reports shall be deemed to have been approved by the Contracting Authority if it does not expressly inform the Contractor of any comments within 15 days of the receipt of the report.

8. MONITORING AND EVALUATION

8.1. Definition of indicators

The quality of the work will be assessed against:

- The accuracy and timeliness of submission of the six-monthly narrative reports and final report.
- The quality of record keeping and accurate and financially and economically sound implementation of direct grant activities as reported by a EU audits/supervisory bodies and RAS supervisors.
- The level of cooperation with stakeholders as assessed by stakeholder feedback.

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