

Project Fiche – IPA National programme 2013 / Component I, Bosnia and Herzegovina

1 IDENTIFICATION

Project Title	Support to SME competitiveness
CRIS Decision number	2013/23590
Project no.	3
MIPD Sector Code	3. Private Sector Development
ELARG Statistical code	20. Enterprise and industrial policy
DAC Sector code	32130 Small and medium-sized enterprises (SME) development
Total cost (VAT excluded)	EUR 2 000 000
EU contribution	EUR 2 000 000
Management mode	Joint management with EBRD
EU Delegation in charge	Delegation of the European Union to Bosnia and Herzegovina
Implementation management	Delegation of the European Union to Bosnia and Herzegovina
Implementing modality	Stand alone projects
Project implementation type	C01 – Project-type interventions
Zone benefiting from the action(s)	Bosnia and Herzegovina (BiH)

2 RATIONALE

2.1 PROJECT CONTEXT: ISSUES TO BE TACKLED AND NEEDS ADDRESSED

The economy of Bosnia and Herzegovina is slowly recovering from the impact of the economic and financial crisis. Despite some signs of recovery in 2010, it remains exposed to the risks in international markets. Amongst the major challenges, predominance of low value-added industries, weaknesses in workforce skills and difficulties in attracting investment still prevails.

This project focuses on enhancing the competitive position of export oriented SMEs to support local economic development and increased employment in BiH.

2.2 LINK WITH MIPD AND NATIONAL SECTOR STRATEGIES

The main MIPD 2011-2013 priority for the Private Sector Development addressed by this project is "to advance the implementation of the Small Business Act, stimulate the innovation by SMEs and increase competitiveness in growth sectors". The Project also partially addresses the following MIPD priorities: "increase the role of the private sector in the economy, create a better business environment, strengthen the business support infrastructure and services in particular at local level and improve the conditions for land management and land market development" and "improve institutional and legal framework as well as the coordination and harmonisation of SME related policies and support BiH to adhere to its obligations under the IA/SAA."

The Small Business Act (SBA) states that "managing the transition towards a knowledge-based economy is the key challenge for the EU today. Success will ensure a competitive and dynamic economy with more and better jobs and a higher level of social cohesion." In particular, the SBA principles VII and VIII emphasize the need to help SMEs to use benefit from the opportunities offered by the Single Market and the need for the upgrading skills in SMEs. Also, principles III and IV ("Think small first" and "Responsive administration") must be taken into account for the purpose of improving B&H, entity and Brcko District levels "doing business index".

At sectoral level, the objectives for small and medium enterprises (SMEs) development are defined in valid SMEs Strategies or Action Plans. Federation BiH adopted the Action Plan for the Implementation of the Project "Development of Small and Medium-Sized Enterprises in the FBiH" for the period 2009-2012 and the Programme of Measures for the Development of the Small Enterprises 2010-2012. Republika Srpska adopted a new SMEs strategy for the period 2011-2015.

Entity tourism strategies identify the tourism sector as the driving force of economic growth and investment incentives, with continued rising trends in contributing to the GDP index and job creation. Mentioned valid strategies and action plans support *acquis* approximation and implementation of SBA.

2.3 LINK WITH STABILISATION AND ASSOCIATION AGREEMENT (SAA) / ANNUAL PROGRESS REPORT

The Stabilization and Association Agreement (SAA) calls for the creation of a favourable climate for private investments, essential to economic and industrial revitalisation of BiH. According to SAA, article 93: "Cooperation between the Parties shall be aimed at developing and strengthening private sector small and medium-sized enterprises (SMEs) and shall take due account of priority areas related to the Community *acquis* in the field of SMEs, as well as the ten guidelines enshrined in the European Charter for Small Enterprises". At sector level, it also focuses on development of tourism¹ in Article 94, by promoting the transfer of know-how and partnerships to support an improved management and development of the business environment.

¹In accordance with competences stipulated in the Constitution of BiH, emphasising Article 3

2.4 PROBLEM ANALYSIS

Bosnia and Herzegovina's entrepreneurship is predominated by SMEs which are operating in a complex business environment, further burdened by the on-going economic and financial crisis. Consequently, there is a continued fall in the number of SMEs and their employment rate.

This project will provide direct support to SMEs that should benefit from a direct transfer of knowledge and exchange of good practices in the SBA implementation through their cooperation in a wider regional and EU business and innovation networks. Additionally, the assistance should target competitive BiH sectors to promote public-private dialog and cooperation. This will be provided via demonstrated and effectively proven mechanisms of the transfer of knowledge and best practises developed within an IFI partner institution – European Bank for Reconstruction and Development (EBRD) that has a credible and verifiable record of developing and realising business support programmes and schemes to promote economic transition in its countries of operation, thus transposing the SBA best practice implementation. One of such is Small Business Support (SBS) instrument (former TAMBAS Programme).² Those are complementary schemes aimed at helping enterprises adapt to the demands of a liberal market economy, supporting SME capacity for innovation, and striving to develop local SME as well as business advisory services sectors through a multi-tiered approach. The above programmes and other similar have been already demonstrated in the SEE region, BiH as well (TAMBAS programme implemented under IPA 2009), proving implementation capacities and structures for direct support delivery to businesses in line with the best SBA practice. Therefore, the proposed project and credible implementation agency with proven experience in the field will represent a follow up on the sector support and will ensure EU standards and principles via implementation mechanisms of the referenced IFI.

LINKED ACTIVITIES AND DONOR COORDINATION

A range of current and past donor funded projects – EU and bilateral donors – include the provision of assistance for the SME sector development in the main fields of policy and institutional development, improved business climate, provision of finance, as well as direct support to specific industry sectors (wood processing, agri-business, etc). These are delivered through the various instruments such as advisory services for introduction of international standards, support to value chains, provision of voucher and credit schemes, etc. According to Donors Mapping Report, SMEs and improvement of business climate sub-sector received EUR 130.440.000 in 2010, which is 42,72% of total allocations to the Economic Development and Social Protection sector. The current implementation of the TA project to the tourism industry in BiH to end in beginning 2013, will, amongst other project results, deliver a set of strategic documents produced with a harmonized approach in identification of specific priorities and measures to further improve the current strategic and legal framework, as well as product development and promotion and human resources.

² As of January 2012, the EBRD changed the name of the TurnAround Management Programme (TAM) to the Enterprise Growth Programme (EGP) to better reflect its objectives and clientele. Consequently, the EBRD TAM/BAS Programme was renamed to EBRD Small Business Support (SBS) team.

In both entities and Brcko Distric (BD), measures for strengthening of the business environment and easing access to market for SMEs are supported.

In Federation of BiH in 2011 incentive assets for “Current Transfers” were awarded through three programmes focused on innovators-individuals, entrepreneurial zones building, building innovative economy etc. Total amount of these actions is approximately EUR 3.000.000. Credit funds for SMEs in the same amount were also provided through FBiH Development Bank.

Grants are also awarded by the Federal Ministry of Energy, Mining and Industry. A large part of the beneficiaries of these grants is SMEs.

The Federal Ministry of Environment and Tourism has allocated approximately 1.280.000 EUR, determined in the budget of Federation BiH for the year 2011, for transfer to the development of tourism in the Federation of Bosnia and Herzegovina. Furthermore, the Development Bank of the Federation, in the same year, secured a credit line amounting approximately EUR 1.000.000, for financing projects in the field of rural development and tourism. The Federal Ministry of Environment and Tourism provides a co-interest with a total amount of approximately EUR 250.000, or 5% annually, for the entire duration of the repayment of these loans to the credit line. Small and medium-sized enterprises in tourism mostly benefited from the aforementioned assistance.

In Republika Srpska in 2011, the Ministry of Industry, Energy and Mining co-financed development of 12 business zones and two business incubators and also participated in the forming of the fund for Wood Processing in RS. Overall amount of these actions is approximately EUR 136.000. The Ministry implemented two public calls for proposals ensuring an incentive of approximately. EUR 1.500.000 for employment of unemployed persons. RS Agency for Development of SMEs and the Ministry have also organized an international conference aimed at strengthening further development of clusters in RS.

In BD, the „Programme for Subventions for a Part of Interest Rates for Loans Given to Companies and Entrepreneurs in the Territory of BD BiH in 2011” resulted in 284 entrepreneurs receiving approximately EUR 900 000 by the end of 2011. In order to improve access to capital and increase development of the economy and employment, the Development-Guarantee Fund of BD BiH was created for the implementation of development projects, issuing of loan guarantees to small and medium enterprises, independent entrepreneurs and registered agricultural farms. In 2011, the Development-Guarantee Fund of BD BiH approved 108 guarantees amounting to approximately EUR 1.000.000.

In conclusion, the proposed Project would provide for the continuation and synergies with the abovementioned assistance with focus implementation of the SBA, as a driving EU approximation tool in the SME sector.

LESSONS LEARNED

The direct support to entrepreneurs provided from the past IPA programme has achieved remarkable tangible benefits for selected SMEs, which recorded an increase in revenues by 80% and employment by over 20%. Importantly, the majority (70%) of companies has continued to use the consultancy services after the related EU assistance was finished.

3 DESCRIPTION

3.1 OVERALL OBJECTIVE OF THE PROJECT

To stimulate economic growth and employment generation.

Indicator: Improved BiH ranking in Global Competitiveness Index and Doing Business reporting by 2020.

3.2 SPECIFIC OBJECTIVE(S) OF THE PROJECT

SMEs in BiH more competitive in internal as well as external markets

3.3 RESULTS

SMEs benefiting from a direct transfer of knowledge and exchange of good practices in the Small Business Act implementation through their cooperation in wider regional and EU business and innovation networks.

3.4 MAIN ACTIVITIES

The activities of the project will be implemented through a Contribution Agreement with EBRD in the amount of 2 000 000 EUR. They include:

- Awareness raising and promotion of SBA principles amongst SMEs in BiH /countrywide and non-state actors.
- Exchange of best practice in SBA implementation through a “people to people” approach.
- Piloting of selected SBA principles and indicators in selected areas with potential for enhanced local economic development³.

ASSESSMENT OF PROJECT IMPACT, CATALYTIC EFFECT AND CROSS BORDER IMPACT (WHERE APPLICABLE)

The project will support the development of a business environment through piloting of EU best practices on effective public-private co-operation that will be implemented in form of a Contribution Agreement with the EBRD, to allow for transposing the best practices via IFI's proven mechanisms of such support. Aforementioned will contribute to the increase of employment in SME sector, competitiveness of the sector, increased possibility of investments to private sector etc.

3.5 SUSTAINABILITY

The involvement of non-state actors (development agencies, business support centres, chambers of commerce etc.) is expected to increase awareness of the SBA relevance to BiH SME development, which in return, should create local capacities for SBA implementation particularly as a result of the piloting foreseen.

³ In accordance to the criteria agreed by entities and Brcko District

The availability of the Contribution Agreement with an IFI in implementation of SBA best practice will provide concrete and tangible benefit for SMEs and increase sustainability of their more competitive positions at local and international markets.

3.6 ASSUMPTIONS AND PRE-CONDITIONS⁴

Active involvement of private sector is needed for successful implementation. Also, the dialogue between public and private sector should be effective.

4. IMPLEMENTATION ISSUES

The activities will be implemented in joint management with the EBRD.

4.1 INDICATIVE BUDGET

⁴ Assumptions are external factors that have the potential to influence (or even determine) the success of a project but lie outside the control of the implementation managers. Such factors are sometimes referred to as risks or assumptions but the Commission requires that all risks shall be expressed as assumptions. Pre-conditions are requirements that must be met before the sector support can start.

4.2 INDICATIVE IMPLEMENTATION SCHEDULE (PERIODS BROKEN DOWN BY QUARTER)

Contracts	Start of Tendering/ Call for proposals	Signature of contract	Project Completion
Contribution agreement with EBRD	NA	Q3/2014	Q3/2016

The Contribution Agreement will be prepared by the Delegation of the EU in close involvement of the Beneficiaries.

4.3 CROSS CUTTING ISSUES

4.3.1 *Equal Opportunities and non discrimination*

Equal opportunity principles and practices in ensuring equitable gender participation and non discrimination within the project will be guaranteed.

4.3.2 *Environment and climate change*

The project is providing consulting services aimed at strengthening competitiveness of SMEs; it is not expected to have to any negative environmental effects.

4.3.3 *Minorities and vulnerable groups*

Participation in the project activities will be guaranteed on the basis of equal access regardless of racial or ethnic origin, religion or belief, disability, sex or sexual orientation.

4.3.4 *Civil Society/Stakeholders involvement*

The IPA programming process included consultations with Civil Society and the Donor Community in BiH, through two consultation meetings and exchange of relevant information on the process and individual proposals. All relevant institutions from various levels of government in BiH participated in the preparation of the project proposal.

ANNEXES

Documents to be annexed to the Project fiche

- 1. Log frame**
- 2. Description of Institutional Framework**
- 3. Reference list of relevant laws and regulations only where relevant**
- 4. Details per EU funded contract where applicable:**
- 5. Project visibility activities**

ANNEX 1: Logical framework matrix in standard format

LOGFRAME PLANNING MATRIX FOR Project Fiche		Project title and number: Support to SME competitiveness		
		Contracting period expires: Three years following the date of the conclusion of the Financing Agreement		Execution period expires: One year following the end date for the execution of contracts
		Total budget	EUR 2 000 000	
		IPA budget:	EUR 2 000 000	
Overall objective	Objectively verifiable indicators (OVI)	Sources of Verification		
To stimulate economic growth and employment generation.	<ul style="list-style-type: none"> Improved BiH ranking in Global Competitiveness Index and Doing Business reporting by 2020 	Relevant reports, like SME performance reviews, GEM (Global Entrepreneurship Monitoring), DB (Doing Business) reports, etc.		
Specific objective	Objectively verifiable indicators (OVI)	Sources of Verification		Assumptions
SMEs in BiH more competitive in internal as well as external markets.	<ul style="list-style-type: none"> Increased SMEs participation in innovations and research through public private partnership by 0.5 % by EoP. Increased export diversification and contribution of added value in specific export products. Increased contribution of competitive export sectors in total BiH export by 0.5 %. Increased employment of qualified workforce in competitive sectors by 0.5%. 	Global entrepreneurship review EBRD country reports; BiH reports; Relevant employment strategies in BiH; surveys and statistical information Export and trade exchange statistics		Macro economic and political stability. Successful completion of SAA negotiations.
Results	Objectively verifiable indicators (OVI)	Sources of Verification		Assumptions

SMEs benefiting from a direct transfer of knowledge and exchange of good practice in the Small Business Act implementation through their cooperation in wider regional and EU business and innovation networks	<ul style="list-style-type: none"> • At least 1% of SMEs⁵ (with attention to be paid on SMEs in tourism industry) in BiH/countrywide covered by SBA good practices trainings by Month 9. • Exchange of know-how on at least 5 relevant SBA best practices demonstrating effective public - private sector cooperation in the neighbouring and/ EU member state); by end of Y 1.6 • At least 2 EU SBA best practice models piloted in BiH/ country-wide⁷ by the end of Y2. 	business surveys and statistical periodic and annual reports, annual and periodic project reports, EBRD country reports; SBA Assessment “Fact Sheets”	
Activities to achieve results	Means / contracts	Costs	Assumptions
<ol style="list-style-type: none"> 1. Awareness raising and promotion of SBA principles amongst SMEs in BiH /countrywide and non-state actors. 2. Exchange of best practice in SBA implementation through a “people to people” approach. 3. Piloting of selected Small Business Act principles and indicators in selected areas with potential for enhanced local economic development⁸. 	Contribution Agreement with EBRD	EUR 2 000 000	

⁵SMEs selected in accordance to the criteria agreed by entities and Brcko District

⁶Evenly distributed, as follows: 2 in each entity and 1 in Brcko District

⁷Evenly distributed, as follows: 2 in each entity and 1 in Brcko District

⁸ In accordance to the criteria agreed by entities and Brcko District

ANNEX 2. Description of Institutional Framework

State level

According to the Article 9 of the Law on Ministries and other Administrative Bodies in BiH, Ministry of Foreign Trade and Economic Relations (MoFTER), is responsible for issues regarding business environment and single economic space. MoFTER performs tasks related to these issues in cooperation with entity and BD bodies. Council of Ministers (CoM) adopted the decision on appointment of the members of BiH Forum for Promotion and Development of Entrepreneurship in February 2011. The Forum acts as an advisory body to the CoM on issues regarding promotion and development of entrepreneurship.

MoFTER is also responsible for co-ordination of activities of entity ministries and BD bodies competent in the field of tourism through the Department for Tourism within Sector for natural resources, energy and environment protection. Working Group for coordination of tourism activities in BiH was formed by MoFTER in 2007 in order to strengthen the co-ordination in this area.

The competent entity level authorities for SME development and tourism include:

Federation of BiH:

- Federal Ministry of Development, Entrepreneurship and Crafts
- Federal Ministry of Environment and Tourism

Republic of Srpska:

- Ministry of Industry, Energy and Mining of RS
- Ministry of Economic Relations and Regional Cooperation of RS
- Ministry of Trade and Tourism of RS
- Republic Agency for SME development

Brcko District of BiH

- Department of Economic Development, Sport and Culture and its Sub-department for Economic Development within the Brcko District of BiH Government

The final beneficiaries are SMEs in BiH/countrywide and tourism industry in general.

Project Preparation Group – PPG was the primary coordinating mechanisms for consultation of all relevant stakeholders for programming of the sector assistance. PPG included representatives of the Ministry of Foreign Trade and Economic Relations, Competition Council and Foreign Investment Agency, Deposit Insurance Agency from the state level; Ministry of Industry, Energy and Mining, Republic SME agency and Ministry of Trade and Tourism from the level of Republika Srpska, Federal Ministry of Energy, Mining and Industry, Federal Ministry of Development, Entrepreneurship and Crafts, Federal Ministry of Environment and Tourism, Federal Ministry of Trade from the level of Federation of Bosnia and Herzegovina, representative of Brcko District government, representative of Delegation of the EU in BiH and representative of Directorate for European Integration (NIPAC Office). The composition of the PPG will be considered when deciding on the composition of the project Steering Committee.

ANNEX 3. Reference list of relevant laws and regulations only where relevant

State level Strategies

- 2009-2011 Strategy for Development of Small and Medium Enterprises in BiH, adopted in 2009

Federation of Bosnia and Herzegovina

- Law on Crafts and Similar Activities (Official Gazette of the Federation BiH, no. 35/09)
- Law on Incentives for Development of Small Economy
- Draft FBiH Economic Development Strategy (includes the project „Development of Small and Medium Enterprises in FBiH” 2009 – 2018)
- Action Plan for Realization of the Project „Development of Small and Medium Enterprises in FBiH” for Period 2009 – 2012
- Action Plan for Realization of Measures for Improvement of Situation in Field of Traditional and Old Crafts for Period 2009 – 2012
- Programme of Measures for the Development of the Small Enterprises 2010-2012
- Development of industrial policy in the FBH" Project
- Action Plan for Realization Project “Development of industrial policy in the FBiH”
- Draft Tourism Development Strategy of FBH
- Law on Tourism Activities,
- Law on Catering Activities,
- Law on Tourism Communities and Promotion of Tourism in FBiH
- Draft Law on Tourism Communities and Promotion of Tourism in FBiH (New)

Republic of Srpska:

- Law on Incentives for Development of Small and Medium Enterprises
- Law on Crafts and Entrepreneurial Activities adopted in 2011
- Strategy for Development of SMEs and Entrepreneurship in RS for 2011-2013
- Development Strategy for MSEs and Entrepreneurship in RS for Period 2011 – 2013
- Action Plan for Support to Establishment and Development of Business Zones in RS 2009-2012
- Sector Strategies for Industry Development of RS for Period 2009 – 2013 adopted in 2009
- Action Plan for Implementation of the Sector Strategies for Industry Development of RS for Period 2009 – 2013,
- Restructuring Program for RS Chamber of Crafts and Entrepreneurs
- Strategy for Incentives for Export of RS for Period 2009 – 2012
- Strategy for Incentives and Development of Foreign Investments in RS for Period 2009 –2012
- Trade Development Strategy of RS by 2015
- Law on Tourism
- Tourism Development Strategy for 2011- 2020 adopted in June 2011

Brcko District of BiH:

- Development Strategy of Brcko District of BiH 2008 – 2017
- Law on incentives for economic development n BD BiH
- Law on Private – Public Partnership
- BD BiH Tourism Development Strategy for 2010 – 2012.
- Law on Tourism Activity
- Law on Catering Activity

ANNEX 4. Details per EU funded contract (*) where applicable:**Contribution Agreement with an IFI, EUR 2 000 000**

Eligibility and selection/award criteria will be established in accordance with relevant EU contractual provisions.

ANNEX 5. Project visibility activities

All publications made and events organized by this project will respect provisions of the Communication and Visibility Manual for EU External Actions. Wide range visibility of the project can be assured in case of activities aimed at awareness raising on SBA among different stakeholders across the BiH, as well as activities targeting tourism industry.