

IPA National Programme 2009 part I
Bosnia and Herzegovina
Fiche 1 - "Economy"

1. Basic information

- 1.1 CRIS Number:** 2009/021-333
- 1.2 Title:** Support to the small and medium sized enterprises sector and Deposit Insurance Scheme in Bosnia and Herzegovina
- 1.3 ELARG Statistical code:** 02.20 - Enterprise and Industrial Policy/02.17-Economic and Monetary policy
- 1.4 Location:** Bosnia and Herzegovina

Implementing arrangements:

1.5 Contracting Authority: European Commission

1.6 Implementing Agency:

European Bank for Reconstruction and Development (EBRD) through joint management with European Commission

1.7 Beneficiary:

The small and medium sized enterprises (SMEs) in Bosnia and Herzegovina

The Deposit Insurance Agency of Bosnia and Herzegovina (DIABH)

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Financing:

1.8 Overall cost (VAT excluded)¹: EUR 3 500 000

1.9 EU contribution: EUR 3 000 000

1.10 Final date for contracting: Two years following the date of the conclusion of the Financing Agreement

1.11 Final date for execution of contracts: Two years following the end date of contracting

1.12 Final date for disbursements: One year following the end date for the execution of contracts

¹ The total cost of the project should be net of VAT and/or other taxes. Should this not be the case, the amount of VAT and the reasons why it should be considered eligible should be clearly indicated (see Section 7.6)

2. Overall Objective and Project Purpose

2.1 Overall Objective:

The overall objective is to promote the transition to a market economy in Bosnia and Herzegovina, and to contribute to the alleviation of the current financial and economic crisis.

2.2 Project purpose:

The purpose is to further develop the SME sector and strengthen the deposit insurance system in Bosnia and Herzegovina to cope with unforeseen crisis situations.

2.3 Link with AP / NPAA / EP/ SAA

The European Partnership between the EU and Bosnia and Herzegovina among its medium-term priorities asks for: ‘Continue reforms [...] in order to improve the business environment and promote entrepreneurship’ and calls upon Bosnia and Herzegovina to ‘Make further progress in adopting European standards’. Also the document calls for ‘Ensuring implementation of the SME Charter’. A short-term goal under Economic criteria requires” using prudential policy instruments to preserve financial stability”.

The European Commission’s 2008 Progress Report on Bosnia and Herzegovina, Enlargement Strategy and Main Challenges 2008-2009 underlines past achievements and states that macroeconomic stability has weakened and economic operators need to be able to deal with increased risks stemming from expansionary fiscal policies, higher inflation and widening external imbalances. The report under Section 4 European Standards, states the need for further SME support: ‘Overall, structural shifts in the economy are slow and SMEs continue to operate in a complex business environment.’ ‘Overall, preparations in the area of industry and SMEs are at an early stage. Further improvements in the business environment remain crucial for facilitating business and trade.’

2.4 Link with MIPD 2009-2011

The MIPD 2009-2011 states under its strategic objectives that the “Community assistance will support Bosnia and Herzegovina in softening the impact of the financial and economic crisis by increasing its support to economic regulators”.

Under Economic criteria, it states that IPA will assist Bosnia and Herzegovina's economic development to support the development of the SME sector, the economic development of the regions, and will improve trade policies. Further assistance will support the establishment of regulatory capacity and the enhancement of entrepreneurial know-how. The MIPD expects SME development will be indicated by increase of the participation of SME in the economy (measured by increased numbers of SME and their contribution to the GDP).

The MIPD also states that IPA supports economic development, employment and education as well as the reform of social policies.

2.5 Link with National Development Plan

The SME Development Strategy in BiH, which is soon to be adopted, underlines under the *Education, Training and Consulting* heading that ‘from the SME point of view, education and training for entrepreneurship and availability of skills are vital development factors’ and that training should be focused on ‘practical skills and know-how’.

3. Description of project

3.1 Background and justification:

There will be two main areas of intervention:

A. Support to SME Sector in Bosnia and Herzegovina through a contribution agreement with EBRD

BiH has made strides in its economic recovery but the basis for sustainable development remains fragile. To date, economic growth is largely attributable to extensive reconstruction and a massive infusion of development aid. The growth is mostly consumption driven, which is funded, in part, from the parents of foreign banks and few large Foreign Direct Investments (FDI).

The private enterprise sector in Bosnia and Herzegovina (BiH) has been expanding steadily, and estimates are that it presently contributes close to 50 % of GDP. This is equivalent to Serbia, far behind Bulgaria and Poland with 75 percent, FYR Macedonia and Croatia at 65 and 60 percent respectively. Bosnia and Herzegovina is at the bottom range of South-East Europe countries together with Serbia, in fuelling private sector development¹ through strong SME growth.

The total number of registered SMEs in BiH in 2003 was 14,986², and the sector faces severe challenges such as:

- Performance change of *sales* in small and medium companies in Bosnia & Herzegovina has been less than 9%³.
- Small and medium companies in Bosnia & Herzegovina had an increase in *exports* of less than 4.4% during the last three years⁴, and the country is 6 in country ranking for *trading across borders*⁵ among Eastern Europe and Central Asia.
- The technological readiness, indicated by the score of 2.5 of the Global Competitiveness Report, has not improved⁶. Less than 45.3% of the small and medium countries have *adopted new technologies*⁷.
- Only 43.1% of the small companies have *upgraded their existing product line*, which is below average for the Western Balkan region⁸.

¹ World Bank’s World Development Indicator database (2007)

² Joint World Bank and EBRD’s ‘Business Environment and Enterprise Performance Survey’- BEEPS (2005)

³ BEEPS (2005)

⁴ World Bank’s ‘Doing Business Survey’ (2007-2008).

⁵ World Economic Forum’s ‘Global Competitiveness Report’ (2006-2007): 7 is the highest score possible and 1 is the worst score

⁶ BEEPS (2005)

⁷ BEEPS (2005)

- While 12.1% of medium companies *agreed to a joint venture with a foreign partner*, only 4.9% of small companies did so⁹.
- Less than 19% of small and medium companies in Bosnia & Herzegovina obtained a new *quality accreditation* over the last 3 years, and less than 13.8% have obtained a *new product licensing agreement*¹⁰.
- BiH is at the bottom range of SEE countries together with Montenegro in terms of enterprise restructuring¹¹.
- It is evident that companies are operating at low capacity and the return on assets is low. Up until recently, only 22 percent of firms from a survey of BiH Enterprises conducted by professors from Sarajevo University had a sales/capacity ratio in range between 76-100 percent.

The European Bank for Reconstruction and Development (EBRD) promotes economic transition in its countries of operation through, *inter alia*, the Turn Around Management (TAM) and Business Advisory Services (BAS) Programmes. The TAM and BAS Programmes 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.

TAM/BAS combines direct assistance to the private sector at the enterprise level with systemic market development and capacity building interventions, such as training for SMEs and consultancies and dissemination of market economy best practises. Thereby, TAM/BAS achieves enterprise level change and the development of a sustainable infrastructure of business advisory services in its countries of operation. TAM transfers relevant commercial and technical “know how” from experienced directors and senior managers, from economically developed countries, resulting in the introduction of new management culture and improved management skills in the assisted enterprises.

BAS activities include assisting individual enterprises to engage with local consultants on narrowly-based, specific projects with a rapid payback. Additionally, BAS carries out systemic market development activities to develop the capacity of SMEs and local business advisory providers.

TAM/BAS projects bring European Standards, improve SME management skills, planning, production, quality management and control, and marketing, thereby making them more competitive and able to attract external financing. Together with the development of local business consultancy skills, TAM/BAS contributes to the development of a sustainable market economy.

A description of the EBRD TAM/BAS programmes implementation is made in the Annex IX.

B. Establishment of stand-by credit line in support of the deposit insurance system

The Deposit Insurance Agency of Bosnia was established in August of 2002 by a donation from KfW and USAID. This donation, EUR 15 000 000, served as the initial Fund for the insurance of the deposits by the Agency. The Fund has grown to EUR 66.5 million as at the end of 2008 via

⁸ BEEPS (2005)

⁹ BEEPS (2005)

¹⁰Source: EBRD Transition Index

membership fee's charged to commercial banks. The institutional setup has been legally recognized through the "Law on protection of the bank deposits in BiH" (Sluzbeni glasnik BiH, br.20/2002).

So far the deposit insurance scheme has worked well. There have been no bankruptcies and the resources of the Agency have grown steadily over time. However, with the onset of the global financial crisis in 2008 the Agency was forced to substantially increase the coverage of deposit insurance. Coverage was raised from EUR 3 834 to EUR 10 225. Still this coverage level may not be enough and it may be necessary to increase coverage further in order to retain deposits within the country. To do so, the Agency has been considering to enter in a stand-by credit line (backed by a sovereign guarantee from the BiH Government) from EBRD in value of EUR 50 000 000 to supplement the Agency funds in the event of a member bank failure. The initial conditions and terms of the EBRD credit line are presented in the Annex VIII. The targeted EUR 1 000 000 EC assistance will be used to further strengthen the capital base of the Deposit Insurance Agency in order to have appropriate liquidity (Insurance Fund, Credit-line, Capital base) to act quickly and pay out the insured depositors in case of a bank failure.

The combination of the stand-by credit line from EBRD and the capital strengthening from the EC will enable the Deposit Insurance Agency to raise the deposit insurance limit to EUR 25 000 from the current EUR 10 000 while maintaining sound coverage. A credible deposit insurance system is important in order to continue to maintain the public's trust and savings in the banking system, in particular, as the neighbouring countries have substantially increased their deposit insurance coverage as a response to the crisis, notably Croatia and Serbia.

Both, the SME and the deposit insurance projects have been selected as part of the anti-crisis package as their preparation is already well advanced in the country and the EBRD has the necessary infrastructure to start immediately all activities. While preparing the project, and the IPA 2009 FP, close co-ordination took place with EBRD head office and the local office in Sarajevo.

3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact

The intervention is part of the anti-crisis package and will contribute to the alleviation of the current financial and economic crisis by enhancing the competitiveness of SMEs and assisting them in their preparation towards globalization and a knowledge-based economy and in their harmonization efforts with competitive cycles in the open economy. The improvement of business environment and innovation will create synergy with other areas of business support such as finance access through more viable investment plans or joint ventures with participation of FDI by offering more productive capital and resources.

TAM/BAS' primary objective will be to provide SME sector assistance and improve its performance by:

- enhanced competitiveness and expansion of markets (increased exports, productivity and sales, new foreign contacts, new production line/technology, changes in product ranges and production processes);
- enhanced quality management and certification (certification awarded, associated new business, associated internal organisational improvement, compliance with EU regulations), which will again make preconditions for expansion of exports

- reduced costs (reduced production costs, labour productivity increases);
- improved management effectiveness and skills (new organisational structure, best practices in corporate governance);
- improved strategic planning (improved financial management information and controls, new marketing strategy, new business/investment plan);
- improved environmental management (reduced emissions or energy consumption).

In the case of TAM, sustainability on the individual project/micro level is built when a TAM project comes to a successful closure and skills and knowledge have been transferred. The increased competitiveness of TAM client firms puts pressure on their peers, forcing them to improve their operation to survive, hence providing an impact at the sector level. Equally, managers of TAM client companies move on within an industry sector (at times to other sectors) transferring their improved skill set further.

In the case of BAS, a key element is the development of a sustainable infrastructure of local business advisory services, as this will contribute to the improved performance of the SME sector once BAS exits a country. Sustainability may also be related to leaving some level of institutions behind when business support programmes exit countries. Existing SMEs and local consultancy institutions will be strengthened, and assistance given to the planning of any new institutions proposed by government or the private sector.

The TAM/BAS Programme determines the differing level of activities to be carried out in urban, non-urban and rural areas in order to ensure adequate prioritisation and additionality.

With respect to the Deposit Insurance system, the proposed EBRD assistance would strengthen the funding of the Deposit Insurance Agency and provide it with additional financial flexibility and liquidity. The envisaged stand-by facility has been tailored to the needs of Bosnia and Herzegovina, allowing the Agency to accumulate funds safely over time; without unnecessarily taxing the banking system in the short run; and has been designed to expire when the Agency no longer requires EBRD support.

The project will enable the Agency to reduce deposit outflows from the country triggered by recent increases in coverage in neighbouring countries. A significant portion of BiH citizens has the possibility to open bank accounts in neighbouring countries such as Croatia, Serbia, Slovenia etc. Many of these neighbours have substantially increased their deposit insurance coverage in response to the global financial crisis providing additional considerable motives for the BiH population to move their deposits abroad. This trend has caused liquidity problems for local banks and this project will contribute to the reversal of this trend.

In the long run, harmonization of deposit coverage in the SEE region needs to be agreed by the national governments and relevant institutions. In the short run, however, facilitating BiH to have an adequate deposit insurance coverage level will help to keep retail deposits stable. The project will allow BiH to increase the coverage of insured bank deposits to KM 50 000 (EUR 25 565).

3.3 Results and measurable indicators:

Specific results include:

TAM: Enterprise-level change in assisted SMEs

Development of independently capable management able to lead company after TAM Team leaves as essential analysis tools have been transferred.

Enhanced performance of enterprise as measured by improved in:

- Sales & marketing
- Production
- Finance
- Organisational issues/HR.

Indicators:

- At least 80% of projects rated as successful or highly successful by Evaluation Advisor.
- At least 80% of enterprise CEOs judging that TAM support has made their enterprise “better” or “much better”, and significantly enhanced their business performance.
- Less than 10% of aggregate TAM projects closed early.
- To achieve cross-cutting issue targets as per TAM/BAS Strategic & Operational Plan.

BAS: Enterprise-level change in assisted SMEs

Improved performance of assisted SMEs as measured by:

- Improved Market Performance (such as sales, export increase)
- Improved Management Effectiveness
- Reduced Costs
- Introduced Quality Management & Certification (such as certificates awarded)

Indicators:

- At least 85% success rate in projects rated one-year after completion
- Less than 5% of all projects undertaken cancelled

BAS: Sustainable infrastructure of local business advisory services

Outputs at the local business advisory services market level include:

- Increased demand for local consultancy services
- Increased supply of local consultancy services
- Improved quality standards in local consultancy services
- Strengthened institutions

Indicators:

- Targets for entry/exit in specific local consultancy services market segments as per BAS country strategies are met;

The EBRD credit line in support of the Deposit Insurance Agency is established

Indicators:

- The total amount of the BiH bank deposits which are not insured by DIABH decrease from 38% to 20%;

3.4 Activities:

Activity 1: Support provided by TAM Team for 18 SMEs including:

- Teaching
- Mentoring
- On the job training of commercial and technical know how to key managers across the main business functions, including their inter-dependence and interaction
- Specific training and visits to EU countries

Areas of focus include:

- Sales and marketing
- Production
- Finance
- Organisational issues, HR

Market development actions within TAM intervention typically include:

- *SME management training* - with cost participation from participants if appropriate.
- *Informed contribution to EBRD policy dialogue with authorities* on regulatory, tax or bureaucratic matters.
- *Support to and development of existing local institutions* – particularly in relation to the market for local business advisory services.
- *Visibility and dissemination* of market economy best practices.
- Industry-specific senior managers from market economies form TAM Teams. The implementation of projects takes place over the duration of approximately 18 months and the TAM Teams comprise of:
 - *TAM Team Country Coordinator*: To identify, screen, coordinate and roll out a number of TAM projects in their relevant country or region of operation.
 - *Senior Industrial Advisor*: To provide management industry specific advice on all aspects of the business and hands-on support to management. Main counterpart to management transferring market-driven know how.
 - *Ad-hoc Specialists*: To provide specialist input

Activity 2: Support provided by local BAS Teams for 96¹² selected SMEs on:

- *Project Development* including enterprise diagnostics, matching enterprise needs (demand) with consultancy offerings and support in defining consultant assignments.
- *Monitoring* during project implementation.
- *Flexible Grant* (up to 75% of net project cost) capped at EUR10 000 based on the Grant Guideline Matrices.
- Type of projects to include:
- Market Analysis & Planning
- Development Planning
- Feasibility Studies
- Partner Search
- Reorganisation/Restructuring
- Computerised Financial/Management Information Systems
- Computerised Manufacturing Systems
- Engineering Studies
- Quality Management & Certification Systems

Type of market development-oriented actions within this activity include

- *SME and consultancy training* – with cost participation from participants if appropriate.
- *Informed contribution to EBRD policy dialogue with authorities* on regulatory, tax or bureaucratic matters.
- *Support to and development of existing local institutions* – particularly in relation to the market for local business advisory services.
- *Visibility and dissemination* of market economy best practices.
- The duration of a BAS project depends on the project supported but typically lasts 4-6 months. The BAS team comprise of:
- *Regional/Programme Director*: To select and mentor local BAS National Directors to maintain high quality and integrity standards of programme activities
- *National Programme Director*: To manage BAS projects and market development activities, particularly building the local business advisory sector
- *Project Officer*: To identify potential projects, to develop and monitor all aspects of their implementation, and to assess all project related reporting

Local BAS Teams qualify local consultants prior the start of BAS projects and maintain an active database of local consultants.

¹² EBRD estimation according to the previous similar interventions

All applied criteria for TAM/BAS Enterprise Selection are described in the Annex VII.

The total cost for TAM/BAS component will be EUR 2 500 000 and includes EUR 2 000 000 IPA 2009 contribution and EUR 500 000 as private contribution from the selected SMEs for the BAS projects.

Activity 3: Strengthening capital base of the Deposit Insurance Agency

The targeted EC assistance will be used to further strengthen the capital base of the Deposit Insurance Agency in order to have appropriate liquidity (Insurance Fund, Credit-line, Capital base) to act quickly and pay out the insured depositors in case of a bank failure.

The total needed amount for this component is EUR 1 000 000 from the IPA 2009 funds.

The planned activities for both components will be executed through a Contribution Agreement concluded between the European Commission and the EBRD.

3.5 Conditionality and sequencing:

In regard to TAM enterprises selection, SMEs are selected to be screened based upon the potential viability of the enterprise, and demonstrated willingness of management and owners to undergo change and benefit from advice. TAM projects require that the time and full cooperation of the CEO, and senior management, must be committed to TAM, and the CEO must agree to take the commercial risks (including introduction of new management practices, changes in work practice, development of new products, use of new technologies, new approaches to design and marketing) associated with rapid implementation of TAM recommendations. If the enterprise does not perform to expectations, the project is closed.

Under BAS projects, the EBRD undertakes to provide a grant to the beneficiary enterprise which supports a part of the cost of the project. The Grant Agreement between the beneficiary enterprise and the EBRD contains the terms and conditions of payment of the grant as well as the description of the underlying consultancy project to be undertaken, including the Terms of Reference (TOR) of the consultant engaged. Once the consultant completes services to the satisfaction of both the local BAS Team and the beneficiary enterprise, and the latter pays the consultant's final invoice, the grant is paid by the EBRD to the beneficiary enterprise. The EBRD has the right to suspend or cancel the grant in the events of default listed in the Grant Agreement.

In regard to DIA BH support, an intention letter from EBRD has been sent to the agency outlining the base in preparing the proposed financing as a start-up for the necessary negotiation process between the two parts; A guarantee from the Government of BiH is conditional for the finalization of this arrangement.

3.6 Linked activities

Under IPA 2007 and IPA 2008 there are two projects targeting SMEs and regional development, aiming at consolidation of the institutional and legal framework for regional economic development (RED) and SME development, and improvement of the skills in the business sector. Additionally, the links between the education system and the needs of the economy would be strengthened, as well as capacities of the five Regional Development Agencies to support SMEs.

Identified competitive sectors in BiH will be supported to address obstacles in the sector supply-chain.

The IPA 2009 multi-beneficiary project related to the response to the financial crisis improves access to finance to financial institutions and private companies, supports supervision and regulatory reforms of the financial sector, and supports reforms increasing the competitiveness of the economies of the IPA countries, mostly through enhancing cooperation with IFIs.

Another IPA 2009 multi-beneficiary project which promotes entrepreneurial learning is establishment of a Regional Entrepreneurial Learning Centre where issues of policy, common to all governments in the areas of entrepreneurial learning and enterprise skills, could be discussed together within a regional forum and where best practices could be systematically exchanged.

3.7 Lessons learned

This proposal builds on previous EBRD assistance in various countries (including the new EU member states) and on the experiences of the current TAM/BAS Programmes in Bosnia and Herzegovina.

TAM has undertaken 25 projects in the country. This has been funded by major contributions from the EU, the UK, Japan, Spain, Switzerland, Canada and the EBRD Multi Donor Western Balkans Fund.

Since August 2001, BAS Bosnia and Herzegovina has undertaken 379 projects and has worked with 164 local consultants. The programme has received donor contributions from the EU, the UK, the Netherlands, the CEI, Norway, Portugal and the EBRD.

Both TAM and BAS follow the efforts that the EC has provided under the CARDS 2001-2006 programmes and the new IPA instrument, in particular substantial support to regional economic development and SMEs.

The following risks and mitigating factors were identified as lessons learned from past similar EBRD TAM/BAS assistance programmes:

Key risks	Mitigating factor (s)
Discontinued funding Change in donor priorities	These risks are mitigated through close cooperation and involvement of donors and project. Meanwhile, EBRD bridge-financing and strategic support to donors will assist in ensuring continuity of donor contributions.
Lack of management response/commitment Unsatisfactory performance Change in ownership	Rigorous and well-tested enterprise screening and selection processes are employed by TAM. Support for any non-responsive management will be terminated immediately and funds will be reallocated to other projects if management does not fully commit to reaching the objectives agreed with the specific TAM Team. With BAS, 50% cost participation on the part of the enterprise ensures appropriate follow-up of management after the project, as CEOs want a tangible payback as quickly as possible. BAS grants will not be paid until the consultants' final reports have been fully accepted by the CEOs concerned

	and by the BAS National Director. BAS reserves the right to cancel projects at any time and to reallocate funds to a new project with another enterprise.
Political and/or economic instability Deteriorating business/investment climate Local government/institution-specific factors	TAM/BAS has a strong field infrastructure in and good knowledge of the region. Meanwhile, TAM/BAS generally works in difficult environments and markets, and can demonstrate operational success in other transition countries. These risks are similar in any transition country of the region, but have not caused problems to TAM/BAS as yet. Any issues will be dealt with on a case by case basis.

The proposed intervention for the Deposit Insurance system will be built on the results of associated previous international assistance (GTZ, USAID) programmes in support of the Deposit Insurance Agency by contributing to the further strengthening of the Agencies capabilities.

4. Indicative Budget (amounts in EUR)

			SOURCES OF FUNDING									
			TOTAL EXP.RE	IPA COMMUNITY CONTRIBUTION		NATIONAL CONTRIBUTION					PRIVATE CONTRIBUTION	
ACTIVITIES	IB (1)	INV (1)	EUR (a)=(b)+(c)+(d)	EUR (b)	%(2)	Total EUR c=(x)+(y)+(z)	%(2)	Central EUR (x)	Regional/Local EUR (y)	IFIs EUR (z)	EUR (d)	%(2)
Activity 1 and 2: Contribution Agreement with EBRD for TAM/BAS Programme	X											
Contract 1			2 500 000	2 000 000	80						500 000	20
Activity 3 : Contribution Agreement with EBRD – Joint programme to establish the provision of the EBRD credit line to the Deposit Insurance Agency	X											
Contract 2			1 000 000	1 000 000	100							
TOTAL IB			3 500 000	3 000 000	85.7							14.3
TOTAL INV												
TOTAL PROJECT			3 500 000	3 000 000	85.7						500 000	14.3

Amounts net of VAT

- (1) In the Activity row use "X" to identify whether IB or INV
- (2) Expressed in % of the **Total** Expenditure (column (a))

5. Indicative Implementation Schedule (periods broken down per quarter)

Contracts	Signature of contract	Project Completion
Contribution Agreement 1 with EBRD	Q4/2009	Q3/2011
Contribution Agreement 2 with EBRD	Q4/2009	Q4/2013

All projects should in principle be ready for tendering in the 1ST Quarter following the signature of the Financing Agreements.

6. Cross cutting issues

Previous TAM/BAS activities in Bosnia and Herzegovina addressed cross-cutting issues inherently as part of the programmes' best practices transfer. The programmes' previous work has included projects supporting women entrepreneurs, cross-border cooperation, rural development as well as provided suitable platforms for promotion of businesses and consultants from minority groups. Almost half of the total number of projects in Bosnia and Herzegovina - 186 projects have been undertaken to tackle cross-cutting issues.

In the current TAM/BAS Programme in Bosnia and Herzegovina a well-balanced geographic spread was achieved. Over 62% of projects in BiH are located outside the regions of the two entity capitals combined (Sarajevo and Banja Luka). Reaching areas outside of the capital should remain a high priority for BAS Bosnia and Herzegovina in the future.

6.1 Equal Opportunity

The TAM/BAS Programme has successfully conducted 'Women in Business Initiatives' in EBRD countries of operation. These projects support women entrepreneurs who want to start up their own businesses, as well as the growth of established women-owned enterprises. Previous TAM/BAS operations in Bosnia and Herzegovina have traditionally included a strong WIB element (41 projects). The proposed TAM/BAS Programme will continue providing support in direct response to demands expressed by women entrepreneurs in Bosnia and Herzegovina.

6.2 Environment

TAM/BAS supports SMEs to comply with environmental regulations and to promote energy efficient technologies and environmental protection. The hands-on advice that TAM/BAS provides allows companies to recognise the long-term benefits of investing in, and overcoming, environmental and energy problems. In Bosnia and Herzegovina 28 BAS and 3 TAM projects have been focused on environmental issues. Additionally, in 2008, two training seminars, a seminar on 'Environmental Management Systems, Auditor/Lead Auditor Training Course and a seminar on 'How to perform an energy audit' were organized to disseminate knowledge and expand the base of potential consultants able to perform these services.

6.3 Minorities

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.

TAM/BAS has an increased focus on working with SMEs all over the country, and in regional and rural areas, and involving partners regardless their racial or ethnic origin, religion or belief, disability, sexual orientation, etc.

ANNEXES

- 1- Logical framework matrix in standard format
- 2- Amounts contracted and disbursed per quarter for the project
- 3- Reference to laws, regulations and strategic documents
- 4- Description of Institutional Framework
- 5- Details per EU funded contracts
- 6- Linkages with EBRD Banking Activities
- 7- Criteria for TAM/BAS Enterprise Selection
- 8- Terms and Conditions of the EBRD loan to DIAB
- 9- Description of the EBRD TAM/BAS programmes implementation

ANNEX I: Logical framework matrix in standard format

<p>LOGFRAME PLANNING MATRIX FOR Project Fiche</p> <p>Support to the small and medium sized enterprises and Deposit Insurance Scheme in Bosnia and Herzegovina</p>	<p>Programme name and number IPA National Programme 2009 part 1 – Bosnia and Herzegovina, "Economy" IPA 2009/021-333</p>		
	<p>Contracting period expires: Two years following the date of the conclusion of the Financing Agreement</p>	<p>Total budget : EUR3 500 000</p>	<p>Disbursement period expires: One year following the end date for the execution of contracts IPA budget: EUR3 000 000</p>
<p>Overall objective</p>	<p>Objectively verifiable indicators</p>	<p>Sources of verification</p>	
<p>The overall objective is to promote the transition to a market economy in Bosnia and Herzegovina, and to contribute to the alleviation of the current financial and economic crisis.</p>	<p>Improvement in macroeconomic performance:</p> <ul style="list-style-type: none"> • Real economy • Development of financial sector • External sector <p>Quality of the infrastructure of SMEs service providers is improved</p> <ul style="list-style-type: none"> • Level of confidence of population and SMEs in the local banking system improved 	<p>EBRD Transition Report</p> <p>EBRD Transition Indicators</p> <p>EBRD Country Strategies</p> <p>EBRD/ World Bank Business Reports and Surveys</p> <p>DG Enlargement Annual reports; Government reports; Surveys and statistical information</p>	
<p>Project purpose</p>	<p>Objectively verifiable indicators</p>	<p>Sources of verification</p>	<p>Assumptions</p>
<p>Further develop the Small and Medium sized Enterprises (SME) sector in Bosnia and Herzegovina and funding strengthening of the Deposit Insurance system to cope with unforeseen crisis situations.</p>	<p>Meeting targets of Programme TAM/BAS Strategic and Operational Plan.</p> <p>SME sector performance is improved:</p> <ul style="list-style-type: none"> • In terms of market share, productivity and profitability, against relevant comparators • In terms of performance over time • In terms of skills, ability to meet standards, finance, information and market infrastructure <p>The Deposit Insurance Agency(DIABH) is able to insure higher deposit amounts, which in turn will retain more deposits within the country and further stabilize the banking system.</p>	<p>EBRD Transition Report</p> <p>EBRD Transition Indicators</p> <p>EBRD Country Strategies</p> <p>EBRD/ World Bank Business Reports and Surveys</p> <p>DG Enlargement Annual reports;</p> <p>Government reports; BiH Central Bank reports; Surveys and statistical information</p>	<p>Stable external conditions (economic and political).</p> <p>Preservation of the political stability and continued commitment towards EU Accession and open market economy principles;</p> <p>National government committed to and actively promoting SMEs and facilitating conditions for their growth.</p> <p>Removal of administrative and legal restrictions on SME development within the local economies.</p> <p>Development of financial sector to lower costs and increase SME access to financial intermediation.</p> <p>A governmental loan guarantee is issued to DIABH</p>

Results	Objectively verifiable indicators	Sources of verification	Assumptions
<i>TAM Programme</i>			
Enterprise-level change in assisted SMEs	<ul style="list-style-type: none"> • At least 80% of projects rated as successful or highly successful by Evaluation Advisor. • At least 80% of enterprise CEOs judging that TAM support has made their enterprise “better” or “much better” and significantly enhanced their business performance. • Less than 10% of aggregate TAM projects closed early. • To achieve cross-cutting issue targets as per TAM/BAS Strategic & Operational Plan. 	<p>Ex-ante & Ex-post transition impact assessments</p> <p>TAM Standard Reporting on every project.</p> <p>Donor Reports</p> <p>TAM Financial Reporting</p> <p>TAM/BAS Country Strategies</p>	<p>Stable external conditions (economic and political).</p> <p>Continued commitment towards EU Accession and open market economy principles;</p> <p>Government authorities and other stakeholders willingness to support SMEs’</p> <p>Enterprise-specific factors:</p> <ul style="list-style-type: none"> • No major changes in management • No major changes in ownership • Management response/commitment

Activities	Means	Costs	Assumptions
<p>Activity 1: Support provided by TAM Team for 18 SMEs</p>	<p>Contribution Agreements with EBRD</p> <p>TAM Teams comprise of:</p> <ul style="list-style-type: none"> • <i>TAM Team Country Coordinator</i> • <i>Senior Industrial Advisor</i> • <i>Ad-hoc Specialists</i> <p>Implementation takes place over the duration of approximately 18 months</p>	<p>The TAM budget of EUR1 000 000(IPA Contribution) will cover about 18 TAM Projects</p> <p>Average TAM projects amount to EUR54 000 each.</p>	<p>Stable external conditions (economic or political).</p> <p>Continued commitment towards EU Accession and open market economy principles;</p> <p>Government authorities and other stakeholders willingness to support SMEs’</p> <p>Enterprise-specific factors:</p> <ul style="list-style-type: none"> • No major changes in management • No major changes in ownership • Management response/commitment

<p>Activity 2: Support provided by local BAS Teams for 96 selected SMEs</p>	<p>Local BAS Teams comprise:</p> <ul style="list-style-type: none"> • <i>Regional/Programme Director</i> • <i>National Programme Director</i> • <i>Project Officer</i> <p>The duration of a BAS project depends on the specificity of the supported project, but typically lasts 4-6 months.</p>	<p>The BAS budget of EUR1 500 000 (EUR 1 000 000 IPA contribution, EUR 500,000 private contribution) will cover about 96 BAS Projects as well as market development activities.</p> <p>BAS grants are capped at EUR10 000. Average BAS grants amount to EUR4 650.</p>	<p>Stable external conditions (economic and political).</p> <p>Continued commitment towards EU Accession and open market economy principles;</p> <p>Government authorities and other stakeholders willingness to support SMEs’</p> <p>Enterprise-specific factors:</p> <ul style="list-style-type: none"> • No major changes in management • No major changes in ownership • Management response/commitment
<p>Activity 3: Strengthening capital base of the Deposit Insurance Agency.</p>	<p>EBRD-DIABH loan agreement established by mid 2010</p>	<p>EC assistance will further strengthen the capital base of DIABH which, together, with the credit-line from EBRD, will enable the DIABH to properly respond in case of bank failure and payout of the insured deposits.</p>	<p>A governmental loan guarantee is issued to DIABH</p>

ANNEX II Amounts contracted and Disbursed per Quarter over the full duration of Programme

Contracted	3rd Q 2009	4th Q 2009	1st Q 2010	2nd Q 2010	3rd Q 2010	4th Q 2010
Contract 1		2 000 000				
Contract 2		1.000 000				
Cumulated		3 000 000				
Disbursed*						
Contract 1			2 000 000			
Contract 2			1 000 000			
Cumulated			3 000 000			

* The disbursement table is indicative, and the disbursement schedule shall be determined in the Contribution Agreement to be concluded between the European Commission and the EBRD.

The model grant agreement between the two organisations, available on EuropeAid’s website, provide for the following arrangements (http://ec.europa.eu/europeaid/work/procedures/implementation/international_organisations/other_international_organisations/index_en.htm):

“By derogation from Article 15 (1) the Contracting Authority will provide a payment of pre-financing of EUR [.....], equivalent to 100% of the forecast budget for the first 12 months of the Action within 45 days of receiving the Agreement signed by both Parties and accompanied by a request for payment conforming to the model attached as Annex V.

Each additional payment of pre-financing will be 100 % of the forecast budget for the subsequent 12-month period (or of the remaining period if shorter as regards the last additional payment of pre-financing), and be made by the Contracting Authority within 45 days of approving an intermediate report, provided that at least 70% of the immediately preceding payment (and 100% of previous payments if any) has been disbursed, as proven by the relevant report.”

ANNEX III Reference to laws, regulations and strategic documents:

“Law on protection of the bank deposits in BiH” (Sluzbeni glasnik BiH, br.20/2002);
The SME Development Strategy in BiH – still not adopted;
The strategy for SME Development in Republika Srpska 2006-2010;

ANNEX IV Description of Institutional Framework

DIA BiH and its operations with various institutions are regulated by specific agreements and include:

The Central Bank of Bosnia and Herzegovina was established in accordance with the Law adopted at the Parliament of Bosnia and Herzegovina on June 1997. The main goals and tasks of the Central Bank are defined by the Law and in accordance with the General Peace Agreement in Bosnia and Herzegovina.. Central Bank defines and controls the implementation of monetary policy of Bosnia and Herzegovina. Central Bank supports and maintains appropriate payment and settlement systems. It also coordinates the activities of the BH Entity Banking Agencies which are in charge of bank licensing and supervision.

Banking Agency of the Federation of Bosnia and Herzegovina(FBA) has a main role in reform of banking sector. FBA was founded in late 1996 as an independent and non-profit institution for bank supervision and licensing. It promotes a strong and stable market oriented bank system in accordance with international standards in business and bank supervision and advancement of a reliable, quality and legal performance of stable banking and micro-credit system in Federation of BiH.

The Banking Agency of Republika Srpska was established in 1998 as a legal successor of the National Bank of Republika Srpska with a goal of “*maintaining a sound and stable banking system of Republika Srpska, and improving its safe, high quality and legal operation*” (Law on Banking Agency of Republika Srpska).

ANNEX V Details per EU funded contracts

EBRD will be awarded the contribution on the terms and conditions set out in the Contribution Agreement between with EC. According to the Article 7 of the Contribution Agreement, EBRD's procurement policies and procedures will be followed.

ANNEX VI Linkages with EBRD Banking Activities

TAM/BAS assistance is already enhancing and will continue to enhance the EBRD project identification quality pre-investment. The synergies between the unique strengths of TAM/BAS will be exploited within the EBRD's Banking Programmes; working with enterprises on advisory projects pre-investment is a very effective screening procedure and that same TAM/BAS expertise can also be applied to strengthening a company's performance in the post-investment phase, e.g. by Senior Advisors taking the role of a non-executive board member.

Within the overall programme, to date, EBRD has financed directly or indirectly, through EBRD-supported financial intermediaries, 218 investments in 163 TAM and BAS companies. These investments amount to over EUR 721 million from EBRD, where EUR 489 million are loans and EUR 232 million are equity investments, while mobilising a total project value of EUR 1.66 billion. The majority of these investments have been provided through SME partner banks. While historically the largest joint clients were in the EU accession countries, this has shifted and a strong pipeline is developing in other countries as well. This proposed TAM/BAS Programme will work towards encouraging EBRD investment in its partner enterprises in Bosnia and Herzegovina

However, TAM/BAS is not a revenue generating activity for the Bank and contributes to the transition mandate in a different way to other banking teams. TAM/BAS staff in headquarters and in the field, its experts, consultants and clients can play a more active role in supporting the investment activities of the Bank; yet, the proposed Programme for Bosnia & Herzegovina will not entail the complete assimilation of TAM/BAS to the extent that it becomes only a conduit for potential investment clients, or a source of inexpensive local consultants to work on investment due diligence and preparation.

ANNEX VII Criteria for TAM/BAS Enterprise Selection

To qualify for TAM assistance, enterprises should meet the following criteria:

- Enterprises must normally be small and medium-sized, usually employing not less than 50 but seldom more than 500 employees.
- Turnover should be between EUR 300 000 and usually no more than EUR 5 000 000 (depending on the country and its economic conditions).
- The management of the enterprise must commit in writing, to undergo a restructuring or business development programme to be prepared jointly with the TAM Senior Industrial Advisor. There must be strong commitment of management's time and effort, and the enterprise must provide local transport for the TAM Team and appropriate interpreters.
- The enterprise must have significant importance for the local economy and also preferably manufacture products or offer services with the potential to generate export earnings or import substitution. The enterprise must be potentially viable, and have a reasonable prospect for being profitable in the longer term.
- The enterprises must not belong to an industry sector in which the TAM Programme does not operate as described in the selection section above.
- The company must be 100 percent privatised; however, on rare occasions TAM accepts companies where there is an irrevocable commitment to privatisation.
- The enterprise must have an acceptable debt structure.
- The enterprise must be potentially viable, and have a reasonable prospect for being profitable in the longer term.
- The company must be majority locally owned and have no more than 49 percent of foreign ownership.
- The company must not be a "green-field" or have any problematic interruptions to production.

To qualify for BAS assistance, enterprises should meet the following criteria:

- Employ 10 to 500 employees;
- Be majority privately and locally owned;
- Operate in all sectors except banking and financial services, military products or services, gambling, tobacco;
- Be able to demonstrate potential for growth;
- Be open to cooperate with BAS and the consultant, with the enterprise management being credible and respectable;
- Have a genuine need for business advice and a capacity to absorb the assistance given yet little or no previous experience of using external consultants, and/or do not have resources to finance a complete project;
- Be ready and able to pay 25-75 percent of the total project cost (programme specific).

ANNEX VIII TERMS AND CONDITIONS FOR THE EBRD LOAN TO DIABH

The final terms and conditions of the EBRD financing will be negotiated after project appraisal, however, EBRD anticipates the following indicative terms*:

- Provide the Agency with committed stand-by credit line, in an amount of up to EUR 50 000 000;
- Drawdown upon request of the Agency and conditional upon the following event occurring “pay out of the Agency to depositors triggered by a member-bank failure”;
- The Agency would arrange for the Bank to be provided with a guarantee from the Government of Bosnia and Herzegovina;
- A pre-determined spread of EURIBOR + 100 bps upon draw down of the facility (on disbursed amount);
- A one-time front-end-fee waived;
- A commitment charges waived;
- Amortization period: to be agreed
- Appraisal fees: waived.

*The EBRD considers this a confidential project, given the sensitive nature of the subject. Therefore, we ask you to respect the commitment given by the Agency to the EBRD to keep this transaction and the information provided in this project fiche confidential.

ANNEX IX DESCRIPTION OF THE EBRD TAM/BAS PROGRAMMES IMPLEMENTATION

The overall planning, programming and implementation of the TAM/BAS Programme is managed and controlled by the TAM/BAS Programme Team, a unit of the Banking Department, based in EBRD's London headquarters. TAM/BAS, operating within banking, is a core institutional building activity of the Bank.

The BAS Programmes operate from local offices, usually located in the capital or main economic city of each country. In BIH, BAS office has three staff members (nationals of the country).

BAS acts as a facilitator for the use of private-sector consultants by SMEs to obtain a diverse array of services, with the objective of improved SMEs performance and developing a sustainable infrastructure of local business advisory services. Support provided by local BAS Teams within BAS projects includes:

- Project Development
- Monitoring
- Flexible Grant.

BAS grants are post-transactional, i.e. they are paid only upon successful completion of the project, as agreed by the BAS National Programme Director and the enterprise Chief Executive Officer.

The BAS Programme pre-qualifies providers of consultancy services and maintains a database of those it believes are suitable for BAS projects. The involved consultant must have the relevant experience, capacity, resources and general competence to undertake the assignment successfully. The final selection of the consultant rests with the enterprise. Once a project is approved and the consultancy services contract is signed between the beneficiary enterprise and a consultant chosen, an Agreement for Payment of a Grant for Business Advice is signed. In essence, the Bank undertakes to provide a grant to the beneficiary enterprise which supports a part of the cost of the project.

Activities undertaken by the local BAS Teams are monitored through the programme's field management structure as well as through a variety of qualitative and quantitative reports prepared both in the field and at HQ. Each BAS office provides HQ with a monthly update on project related as well as non-project related activities carried out in the field. Reviews of these reports by the BAS Team in London are an important management control mechanism. They are used for monitoring and evaluation of the programmes, impact assessments, strategy development, donor reporting and programme visibility purposes.

In general, disbursements related to project grants and operational expenditure commitments are addressed directly from the local BAS Offices' bank accounts with prior approval by the BAS Team in London. Monthly reports of incurred expenditure are submitted from all BAS offices to the BAS Team in London in order to monitor the disbursement level of each individual fund under each specific category. All other disbursements from other commitments such as advances, staff contracts and rent are paid by the TC Invoice Control team in London.

2. TAM has no field infrastructure. TAM projects are implemented by the TAM team, consisting of experienced directors and senior managers, contracted only on the basis of individual projects.

TAM Team Country Co-ordinators are appointed by the TAM Programme Team in London, and are responsible for managing TAM projects, usually in one country or region of operations. They are contracted on short screening contracts and/or on the basis of individual projects for which they are responsible. They identify and screen enterprises that may be eligible for assistance and make recommendations to the TAM Senior Manager on acceptance for a TAM project or rejection.