

ANNEX 8

to the Commission Implementing Decision on the financing of the annual action plan in favour of Bosnia and Herzegovina for 2021

Action Document for “EU4 Private Sector Development in BiH (Post COVID-19)”**1. SYNOPSIS**

1.1 Action Summary Table

Title	Action 08 - EU4 Private Sector Development in BiH (Post COVID-19) Annual Action Plan in favour of Bosnia and Herzegovina for 2021			
CRIS number	043-667/8			
Basic Act	Financed under the Instrument for Pre-accession Assistance (IPA III)			
Team Europe Initiative	No			
Zone benefiting from the action	Bosnia and Herzegovina			
Programming document	IPA III Programming Framework			
PRIORITY AREAS AND SECTOR INFORMATION				
Window and thematic priority	Window 4 - Competitiveness and Inclusive Growth Thematic Priority 2 - Private sector development, trade, research and innovation			
Sustainable Development Goals (SDGs)	5 Gender Equality 8 Decent Work and Economic Growth 9 Industry, Innovation and Infrastructure			
DAC code(s)	250 Business and other services 32130 Small and medium enterprises (SME) development			
Main Delivery Channel¹	Bilateral			
Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Principal objective
	Participation development/good governance	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Aid to environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Gender equality and Women's and Girl's Empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

¹ <http://www.oecd.org/dac/stats/annex2.htm>.

	Trade Development	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with disabilities	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Principal objective
	Biological diversity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Internal markers	Policy objectives	Not targeted	Significant objective	Principal objective
	Digitalisation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Migration	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	COVID-19	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Social inclusion and human development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
BUDGET INFORMATION				
Amounts concerned	Budget Line: 15.020201.02 Total estimated cost: EUR 10 000 000 Total amount of EU contribution: EUR 10 000 000			
MANAGEMENT AND IMPLEMENTATION				
Type of financing and method of implementation	Project modality Direct management through Procurement Indirect management with entrusted entity to be selected in accordance with the criteria set out in section 4.3.4.			
Relevant priorities and flagships from Economic and Investment Plan of the Western Balkans	Action contributes to the flagship Human Development			
Final date for conclusion of Financing Agreement	At the latest by 31 December 2022			
Final date for concluding contribution / delegation	3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article 114(2) of the Financial Regulation			

agreements, procurement and grant contracts	
Indicative operational implementation period	6 years following the conclusion of the Financing Agreement
Final date for implementing the Financing Agreement (date by which this programme should be de-committed and closed)	12 years following the conclusion of the Financing Agreement

1.2. Summary of the Action

This is a two-fold Action aimed at mitigating economic effects of the COVID-19 pandemic in the private sector in BiH and fostering long-term economic recovery. Primarily, the action focuses on the support to (i) Micro, Small and Medium Enterprises (MSMEs), with particular focus on **export orientated Small and Medium Enterprises (SMEs)**, (ii) **start-ups and innovative entrepreneurship**, as well as (iii) **women and youth run businesses** building on the results of the ongoing EU assistance to this end. In addition, the Action will provide support for strengthening resilience of MSMEs in strategic sectors based on the principles of **green economy and digital transition**. With a view of ensuring sustainability of direct support measures for MSMEs, technical assistance will also be provided to facilitate the cooperation among key actors for long-term economic recovery planning in BiH and ensuring that **piloted measures are linked with the long-term planning processes in BiH**. The Action will also support further alignment of **BiH State Aid System** with EU *acquis* and obligations deriving from SAA by means of further harmonisation of relevant laws, building capacities of key institutions in the BiH State Aid system and raising awareness on state aid rules and obligations among key stakeholders. With implementation of activities foreseen, the Action will contribute to creation of a more competitive and sustainable single economic space in BiH.

2. RATIONALE

2.1. Context Analysis

According to the International Monetary Fund, **BiH economy has contracted by 5.5% for 2020, reflecting the severe impact of the pandemic on, *inter alia*, manufacturing, transport, tourism, and hospitality**. Similarly, Economic Reform Program 2021-2023² projects 2020 GDP contraction to 3%. Moreover, the COVID-19 crisis exposed and exacerbated the **structural weaknesses of BiH's economy** including following: (i) **weak competitive position** illustrated by the 2019 World Economic Forum's *Global Competitiveness Index*³ and 2020 *World Bank's Doing Business* report⁴, showing that BiH ranking is the lowest in the region; (ii) **stressed labour market** as the latest data show that there are 413,254 unemployed persons in BiH⁵ with over 50% of job seekers being women and cca 30% of BiH active labour force working in informal employment and grey economy; (iii) **insufficient innovation** illustrated by a low level of investments in R&D⁶ and BiH' low scoring in the 2020 *Global Innovation Index*.⁷

The COVID-19 pandemic and the needed long-term recovery call for Western Balkans (WB) countries **to accelerate implementation of the structural reforms** and converge with the EU. To this end, BiH has committed to strengthen regional cooperation to advance on its EU path. Moreover, through its *Joint Socio-Economic Reforms 2019-2022*, BiH has committed to boost the post COVID-19 economic recovery through the synergies between PSD measures. BiH has furthermore committed to implementing the EU Economic and Investment Plan (EIP)⁸ and has endorsed the Green Agenda for the Western Balkans⁹ and a Declaration on the Common Regional Market, to facilitate regional integration, support economic development and enhance transparency on **competition and state aid**. Hence, the

² Directorate for Economic Planning – Macroeconomic projections, January 2021.

³ Among 141 countries, BiH ranks as 92nd, Serbia 72nd, Montenegro 73rd, Albania 81st and North Macedonia 82nd.

⁴ Among 190 countries, BiH ranks as 90th, North Macedonia 17th, Serbia 44th, Montenegro 59th and Albania 82nd;

⁵ Source: BHAS, FRY: XIV, of 20 January 2021, No.11 Demography and Social Statistics – Registered Unemployment

⁶ 0.2% of GDP in 2019; Source: World Bank data

⁷ BiH ranks as 74th out of 129 countries

⁸ COM(2020) 641 final

⁹ SWD(2020) 223 final

acceleration of post-pandemic recovery by spurring sustainable and resource efficient growth and advancing much needed structural reforms should be backed by a **green and digital transition**.

At the outbreak of the pandemic, both entities adopted a number of **COVID-19 immediate socio-economic measures**. FBiH adopted a *Law on Mitigation of Negative Economic Consequences of the Pandemic* with measures ranging from short term financial aid to companies (EUR 250 million), establishment of a Guarantee Fund, a provision of subsidies for employers' contributions, to cancellation and/or delays of taxes. FBiH also issued the recommendation on banks' moratorium on loans for businesses and citizens. RS government adopted a number of regulations, including the one on Solidarity Fund for RS, as well as decision on subsidising income tax and contribution, suspending tax payments for businesses, and issuing a decision on interim measures by banks to mitigate the negative economic consequences of pandemic. It can be concluded that **BiH's immediate response** was timely and relevant to address some macroeconomic imbalances, but fragmented and slow as well as insufficient in scope to deal with rising unemployment and inequality, as pandemic impacts have been experienced disproportionately by different groups. The challenges to MSMEs have further accumulated, including wide disparities between entities. Moreover, State-level institutions have played a limited role so far in design and implementation of these measures.

The EU has engaged with BiH in an intensive reform dialogue, to support the country in translating the recommendations from the EU Opinion and the accompanying analytical report into concrete action plans. However, in the Commission's view the so far proposed action plans of governments fall short of fully addressing the majority of these priorities. The action plans for the implementation of the JSER currently developed should demonstrate BiH's commitment to improving economic governance and inter-governmental coordination and cooperation to boost economic activity across the country. The upcoming **countrywide JSER PSD measures** will have to also cover a single economic space and business environment to stimulate entrepreneurial innovation, start-ups and young entrepreneurs especially in IT, tourism, services and creative industries, as well as development of smart specialisation strategy.

Moreover, BiH Economic Reform Programme 2021-2023 (BIH ERP) refers to the structural reforms to increase competitiveness, employment and facilitate sustainable and inclusive post pandemic growth, including measures on business environment, reduction of informal economy and *mitigation of negative economic consequences of the COVID-19 pandemic*. **BiH Strategic Framework** is reflected in the Council of Ministers Medium Term Programme 2020-2022, which is based on the principles of integrated, smart, sustainable and inclusive growth and addresses macroeconomic stability, competitiveness of BiH economy and human capital development. The **Public Financial Management (PFM)** system in BiH is characterised by the functioning of four independent budgetary systems. Although **programme budgeting** was introduced, its' **implementation** needs to improve at all BiH levels.

The BiH's government policy shall be reinforced by this intervention through support to accelerate sustainable economic recovery and competitiveness of **BiH's private sector and MSMEs**. It will also address a country-wide approach to support **export orientated SMEs, start-ups, innovative entrepreneurship, woman and youth led businesses** for mitigating negative consequences of COVID-19 over a longer term. Finally, this Action should help BiH's progressing towards a **green and digital transition and global competitiveness**. This is of particular importance as the intention to boost economic growth and social welfare, if implemented in a business-as-usual scenario, could threaten BiH's natural capital, causing environmental damage and an increased global warming. **The sectors that are most vulnerable to climate change in BiH include: agriculture, water resources, forestry, energy, tourism, biodiversity and sensitive ecosystems, and human health**. Concerning BiH's GHG emission reduction, largest contributors have been energy (78%), agriculture (9%) industry (9%) and waste (4%)¹. **A major share of the industry's emissions can be attributed to manufacturing industry and construction. Relevant data and more in-depth analysis for identification of sectors in which the introduction of regenerative/circular models would be most suitable is not yet available in BiH.** This Action also focuses on **addressing low competitiveness and improving enforcement of State Aid rules**, further enabling business environment.

2.2. Problem analysis by areas of support

AREA OF SUPPORT #1: PSD: If the health risks are contained and assuming that a vaccine becomes widely available in the second half of 2021, the economic restrictions may be eased on BiH's economy, that needs rapidly to rebound by increasing its competitiveness and connectivity with the region and the EU. The key problem presents a **need for a renewed approach to building up MSMEs resilience** for the future crisis **based on accelerated digital transition and use of new innovative technologies in manufacturing export-oriented MSMEs**. Preliminary analysis suggests that a vast majority (**90%**) of BiH's export-orientated SMEs in metal, wood, textile and food production have already been negatively affected by the COVID-19 pandemic. They witnessed breaking of supply and value chains, which conversely led to problems with liquidity. This, coupled with lack of targeted finance, has

further compromised position of MSMEs on domestic and international markets. BiH top exports before the COVID-19 crisis were energy, aluminium, coal, car seat parts and leather products. The five countries accounting for cca 60% of BiH exports are Germany, Croatia, Italy, Serbia and Slovenia. However, OECD's projections anticipate a fall in exports of some industrial inputs and commodities in metal and wood industry¹⁰ because of pandemics. The fact that ICT companies record highest value added per employed (followed by scientific and high tech industry) justifies extending the EU support to the sectors with strong growth potential. On the other end, tourism and catering have by far the least value added. The most recent data on tourism best illustrate the devastating effects of the crisis on this industry, which faced 70% less visits and 60% reduction in overnight stays for the period January– October 2020 compared to the previous year.¹¹ All this calls for continued *EU support to MSMEs through the grants and TA to modernise, restructure and scale up assistance introduced during pandemics. The opportunities for nearshoring and inclusion into regional and EU value chains provide a clear EU added value for this intervention.*

Additional problem linked to **MSMEs' reduced operations and lack of liquidity** as a consequence of COVID-19 pandemic, presents the rising unemployment and lack of quality jobs, in particular for young people, women and vulnerable groups. Namely, SMEs operating in accommodation and food services have been most affected by the pandemic. **Women entrepreneurs** are the part of this group, as they generally own businesses in these sectors. Moreover, **youth-led firms** find it harder to adapt to market disruptions, possibly due to lack of diversification, experience and access to resources. A more targeted MSME support and better business environment are needed to create jobs and increase wellbeing of vulnerable categories in the aftermath of pandemic. The continued *EU support via grants should increase business resilience through new business models, product diversification and inclusion in EU value chains, while technical assistance should provide for education, promotion and networking of women and young entrepreneurs.* In view of the EU's Green Deal and ambitions to transition to a green and digital economy, it means that BiH will need to follow along to stay a competitive business partner in joint supply chains.

Small businesses are more prone to market disturbances and lack of working capital in crisis, compared to the larger firms. The fact that out of some 75,000 registered enterprises in BiH, almost **98% are MSMEs with less than 50 employees**, and that MSMEs contribute by cca 15% to employment and account for cca 40% value added, further amplifies a magnitude of COVID-19 negative effects on BiH economy. Moreover, with 8.5 SMEs per 1000 inhabitants, BiH has, by far, the lowest number of SMEs per capita compared to the region¹². This trend needs to be reversed through a *targeted EU support to start-ups (micro-enterprises) and innovative entrepreneurship.* Challenges to **fostering the sustainable and green economy in BiH** are also significant in light of a limited BiH's capacities to tackle SMEs resilience in a more sustainable way. SME Policy Index 2019¹³ points at BiH's SMEs low performance in **green economy, similar** to other WB countries in which policy frameworks for resource efficiency are developed and efforts to promote circular economy are almost non-existent. SMEs greening transition is a cross-cutting issue for different sectors and players and support to business networking is necessary to enhance peer-to-peer learning and collaboration. *The EU support should catalyse this process through awareness raising amongst MSMEs on available instruments and tools for introduction of circular economy principles and standards.* The EU support in this Action will enable provision of additional grant funding for SMEs to complement government support and increase effectiveness of the initiated private sector recovery.

Main stakeholders of the Action are BiH Ministry of Foreign Trade and Economic Relations (MoFTER), Directorate for Economic Planning (DEP), FBiH Ministry of Trade, FBiH Ministry of Energy, Mining and Industry, FBiH Ministry of Development, Entrepreneurship and Craft, FBiH Ministry of Education and Science, RS Ministry of Trade and Tourism, RS Ministry of Economy and Entrepreneurship, RS Ministry of Scientific and Technological Development, Higher Education and Information Society, Brcko District Government sub-division for Economic Development and the relevant institutions in cantons of FBiH. The **network of SBA coordinators in BiH** participates in the preparation of the *SME Policy Index* will also be engaged in the sectoral policy development.

Draft Strategic Guidelines for Harmonisation of Support for the Development of SMEs and Entrepreneurship in BiH (Draft Guidelines) 2021-2027, once adopted will provide for a countrywide harmonisation in implementing the EU Small Business Act (SBA). They will also provide for a harmonised development of SMEs policies and strategies in entities and Brcko District. Initially, they focus on the three policy areas from the SBA related to public procurement,

¹⁰ SME Competitiveness Outlook 2020 COVID -19: Impact of lockdown on Small Businesses, ITC

¹¹ Tourism Statistics, Cumulative data, January-October 2020, December 2020, BiH Agency for Statistics (BHAS)

¹² Albania has 15.4 and Serbia 50.9

¹³ *SME Policy Index, Western Balkans and Turkey 2019*, Assessing the implementation of the Small Business Act for Europe, OECD

standard and technical regulation and SMEs internationalisation, but their implementation should gradually lead to improved BiH's performance across a number of SME Policy Index dimensions, including export promotion, SME services and institutional and regulatory SME framework.¹⁴ The complementarity of *Draft Guidelines* with the proposed Action is provided under the priority "Recovery and strengthening of competitiveness of export orientated SMEs" which further refers to "*Renewing and strengthening SMEs in global value chains*" and its priority measure "**Support for development and resilience of export orientated SMEs in post pandemic**" (1.1.1.). It is expected that synergies created with the EU support through this Action will ensure faster SMEs recovery and increased resilience to future crisis, as this measure specifically calls for international financial assistance for its implementation. In addition, the women led exporting SMEs are envisaged for support under the same strategic priority and its measure 1.1.4. "**Support to a more efficient integration of SMEs in global value chains**". Described developments should provide for enhanced cooperation and coordination amongst all relevant stakeholders and for enhanced involvement of private sector in policy definition. However, BiH does not presently have a countrywide strategic framework to address the priorities identified for support in this Action. A **Smart Specialisation Strategy (S3)** is developed by the working group coordinated by the Directorate for Economic Planning. The aim of S3 which draft should be completed by November 2023¹⁵ is to achieve better coordination between science-research and industrial policy.

AREA OF SUPPORT #2: State Aid: By signing the SAA in 2008, BiH committed to taking over EU regulation on state aid by setting up adequate legal and institutional frameworks. As outlined in the AR, there is still the need to ensure alignment with the EU *acquis* and consistent enforcement of State aid rules throughout the country. Moreover, capacities for enforcement of state aid rules remain weak and there is a low awareness on state aid rules among relevant actors across the country. The main problems in implementing *State Aid Law in BiH* lie in the fact that there is not enough trained staff that could independently deal with potential state aid cases and implement relevant rules in the *State Aid Council (SAC)*. SAC has a low level of enforcement given that it had issued very few decisions, all of which were positive or found no state aid element. The number of issued decisions was relatively high in 2014 (9), 2015 (14) and in 2016 (7). However, the number has significantly dropped ever since with only one to two decisions being issued in the period 2017- 2020. In addition, awareness on the state aid rules within the *Implementing Authorities (IA)* is not sufficient to ensure completion of the process of harmonisation with the state aid rules. Finally, state aid grantors have not submitted applications for planned or granted state aid in the last three years, except in cases initiated by the Energy Community. The grantors need to be aware of ex-ante notification obligation, procedures before IAs and SAC, and the consequences of granting incompatible and illegal State aid.

This Action envisage technical assistance to support further development of the State Aid System in BiH. It will support harmonisation of the State aid legislation in BiH with the EU *acquis*, primarily by supporting aligning of relevant by-laws. Further, strengthening of institutional and administrative capacities is envisaged by means of training for SAC and IAs including both on the job training and specific training and seminars on EU state aid best practice. Finally, raising awareness for state aid grantors and other relevant actors will be organised to ensure the effectiveness and credibility of state aid policy control.

Given the challenges and magnitude of reform to state aid system in BiH needed in light of the implementation of the SAA provisions, BiH government actions need to be complemented by EU assistance. Regulation of state aid has been set as an objective of the **Treaty on the Functioning of the EU**, which under article 87(1) states that "...any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, insofar as it affects trade between Member States, be incompatible with the common market." EU value added will therefore be created through complementarity of actions, but also through providing legal assurance to BiH for the reforms and EU *acquis* alignment.

The State Aid System in BiH comprises of the SAC, the body responsible for the implementation and enforcement of the provisions of the Law on the State aid system in BiH¹⁶, its Secretariat as an expert body responsible for organisational, technical and administrative activities and IAs comprising of representatives of the CoM, FBiH, RS, and BD governments through their competent authorities¹⁷. The state aid grantors are also stakeholders in this action.

¹⁴ It should be noted that BiH lags behind the average of Western Balkans and Turkey across all dimension, with a marked deterioration in some dimensions in 2019 (dimensions 7 and 8a).

¹⁵ This action should be run indicatively 2022-2025.

¹⁶ Official Gazette of BiH, 39/20

¹⁷ i.e. the MoFTER, the entity ministries of finance and BD Directorate of Finance

The SAC is composed of eight members¹⁸ with term of office of four years. Current member's mandate expires at the end of 2021. The SAC Secretariat employs seven persons with five people dealing with state aid issues. As outlined in the AR this number is not sufficient to ensure fulfilment of the tasks of this body. IAs saw a fluctuation of staff in charge of state aid both at the state and entity levels. At the level of BD no by-laws on state aid have been adopted, nor has the process of harmonisation of existing state aid schemes listed in Program of adjustment been initiated.

Draft Guidelines contain one relevant priority and a number of relevant measures under Strategic goal 2 -SG2: *Advancing in harmonised support for SMEs development*, priority 2: *Improvement of State Aid, statistics and public private dialogue for SME development* is fully aligned with the envisaged activities. *Inter alia*, it contains a measure for **Harmonisation and support of State Aid for SMEs** (2.2.1.) calling for a countrywide harmonisation of state aid legislation, as well as relevant SMEs subsidies laws with EU *acquis* in this area, fully aligning it with SAA provisions.

2.3. Relevance and complementarity with strategies supported by key national stakeholders

Consistent with the Digital Agenda for the WB¹⁹ and the WB Agenda on Innovation, Research, Education, Culture, Youth and Sport²⁰, and the EIP, an increased **competitiveness and innovation** of MSMEs through modernisation and digitalisation of their processes and products *should address BiH's immediate need for maintaining the continuity of operations in the sectors facing the most severe market disturbances* during the COVID-19 outbreak. Also, targeted grant support and capacity building for the start-ups, women and youth entrepreneurs should *alleviate lack of resources for adaptation of micro and small businesses to market disruptions and ease loss of jobs caused by pandemic*. However, the most challenging task to *build MSMEs resilience to the crisis*, through advancement with digitalisation and circular economy and BiH making progress in structural reforms, shall enable that this comprehensive package of the EU support contributes to BiH's long-term recovery from the COVID-19 effects. Ultimately and consistent with the Digital and Green Agenda for the WB, the current crisis will create opportunities for BiH's economy stepping into a more sustainable and irreversible stages of MSMEs digital and green transition.

This Action relies on **synergies between the actors from all sectors and levels of governance** in BiH dealing with socio-economic consequences of COVID-19 crisis. Thus, the Action contributes to advancing towards a fully-fledged **sector approach** to reinforce policy alignment and donor coordination. Concretely, at the recommendation of the EUSR in BiH, CoM established *High Level Task Force for Socio-Economic Response* in May 2020 to coordinate activities of all levels of government in BiH concerning socio-economic measures in response to the COVID-19 challenges and to facilitate mobilisation of funding for all levels of government through domestic funds and foreign financial assistance. To some extent, the Action will support so far widely lacking **country-wide strategic planning** through its capacity building for **long-term economic recovery planning**, while the expected **harmonisation between central planning documents** should be ensured through the Directorate of Economic Planning and through the ERP mechanism which it coordinates. The monitoring and reporting system should be reinforced through the design and implementing of specific ERP measures targeting long-term resilience for economic recovery.

2.4. Relevance and complementarity with EU policy and EU and other donors' assistance

Support to PSD and business environment foreseen under this Action are in line with TP1 under W4 of IPA III PF. as the Action should have positive impact on socio-economic recovery of BiH after the COVID-19 pandemic and should lead to increased competitiveness of its economy- all fully reflected in W4's specific objectives.

The 2019 Commission Opinion²¹ identifies 66 short-term priority measures in the socio-economic sector, ranging from improved business environment, competitiveness and economic governance, to innovation and R&D. The Opinion also calls for identification of priority sectors and strengthening their competitiveness, facilitation of structural change and for encouraging business-friendly environment. This Action is highly relevant for implementation of these recommendations, as it supports SMEs recovery from immediate effects of COVID-19 pandemic and further aims to increase their competitiveness through digitalisation, circular economy and improvement of ERP measures for building up a long-term resilience of BiH economy to external shocks. Moreover, recommendations on improving the state aid and competition policy include: (i) align the existing state aid schemes with the SAA provisions and ensure that the State Aid Council is operationally independent and obtains adequate

¹⁸ three representatives appointed by the CoM, two representatives appointed by the FBiH Government, two representatives appointed by the RS Government and one representative appointed by the BD Government

¹⁹ SWD(2018) 360 final

²⁰ <https://op.europa.eu/en/publication-detail/-/publication/22b8829d-b786-11eb-8aca-01aa75ed71a1/language-en/format-PDF/source-233221374>

²¹ COM(2019) 261 final

financing, (ii) ensure consistent enforcement of State aid rules throughout the country and (iii) strengthen the administrative capacity of the State Aid Council and step up efforts to raise awareness about State aid rules at all levels. These recommendations are even so more relevant now, since many companies benefitted from discretionary state assistance as part of the COVID-19 crisis support package, hindering the private sector's level playing field because of significant indirect state support. The Commission's **2021 and 2020 Bosnia and Herzegovina Report** re-confirmed all the findings and most of the recommendations of the Opinion and Analytical Report. This Action is fully aligned with these findings.

In terms of the relevance with regional priorities, **EIP** aims to spur long-term recovery of the region, backed by a green and digital transition. While most of the EIP investment initiatives are largely relevant for this proposal, Flagship 9 *Competitiveness of the Private Sector* mirrors the best the objectives of this Action through the support that will be provided for start-ups and their growth by unlocking diversified SME finance, training and support for scaling up of innovative companies. Also, support to **green growth and circular economy** has further increased the relevance of this intervention for BiH to facilitate its uptake of funds for innovation and greening of the economy.²² The proposed Action is also aligned with the **WB Agenda for Innovation Research, Education, Culture, Youth and Sport**, as it will contribute to a more sustainable economy, jobs creation and digital transformation of the region.

The Action also reflects the **2020 SME Strategy for Sustainable and Digital Europe**²³ and its priorities for transition to digitalisation, reduction of regulatory burden and improving access to market and finance. The Action's outcome on increased **competitiveness and innovation** of MSMEs in BiH is embedded into the **European Green Deal** principles and the **Guidelines for the Implementation of the Green Agenda for the Western Balkans**, which are calling for turning the sustainability and resilience challenges into economic opportunities for MSMEs. Namely, the Action will promote the principles of resource efficiency and access to innovative technologies amongst MSMEs for creating new and better job, also by following the **EU Circular Economy Action Plan**²⁴ for innovative and more efficient production and consumption models.

The assistance under this AD is complementary to the following IPA III Multi-beneficiary Assistance 2021- 2022:

- **Western Balkans Guarantee Facility (WBGf)** - by encouraging desirable investment through risk-sharing instrument and TA to fast track reforms and unlock private investments (EUR 156 million)
- **Western Balkans Enterprise Development and Innovation Facility (WB EDIF)**-by exploring synergies with finance and TA focusing on women led and youth businesses, innovative start-ups, circular and green economy, R&D, smart specialisation and innovation for SMEs (EUR 120 million).
- **Support for the implementation of the Common Regional Market**- by contributing to implementation of EIP to promote trade, investment, digital transformation, industrial clusters and sectoral business association for promoting regional value chains (EUR 21 million)
- **Support to Competitiveness and Sustainability in the Western Balkans and Turkey** – through support for reinforcing economic governance, ERP and key sectoral strategies (EUR 8 million)

Building up on the results achieved within the **EU4Business project**, the partnership of the GIZ, ILO and UNDP have been awarded with additional **13 MEUR** from 2020 Special Measure programme for a rapid response to COVID-19 crisis in export-oriented sectors, agriculture and tourism and further support start-up development in BiH. The project started in January 2021 is estimated to end in June 2023. One of the key expected results of the assistance is to increase competitiveness of MSMEs through product and business innovation and to ensure continuation of business activities of MSMEs, entrepreneurs and farmers affected by the COVID-19 economic lock-down crisis.

2.5 Lessons learned and links with previous financial assistance

PSD: The implementation of **EU4Business programme (IPA 2016)** indicates MSMEs exceptional interest in grants funding for investment in innovative technologies due to the scarcity of funding from other sources. This action has also created a large network of local partnerships for business support, including involvement of local governments for promoting employment and innovation. Tourism sector is outlined as the one where the success was hampered due to the lack of a harmonised strategy. Based on these findings, this Action will incorporate necessary trainings for

²² While instruments for support to this end are mostly regional (under WBIF platform), BiH needs to raise its institutional capacities to better benefit from increased access to finance and risk capital for MSMEs especially important for post-Covid-19 recovery, and grants/ guarantees for innovative and business friendly ecosystems; the *triple helix approach*.

²³ COM(2020) 103 final

²⁴ COM(2020) 98 final

project preparation during Call for Proposals in traditional sectors and more targeted trainings on new specific areas referring to green deal innovation, digitalisation, circular economy etc. in order to ensure similar results. Through development of recovery and resilience action plan envisaged through this action, the inter-sectoral platform the implementation of harmonised measures will be ensured. The **Challenge to Change 2.0** project supported by Swedish Development Agency (SIDA) and Embassy of Sweden implements grants for businesses worth EUR 4 million. The recent evaluation of this project outlines that there is a great interest for innovative risk-sharing funding and networking of local partners for promotion and implementation of grant support for companies. It has also increased capacities of domestic partners for grants management and provision of quality services through a mentoring system to companies.

State Aid: The Final report of the *IPA 2012 Establishment of State Aid System* project, (completed in 2016) outlines that good cooperation with beneficiaries from all levels of administration ensured high level of ownership of the project. Furthermore, on the job training is highly recommended as it allows addressing of the specific needs that may occur in the course of project implementation. In addition, the need for basic training on state aid rules is noted given the limited term of office of SAC members and the expected employment of new staff both in SAC and IA. The awareness raising activities are also recommended and should be intensified. The above outlined findings have been incorporated in the design of the Action. Concretely, capacity building activities under Output 5 will include both on the job training and basic training on EU state aid rules. Following, under Output 6 raising awareness activities will target both government and non-government actors such as business community and civil society. Preliminary assessment of the implementation of the *IPA 2018 Support to State Aid Council* project points out a good cooperation among relevant actors, creating the ground for ensuring beneficiaries' ownership of this action as well. Recommendations of this project, once available, will be considered for intervention's ToR.

3. DESCRIPTION OF THE ACTION

3.1 Planned results and intervention logic

Private Sector Development - PSD

If capacities for long-term regenerative economic recovery planning are strengthened (**Output 1**), continuity and resilience of post COVID-19 operation in (i) MSMEs, with particular focus on export orientated SMEs in BiH, (ii) start-ups establishment and innovative entrepreneurs, and (iii) women and youth run businesses improved through better access to sustainability linked and eco-innovation finance and innovation (**Output 2**), and resilience of MSMEs in strategic sectors strengthened, based on the principles of green economy and digital transition (**Output 3**), **and following assumptions hold true:** satisfactory cooperation among BiH's actors for recovery planning exists, there are no further restrictions (e.g. border closure) drastically limiting trade, MSMEs are interested in green and digital transition, **then increased competitiveness and innovation of MSMSs in BiH in line with transition towards a green and digital economy in BiH** will be reached (**Outcome 1**).

State Aid

If state aid legislation is further harmonised with the EU *acquis* (Output 4), institutional / administrative capacities of the SAC and IA are strengthened (Output 5) and awareness of key stakeholder on state aid rules and obligations is raised (Output 6), **the following assumptions hold true:** all stakeholders support and cooperate, there is political will for reaching the higher level of alignment of legislation in the area of State Aid and the SAC is operationally independent and obtains adequate and regular financing, **the outputs will lead to the Outcome 2: State aid system in BiH aligned with obligations set forth in the SAA.**

If Outcome 1 (Increased competitiveness and innovation of MSMSs in BiH in line with transition towards a green and digital economy), and **Outcome 2** (State aid system in BiH aligned with obligations set forth in the SAA) are reached, and **following assumptions hold true:** (i) the improved health situation in the second half of 2021 allows for a gradual rebound in the economic activity, increase in exports, foreign direct investment and remittances remain stable; (ii) the adopted COVID-19 government measures are effective for MSMEs, and (iii) there is a political will for reaching the higher level of alignment of legislation in the area of State Aid, **then following impact will be accomplished:** contribution to the post COVID-19 economic recovery and creation of a more competitive and sustainable economic space in BiH.

3.2 Indicative type of activities

Outcome 1: Private Sector Development, area of support indicative activities:

Activities related to Output 1: *Capacities for long-term regenerative economic recovery planning strengthened*

Activities will be implemented through **technical assistance** aimed at building capacities of main institutional stakeholders for defining long-term economic recovery measures. Support will be provided for preparation of recovery and resilience action plans. Activities will be closely linked with the Economic Reform Programme process in BiH thus ensuring the sustainability of the Action. Recovery and resilience policy measures will take into account policy dialogue concerning green and digital transition that will be facilitated by the digital platform envisaged under Output 3. In doing so, activities under Output 1 also provide basis for piloting of grant support measures envisaged under Output 2 and Output 3 which would best complement each other if equally represented.

Activities related to Output 2 *Continuity and resilience of post COVID-19 operation in (i) MSMEs, with particular focus on export orientated SMEs in BiH, (ii) start-ups establishment and innovative entrepreneurs, and (iii) women and youth run businesses improved through better access to sustainability linked and eco-innovation finance and innovation*

Activities will mainly entail support through **grants** which remain the most suitable model of assistance given that lending and guarantees, as well as different financing instruments in BiH are insufficiently developed to support MSMEs in their long-term recovery from the impact of Covid-19 crisis. In comparison to existing grant schemes²⁵, aimed at short term relief for MSMEs affected by the Covid-19 crisis, the grant scheme under this Action will also incorporate promotion of the best practices in eco-innovation ensuring gradual approach towards green transition necessary to move towards more sustainable and long-term recovery. While introduction of green economy principles ensures the sustainability of the Action, gradual approach in introducing these principles is necessary in order to mitigate the risk of companies not being currently ready to fully take them on board. Finally, piloted measures will provide inputs that will facilitate the implementation of activities centred around circular economy envisaged under Output 3. The assistance will include following:

→ Support to MSMEs with particular focus on export orientated SMEs

Assistance will be distributed **mainly through grants** to priority sectors for the pilot introduction of new products and services. Development of a platform for dialogue between the representatives of public and private sector and experts should also be considered.

It is expected that at least 15% of grants is allocated to SMEs that also have capacities to facilitate green transition, for the same reasons as outlined in below.

→ Support for start-ups and innovative entrepreneurship

Start-ups and innovative, green and digital entrepreneurs will be supported through a specific and targeted grant component and technical assistance to increase their access to know how through the cooperation with innovation centres and networking.

The Action will aim to reach out and support as many green and digital entrepreneurs, given that the green transition needs to be largely market driven and requires many new technologies, processes, economic circuits to support the shift. This will be done by following the best EU practices, which will be adapted to BiH realities.

→ Support to women and youth lead businesses

Continued support via grants and technical assistance will be ensured to increase an uptake of new business models, and support inclusion of vulnerable groups into value chains to strengthen their resilience for the future crisis. Technical assistance should support education of women entrepreneurs and youth and promote their networking.

Training and upskilling is expected to be tailor made to specific enterprises led by women and youth, with the aim of strengthening opportunities for their businesses and fostering resilience thereof. The training and upskilling component is therefore different to, but complementary with upskilling that will be provided under COVID-19 Social Action (focused on labour market needs and conditions).

Given the focus of this activity on grant support, the synergies with Youth Guaranty Facility will be explored to the extent possible, as preparatory activities for BiH inclusion in this programme have started only recently. Similarly, synergies will be sought within ongoing and planned programmes to support youth and women entrepreneurship, such as those aimed at creating and strengthening business links with diaspora.

²⁵ EU4Business and EU4Recovery

Activities related to Output 3 Resilience of MSMEs in strategic sectors strengthened, based on the principles of green economy and digital transition” are in line with the Digital and Green Agenda for the Western Balkans, focused on advancing green economy and digitalisation agenda for BiH and fostering circular economy agenda

Measures implemented under this activity will be distributed **mainly through grants**. They will provide for development of a digital platform (i.e. *BiH going green*) to raise awareness, share information and initiate a dialogue between all relevant stakeholders on the key issues concerning green and digital transition and incorporation of circular models into specific sectors. Targeted campaigns should initiate a policy dialogue for increasing the sustainable practices among businesses, such as *How to reduce waste while adding value to SMEs*, while enhanced inter-sectoral cooperation should initiate a dialogue on issues such as *How to achieve successful collaboration of all the relevant stakeholders when adopting national strategies for circular economy*, in particular with involvement of private sector and non-state actors. This platform could also provide for an upgrade of the virtual communication tools which are already utilised by the current EU projects supporting SMEs and the appropriate IT solution that will provide for a more client-specific information and facilitate communication between the registered users.

The assistance should also be provided for the implementation of pilot actions that promote resource efficient and circular processes and infrastructure. The support will be channelled via the local partners through the network of qualified advisors, which will train SMEs on sustainable practices through green and digital solutions and business models in resource intensive sectors to foster introduction of relevant energy efficiency standards.

Outcome 2: Competitiveness/ State Aid area of support indicative activities:

Technical assistance is envisaged for all activities under the State Aid action.

Envisaged activities in relation to **Output 4 State aid legislation further harmonised with the EU acquis:**

- a) Development of the Table of Concordance of legal provisions on state aid in BiH with EU law;
- b) Support in further alignment of the existing sub-laws;
- c) Support in development of missing sub-laws if identified as needed; and
- d) Support in harmonising existing State aid programmes/schemes in BiH with SAA.

Activities in relation to **Output 5 Strengthened institutional/administrative capacities of the State Aid Council and Implementing Authorities:**

- a) Provide on-the-job trainings according to the needs of the SAC and its Secretariat;
- b) Provide support to SAC and its Secretariat to handle cases by explaining the rules applicable and providing references to the similar EC decisions;
- c) Provide support in drafting of the decisions of the SAC;
- d) Preparation and delivery of general seminars for IAs staff on State Aid; and
- e) Preparation and delivery of seminars in close cooperation with IAs for areas especially important and interesting to them.

Activities in relation to **Output 6 Awareness of key stakeholders on state aid rules raised:**

- a) Organisation of awareness raising seminars and other events for state aid grantor;
- b) Organisation of awareness raising seminars for business society, academic society and civil society;
- c) Organisation of awareness raising seminars and workshops on importance and advantages of a state aid system for the business community, chambers of commerce, business associations etc.;
- d) Organise final conference for all stakeholders in the system of state aid in BiH; and
- e) Preparation and printing of suitable brochures, leaflets and analysis.

3.3. Risks and assumptions

Risks	Risk level (H/M/L)	Mitigating measures
Inability to implement some activities because of the worsening situation caused by the COVID-19 pandemic	M	Flexible approach to implementation will be considered in cooperation with main institutional partners to adapt the activities to a concrete situation in the field.
Financial stability of SAC due to delays in payments of financial contributions by relevant	M	All Action’s internal M&E systems will closely monitor all relevant economic and political developments that make have an impact on its results

contributors to the SAC budget undermining its operability.		as measured through indicators. Any critical trend will be reported to the Contracting Authority for consideration, and mitigation measures will be decided.
Lack of interest of the business community	M	The active involvement of the business community throughout the country will be encouraged from the very start of the implementation of the action.
The number of staff of the SAC Secretariat is not sufficient to ensure fulfilment of the tasks of this body.	M	New Rulebook on internal organisation has been prepared by the SAC Secretariat to ensure the increase of the number of civil servants working on the state aid cases. The number of systematised jobs for civil servants will be increased from 6 to 7. The overall number of systematised jobs should remain the same since the existing non-civil servant position will be replaced. This document is currently pending consent of the entity level ministries of finance.
Financial stability of SAC due to delays in payments of financial contributions by relevant contributors to the SAC budget undermining its operability.	L	In the previous period certain delays in payments were evident. SAC initiated lawsuit to this end and the issue was resolved with the court judgement. No further delays are expected and in case they occur the SAC will employ mitigating measures as described.
<p>Assumptions</p> <p>Outcome related</p> <ul style="list-style-type: none"> The improvement in health situation in the second half of 2021 will allow gradual rebound in the economic activity, increase in exports ting companies and foreign direct investment and remittances remain stable. The adopted COVID-19 government measures are effective. <p>Output related</p> <ul style="list-style-type: none"> Government authorities at all levels in BiH demonstrate good coordination with relevant stakeholders and support the implementation of the action The existence of political will for reaching the higher level of alignment of legislation in the area of State Aid. All stakeholders support each other and cooperate. 		

3.4 Mainstreaming

This Action will contribute to Gender Equality and Women's and Girls' empowerment and EU strategic framework in this area. It will promote their economic, labour and social rights and facilitate a process of analyses and application of gender and sound evidence-based policies. Crises such as COVID-19 affect women and men, girls and boys, in all their diversity, in different ways. Efforts in a post-pandemic recovery should aim to integrate gender-equality perspective in all the measures taken to foster better employment, social protection, inclusiveness and health care of women and girls, leading to their empowerment. Evidence shows that women are disproportionately more exposed to health and socio-economic risks and face an increase in sexual and gender-based violence due to the confinement policy and essential ecosystem services. The Action will ensure that planned interventions include an adequate response to the impact of the COVID-19 crisis on women and girls, but also men and boys in all their diversity in different sectors. This Action is, *inter alia*, designed to enhance opportunities for women to establish or develop their businesses or obtain full-time, income-generating jobs in target sub-sectors and service activities. As a priority, women emphasize the need for special support programs, prioritising self-employment programs in the following specific segments: old/traditional crafts indigenous products, organic food, rural tourism, etc.

Activities and measures under this action should not negatively affect the environment. This action, through is horizontal activities related to green economy and circular agenda under private sector development section, contribute to meeting the objectives of the **Guidelines for the Implementation of the Green Agenda for the Western Balkans**.

In October 2019, the Council of Ministers of BiH adopted the *Information and the Guide for taking effective measures to prevent gender-based harassment and sexual harassment in the workplace in BiH institutions*. In addition, the Council of Ministers of BiH has requested that relevant institutions adopt a Decision on zero-tolerance policy for sexual harassment and gender-based harassment, as well as to adopt advisors who should tackle these issues.

The pandemic situation is a particular test for the realisation of human rights and respect of democratic values. COVID-19 socio-economic consequences have a growing negative impact on human rights, and are deepening pre-existing inequalities. Moreover, it will further put additional pressure on persons in vulnerable categories. In light of this, all actions need to ensure that particular focus is paid on investing in human rights in a horizontal manner in order to create more resilient and inclusive societies. This Action will ensure that there will be no discrimination of vulnerable categories. In addition, it will ensure that women's rights are fostered through a dedicated use of some of the available resources.

The framework regulations on public-CSO cooperation and overall legislative environment on civil society in BiH should be strengthened further by enabling a more systematic participatory approach. Although there are formal arrangements for CSOs' participation, the CSOs are still not sufficiently involved in law and policy making processes. Systematic and inclusive mechanism for consulting civil society should be further strengthened. The Action aims to promote CSOs active and systematic democratic participation in policy and legal processes, as relevant for its activities. This will be done, inter alia, by supporting the establishment of a sustainable partnerships between local and higher-level authorities and CSOs, by building awareness on mutual cooperation and encouraging sustainable dialogue. It will also promote social inclusion and accelerate disadvantaged groups access to services.

BiH Roma Problem-Solving Strategy (2005) stresses non-discrimination of Roma and raises awareness of the necessity for inclusion of Roma in all social processes in BiH. The implementation of actions and measures proposed in the strategy aims to bring about an overall improvement of the social status of the Roma community in BiH. This is to be done primarily through improvements in housing, education, employment, standard of living, and social security and health care. To this end, two specific Action Plans have been developed: 1. *Action plan of Bosnia and Herzegovina for addressing Roma issues in the fields of employment, housing and health care (2017-2020)*, and 2. *Framework Action Plan on Educational Needs of Roma (2018-2022)*. Both the Strategy and the two Action Plans overall and specific objectives, as well as outlined activities are in line with this AD overall objective(s).

3.5 Conditions for implementation

In addition to a number of assumptions that need to hold true for the Action to be implemented successfully, there are no conditions that need to be met to ensure the success of delivery of Action.

3.6 Logical Framework

Results	Results chain: Main expected results (maximum 10)	Indicators (at least one indicator per expected result)	Baselines (year)	Targets (year)	Sources of data (1 per indicator)	Assumptions
Impact	To contribute to the post COVID-19 economic recovery and creation of a more competitive and sustainable economic space in BiH	Composite indicator on the readiness of candidate countries and potential candidates on fundamental areas of the economic criteria (functioning market economy and competitiveness)	2.3 (2018)	Increase (2023)	European Commission Eurostat	<i>Not applicable</i>
		Global Competitiveness Index (ranking)	92 (2019)	89 ²⁶ (2026)	World Economic Forum	
		Summary Innovation Index	34.6 (2021)	40 (2026)	European Innovation Scoreboard	
		GDP per capita in Purchasing Power Standards (PPS) expressed in relation to the European Union average	32 (2020)	34 (2026)	BiH Agency for Statistics	
		Progress in most of the indicators under SDG 12, 13 and 15	moderate (2020)	significant (2026)	The SDGs Framework in BiH	
Outcome 1	Increased competitiveness and innovation of MSMSs in BiH in line with transition towards a <i>green and digital</i> economy	Doing Business score	65.4 (2020)	66.3 (2026)	Doing Business Report, Distance to Frontier score (World Bank) BiH Agency for Statistics	The improvement in health situation in the second half of 2021 will allow gradual rebound in the economic activity, increase in exports and foreign direct investment and remittances remain stable.

²⁶ Estimated; based on analysis of 2012-2015 data.

		SME Policy Index Dimension 10 (Internationalisation of Business) score	2.57 (2019)	3 (2026)	SME Policy Index	The adopted COVID-19 government measures are effective for MSMEs.
		SME Policy Index Dimension 9 (SMEs in green economy) score	2.4 (2019)	3 (2026)	SME Policy Index	
Outcome 2	State aid system in BiH aligned with obligations set forth in the SAA	Number of ex ante state aid notifications	0 (2019)	30 (2026)	SAC annual report	The existence of political will for reaching the higher level of alignment of legislation in the area of State Aid
Output 1 related to Outcome 1	Capacities for long-term regenerative economic recovery planning strengthened	Number of new measures targeting long-term resilience introduced in reform plans for economic recovery in BiH	1 (2021)	2 (2026)	ERP 2023-2025	Cooperation among all actors relevant for economic recovery planning in BiH is satisfactory.
		Status of recovery and resilience action plan	Recovery and resilience action plan not available (2021)	Recovery and resilience action plan agreed and adopted (2026)	Action Report	
Output 2 related to Outcome 1	Continuity and resilience of post COVID-19 operation in (i) MSMEs, with particular focus on export orientated SMEs in BiH, (ii) start-ups establishment and innovative entrepreneurs, and (iii) women and youth run businesses improved through better access to <i>sustainability linked and eco-innovation</i> finance and innovation	Number of SMEs supported (disaggregated data for women led businesses, youth led and innovative businesses) disaggregated for <i>green businesses</i>	0 (2020)	200 ²⁷ (2026)	Action Report	There are no further restrictions (e.g. border closure) drastically limiting trade and MSMEs are interested into a green and digital transition.
		Number of SMEs with enhanced resilience	0 (2020)	50 (2026)	Action Report	
		Number of SMEs with access to Tech-transfer and to Innovation disaggregated for <i>green businesses</i>	0 (2020)	30 (2026)	Action Report	

²⁷ 50 women-led businesses, 50 youth led businesses, 20 innovative businesses

		Number of new employees in supported SMEs disaggregated for <i>green jobs</i>	0 (2020)	At least 70 (2026)	Action Report	
Output related Outcome 1	3 to Resilience of MSMEs in strategic sectors strengthened, based on the principles of green economy and digital transition	Status of network for sustainability services in resource efficient, circular processes and infrastructure	Network for sustainability services in resource efficient, circular processes and infrastructure does not exist (2020)	Network for sustainability services in resource efficient, circular processes and infrastructure established (2026)	Action Report	SMEs aware of the benefits of the new resilience services and are willing to participate in green and digital transition.
		Number of business support services (such as sustainability advisors in resource efficient, circular processes/ infrastructure; innovation; access to tech transfer) implemented by local partners	0 (2020)	3 (2026)	Action Report	
		Status of digital platform for <i>greening</i> of SME policies	Digital platform for 'greening' of SME policies does not exist (2020)	Digital platform for 'greening' of SME policies set up and operational (2026)	Action Report	
		Number of SMEs that introduced new digital solutions into their business	0 ²⁸ (2020)	50 ²⁹ (2026)	Action Report	
		Number of SMEs that obtained resource efficiency (such energy efficiency standard ISO 50001)	0 ³⁰ (2020)	50 ³¹ (2026)	Action Report	

²⁸ Data to be determined at the beginning of action

²⁹ As a result of this Action

³⁰ Data to be determined at the beginning of Action

³¹ As a result of this Action

Output 4 related Outcome 2	to State aid legislation further harmonised with the EU <i>acquis</i>	Level of harmonization with the EU <i>acquis</i>	BiH legislation on State Aid, partially aligned (2020)	Adoption of State Aid legislative framework (2026)	EC Country Report	All stakeholders support and cooperate
		Status of adjustment of existing State aid programmes/schemes in BiH harmonised with SAA	State aid programmes/schemes not adjusted (2020)	State aid programmes/schemes fully adjusted (2026)	SAC annual report	
Output related Outcome 2	to Strengthened institutional/administrative capacities of the SAC and IAs	Number of SAC and IAs decisions	2 (2020)	30 (2026)	SAC annual report	SAC is operationally independent and obtains adequate and regular financing.
		Number of trainings for SAC and IAs	0 (2020)	60 (2026)	Action Report	
Output related Outcome 2	to Awareness of key stakeholders on state aid rules raised	Number of awareness raising seminars for state aid grantors	0 (2020)	24 (2026)	Action Report	All relevant stakeholders willing to participate in awareness raising activities.
		Number of awareness raising seminars for other key interested actors (ex. business, academic and civil society).	0 (2020)	6 (2026)	Action Report	

4. IMPLEMENTATION ARRANGEMENTS

4.1. Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with a partner country.

4.2. Implementation modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures³².

4.2.1. Direct Management (Procurement)

The activities related to the Competitiveness/ State aid component of the action i.e. Output 4, Output 5 and Output 6 under the Outcome 2 will be delivered by means of one service contract.

Subject	Indicative type (works, supplies, services)	Indicative trimester of launch of the procedure
Technical assistance to State Aid Council to support further harmonisation of the State Aid law in BiH with the EU Acquis, capacity building of the State Aid Council and Implementing Authorities and raising awareness among state aid grantors and other identified target groups. As per activities for outputs 4, 5, and 6.	Services	Q3/Q4 2022

4.2.2. Indirect management with [an] entrusted entity[ies] (i.e. Member State Organisation, third donor country, EU specialised (traditional/regulatory) agency, international organisation)

The activities of this action related to Private Sector Development (PSD), i.e. Output 1, Output 2 and Output 3 under the Outcome 1 should be implemented in indirect management with entrusted entity/ies which will be selected by the Commission's services using the following selection criteria:

a) operational capacity of the applicant for managing large scale interventions involving technical assistance and grants;
b) technical competence (either individually or within a partnership) in the preparation and implementation of PSD projects preferably gained in the Western Balkan region in the fields relevant to the action such as introduction of innovative business and financial models, digital technologies and skills for SME, development of ecosystem for competitive value chains, R&D and smart specialisation at local level, green and circular economy. In addition, the entrusted entity(ies) should demonstrate experience in implementing the relevant EU SME policies preferably gained in the Western Balkan region;

The implementation by this entity entails a contribution to an increased competitiveness and innovation of MSME's in BiH through transition towards a green and digital economy by means of implementation of Outputs 1, 2 and 3, as described in section 3.1.

In case the envisaged entity would need to be replaced, the Commission's services may select a replacement entity using the same selection criteria given above. If the entity is replaced the decision to replace it needs to be justified.

If negotiations with the above-mentioned entity fail, that part of this action may be implemented in direct management in accordance with the implementation modalities identified in section 4.3.8

³² www.sanctionsmap.eu Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

4.2.3. Changes from indirect to direct management mode (and viceversa) due to exceptional circumstances (one alternative second option)

If negotiations with the future selected entrusted entity fail, part of this action may be implemented in direct management through grants for the activities envisaged under Outputs 2 and 3, and through procurement (technical assistance) under Output 1.

The target applicants for the grants envisaged under Output 2 would be micro, small and medium enterprises in BiH's export-orientated sectors most severely affected by the COVID-19, i.e. metal, wood, textile, food production and tourism; start-ups; and innovative women and youth entrepreneurs, including diaspora.

The target applicants for the grants envisaged under Output 3 would be local business support providers (i.e. local, regional, SME development agencies/bodies, chambers, hubs, business centres) with experience in SME training and transfer of know-how in innovative, resource efficient circular processes/ practices through green and digital solutions and business models.

4.3. Indicative budget

	EU contribution (amount in EUR)	Indicative third party contribution, in EUR
Outcome 1. Increased competitiveness and innovation of MSMSs in BiH in line with transition towards a green and digital economy, composed of	8 000 000	N/A
Indirect management with an international organisation or a Member State organisation, cf. section 4.2.2	8 000 000	N/A
Outcome 2. State aid system in BiH aligned with obligations set forth in the SAA, composed of	2 000 000	N/A
Direct Management (Procurement) – cf. section 4.2.1.	N/A	N/A
Procurement – total envelope under section 4.2.1.	2 000 000	N/A
Evaluation, (cf. section 5.3)	will be covered by another decision	N/A
Audit/Expenditure verification (cf. section 6)	will be covered by another decision	N/A
Communication and visibility (cf. section 7)	N/A	N/A
Contingencies	N/A	N/A
TOTAL	10 00 000	0

4.4. Organisational set-up and responsibilities

This is a two-sectoral action, composed of targeted assistance in the following two areas of support: PSD and Competitiveness. The implementation arrangements will be made across the two areas to ensure, with responsibilities clearly defined in order to ensure full achievement of Action's indicators.

Should the *High-Level Task Force for Socio-Economic Response*, set up in 2020 to address some of the challenges related to the Covid-19 become operational, as per one required action under macro-financial assistance for BiH, this is most natural coordination model to steer successfully this Action at the strategic level.

More specifically, for **PSD and State Aid**: please refer to *Description of main stakeholders in section 2.2.* for a detailed outline of the institutional set-up and coordination. Some of these institutions are represented in the network of SBA coordinators in BiH. While this network will not be involved as such in the implementation of this Action, it is worth emphasising that certain level of coordination in the sector exists. This needs to be further improved, as to allow for the establishment of a proper coordination to facilitate implementation of this Action by, *inter alia*, MOFTER taking a more pro-active lead, by ensuring better link between the Action and BiH ERP, NIPAC, main stakeholders and BiH DEP; and most importantly (and immediately) by the establishment of the *Steering Committees*. These will be established for both PSD and Competitiveness and will be composed the main beneficiaries and relevant reform institutions in BiH as outlined in *Section 2.3*.

In line with the standard practice, in the initial stage of project implementation, a *Steering Committee* will be established to oversee progress in the implementation of activities. Furthermore, if deemed necessary, additional technical *Working Groups of experts*: representatives of institutions or organisations, will be established for a specific tasks and activities. Given a large number of institutions in the sector, as well an extensive number of activities, *Steering Committees* will be at the centre of ensuring efficiency, effectiveness of implementation of this Action. The role of each structure defined above will be identified in order to avoid overlapping of the leadership and avoid potential conflict.

5. PERFORMANCE/RESULTS MONITORING AND REPORTING

5.1. Internal monitoring

The Action's internal result-based monitoring system(s) will be set up and will be used to facilitate systemic and close monitoring of all defined indicators to ensure full achievements thereof. The internal monitoring needs to be carried out by staff with certified competencies in the domain of monitoring and evaluation. Particular attention will also be paid to closely monitoring all relevant economic and political developments that may have an impact on results as measured through indicators. **Basis for the monitoring system is the Action's LFM with its underlying indicators for specific Outcomes and Outputs.** LFM will be used as a management tool. The purpose of the monitoring, will, *inter alia*, be to adjust and revise Outputs, activities and indicator level, should there be need, in order to effectively achieve the expected Outcomes.

It is expected that the implementing partners for the **PSD** Outputs under Outcome 1 will be responsible for monitoring the implementation of Action, in close cooperation with the stakeholders. Furthermore, a number of structures to facilitate monitoring of success of grants schemes that will be provided, may be set up. Field visits are seen particularly important in this respect.

For the **State Aid** Outputs under Outcome 2, the institutional beneficiary structure, will be responsible for monitoring. A role of the *Steering Committee* will also facilitate coordination of monitoring efforts, as well as strategic guidance, should any issues arise related to Action's results, as measured through indicators. The members will be nominated by the respective ministries as sector lead stakeholders.

5.2. Roles & responsibilities for data collection, analysis & reporting

It will be the institutions at the State level, that will be responsible for data collection, analysis and reporting through monitoring implementation of activities and achievements of results in line with allocated responsibilities in sub sectors as outlined in *Section 2*. Data will be generated from a number of sources. The BHAS, in cooperation with entity statistical offices, and DEP, in cooperation with entity ERP coordinators, will be the main providers of published, official data for the two areas of intervention. There a number of other important data providers, as outlined in LFM, that will play a role in data collection.

Given well documented challenges for availability of a consistent, countywide data for BiH, the Action will have to rely on Action's internal capacities for data collection, analysis and reporting. Data will be used for Action's steering as well as regular reporting.

It is important to note that activities and result monitoring related to the implementation of all grants envisaged under this Action can only be designed in detail once the grant scheme and criteria are redeveloped and the recipients selected. Once projects/grant recipients are selected for funding, **baseline studies** will be carried out to feed differentiated data in the LFM. During the implementation of the Action, a variety of tools and methods should be used and applied regularly to assess both qualitative and quantitative indicators. Given **the targeted recipient groups as well as the expected impact for this Action**, this should include amongst other, gender disaggregated data and documentation, comparative and retrospective surveys, as well as focus group discussions. Every effort should be made for data to be harmonised for a country-wide presentation of indicators, ideally disaggregated by sex, age and disadvantaged groups to better track and monitor the success of the Action against its expected Outcomes and impact.

5.3. Evaluation

Having regard to the nature of the action, a mid-term and/or final evaluation will not be carried out for this action or its components.

In case an evaluation is not foreseen for some action's components, the Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the partner.

Evaluation services may be contracted under a framework contract.

6. AUDIT

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, based on a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

It is foreseen that audit services may be contracted under a framework contract.

7. COMMUNICATION AND VISIBILITY

Visibility of EU funding and communication about objectives and impact of Actions are a legal obligation for all Actions funded by the EU, as set out in the EU communication and visibility requirements in force.

In particular, the recipients of EU funding shall acknowledge the origin of the EU funding and ensure its proper visibility by:

- providing a statement highlighting the support received from the EU in a visible manner on all documents and communication material relating to the implementation of the funds, including on an official website and social media accounts, where these exist; and
- promoting the actions and their results by providing coherent, effective and proportionate targeted information to multiple audiences, including the media.

Visibility and communication measures shall be implemented, as relevant, by the national administrations (for instance, concerning the reforms linked to EU budget support), entrusted entities, contractors and grant beneficiaries. Appropriate contractual obligations shall be included, respectively, in financing agreements, delegation agreements, and procurement and grant contracts.

The measures shall be based on a specific Communication and Visibility Plan, established and implemented in line with the EU communication and visibility requirements in force. The plan shall include, inter alia, a communication narrative and master messages for the Action, customised for the various target audiences (stakeholders, civil society, general public, etc.).

Visibility and communication measures specific to this Action shall be complementary to the broader communication activities implemented directly by the European Commission services and/or the EU Delegation. The European Commission and the EU Delegation should be fully informed of the planning and implementation of the specific visibility and communication activities, notably with respect to the communication narrative and master messages.

If the Action includes Union programmes, visibility and communication measures shall be implemented in accordance with the EU communication and visibility requirements in force and the specific rules of each Union programme. The relevant programme managing entity shall be responsible for monitoring the visibility and communication activities. The European Commission and the EU Delegation should be fully informed of the planning and implementation of the specific visibility and communication activities.

8. SUSTAINABILITY

The nature of this Action is quite specific, in the sense that it focuses primarily on addressing and mitigating immediate negative socio-economic effects of the COVID-19 pandemic. As such, **some** of its benefits and results, which are presented in outputs and outcomes in the LFM **are only meant to be short term in nature**. This is something that needs to be recognised when assessing the sustainability of the Action. For these, the long-term extent of sustainability benefits, such as the level of ownership of the beneficiaries, their institutional management capacities, will have to be considered as a by-product. Some impact will be seen in this respect, through beneficiaries' capacities being built through direct participation in contributing to implantation of the Action.

Furthermore, given that **some** of the Action has partially been designed to address a massive financial gap that BiH faces as a result of a serious economic downturn (*See section 2.2. – Problem analysis*), BiH authorities are not in a position to provide any additional resources for the Action. It is uncertain whether the beneficiary institutions themselves will be in a position to commit any substantial resources for the maintenance of the results once the Action is completed. It is therefore, of utmost importance to revisit the sustainability issues during monitoring of the implementation of the Action, ideally already during the first mid-term evaluation.

Notwithstanding, the Action will aim to contribute to sustainability of the PSD actions under Outcome 1 by building a network for sustainability services which will be comprised of local actors that will be capable to continue providing support to SMEs in relation to green and digital transition once the Action is implemented.

State Aid Outputs under Outcome 2 aim to build institutional and administrative capacities of the SCA and IAs, through a range of measures, directly improving their medium-term institutional capacities. By raising awareness of key stakeholders on state aid rules, ownership of the reform in this important area amongst key stakeholders in BiH will be increased, thereby contributing to sustainability of the Action.