

## IPA National Programme 2011 – Bosnia and Herzegovina

### 1. Identification

<b>Project Title</b>	Support to the Local Economic Development in BiH
<b>CRIS Decision number</b>	
<b>Project no.</b>	6
<b>MIPD Sector Code</b>	3. Private Sector Development
<b>ELARG Statistical code</b>	02.20 Economic Criteria/Enterprise and Industrial Policy
<b>DAC Sector code</b>	25010 Business support services and institutions
<b>Total cost (VAT excluded)<sup>1</sup></b>	EUR 3 530 000
<b>EU contribution</b>	EUR 3 000 000
<b>Management mode</b>	Centralised
<b>EU Delegation in charge</b>	Delegation of the European Union to Bosnia and Herzegovina
<b>Implementation management</b>	Delegation of the European Union to Bosnia and Herzegovina
<b>Implementing modality</b>	Stand alone project
<b>Project implementation type</b>	C01
<b>Zone benefiting from the action(s)</b>	Bosnia and Herzegovina

### 2. Overall Objective and Project Purpose

#### **2.1 Overall Objective**

To stimulate economic growth and employment generation

#### **2.2 Project purpose**

To facilitate the implementation of local economic development measures through local partnerships.

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<sup>1</sup> The total project cost should be net of VAT and/or of other taxes. Should this not be the case, clearly indicate the amount of VAT and the reasons why it is considered eligible.

### **2.3 Link with AP/NPAA / EP/ SAA**

Stabilization and Association Agreement (SAA) provisions call for the creation of a favourable climate for private investments, essential to economic and industrial revitalisation of Bosnia and Herzegovina (BiH). The SAA promotes strengthening of regional and local development cooperation, to contribute to economic development and reduced regional imbalances.

More specifically, the SAA places an emphasis on improved cooperation for small and medium enterprises (SMEs) and private sector development based on relevant EU policies, in particular the European Charter for Small Enterprises and the Small Business Act.

At sector level, it focuses on industrial development and tourism by promoting the transfer of know-how to support improved management and development of business environment. It provides strong potential for cross-border cooperation and trans-national initiatives at regional level.

The European Commission 2010 Progress Report notes that some progress was made in the area of industry and SMEs. It points at the existence of social inclusion elements within the existing development strategies, and at the need for development of a country-wide industrial strategy. Furthermore, it refers to the slow progress made in the implementation of the state level SME strategy and the European Charter for Small Enterprises as well as the Small Business Act. In conclusion, SMEs continue to operate under different conditions across the country. Therefore, further improvements in the business environment are essential for the expansion of business and trade.

The proposed intervention will contribute to addressing the SAA priorities and Progress Report key issues by focusing on the co-operation at the local level to boost competitiveness and improve business environment for locally operating SMEs. The project will focus on local business support services, promote innovations and new technologies, product development and marketing and the availability of a better qualified workforce.

In conclusion, the above measures will be implemented through partnerships between local administrations, business support service providers (development agencies, chambers of commerce, innovation and research centres, employment bureaus etc.) and entrepreneurs. As such, the project is expected to have twofold effects: 1) strengthening of public-private initiatives 2) promotion of better environment for businesses.

### **2.4 Link with MIPD**

The present project addressed the following MIPD 2011-2013 priorities:

- Improve the institutional and legal framework as well as the coordination and harmonization of SME related public policies and support Bosnia and Herzegovina to adhere to its obligations under the Interim Agreement (IA)/SAA.
- Advance the implementation of the Small Business Act, stimulate the innovation by SMEs and increase competitiveness in growth sectors.
- Increase the role of the private sector in the economy, create a better business environment, strengthen the business support infrastructure and services in particular at local level and improve the conditions for land management and land market development.

The indicators related to the Sector Objective No. 3 are:

- Reduction of the share of public expenditures to GDP;

- Reduction of administrative burdens to doing business;
- Number of incubators, industrial and business parks established;
- A transparent system of land registration introduced;
- A land cadastre introduced.

This project is specifically aimed at supporting the implementation of measures at the local level which will contribute to improvements in the institutional framework for the SME sector, support improvements in innovation and competitiveness and contribute to improvements in the business environment – through better infrastructure and services. These objectives will be achieved through initiatives undertaken at the local level consistent with the overall aim of improving economic stability in BiH.

## **2.5 Link with National Development Plan**

BiH has prepared a country development strategy (CDS) and a social inclusion strategy which will serve as basis for the national development plan. Both strategies and the related action plans remain to be adopted by the Council of Ministers. The proposed goals for the CDS are strengthened macroeconomic stability, sustainable development, competitiveness, employment, EU integration and social inclusion.

In the draft document, priorities for improvement of employment and measures for their realisation are:

### **Section 3.1. SME Development and Job Creation**

#### **Priority 1: Improving the conditions for the development of existing SMEs**

Given that SMEs employ a large number of workers, they constitute an important part of the economy. Therefore, the first priority in the area of employment is to create and improve the conditions for the development of existing SMEs. The SMEs need certain incentives from the government and the local community, e.g. favourable credit lines for employment.

The creation of entrepreneurial infrastructure will enable the expansion and development of SMEs under favourable conditions, thus further contributing to local development. Enhanced competitiveness and investment promotion by the competent institutions will create conditions for companies to make further progress. To achieve this, the system of support and training for SMEs needs to be strengthened.

## **2.6 Link with national/ sectoral investment plans**

The BiH Strategy for SME Development identified the following priorities:

- To create a favourable legal framework for SMEs that is consistent with the country's European aspirations;
- To create national and entity based support mechanisms for SMEs backed by an appropriate management information system; and
- To create a clearly determined and focussed SME development and entrepreneurship approach.

At the Entity level, the revised draft Republika Srpska (RS) Strategy for SME and Entrepreneurship Development 2011-2013 has been forwarded for adoption by the RS National Assembly. One of the measures is to build a program of the municipal and inter-municipal institutional support for entrepreneurship and SMEs to achieve the following operational objectives:

- Each local government unit need to ensure support for the development of entrepreneurship and SMEs through appropriate organizational structure for local development, tailored to its capabilities and needs, and through concrete financial support;
- At least two-thirds of local governments educate local teams for the preparation and conduct of local development projects;
- To establish inter-municipal development tools to strengthen inter-municipal competition and harmonization of inter-municipal development within RS;
- Advisory assistance to local authorities in identifying and establishing strategic priorities in the development of entrepreneurship and adequate programs for their implementation (co-financing of interest on loans IRB RS, municipal guarantee funds).

In the Federation of BiH (FBiH), SME development is covered by the FBiH Strategy of Economic Development and the document “Development of small and medium enterprises in the FBiH Project“ within the Strategy. The main objectives of the document are to strengthen the competitiveness of SMEs, to create jobs and to enable SMEs to become source of innovations in the future.

The SME sector priorities of Brcko District (BD) have been defined in its draft 2008 –2012 Development Strategy.

A significant number of plans and strategies relating to the SME sector have been prepared and/or approved at State and Entity levels in BiH. A full list of these documents and their current status is provided in Annex IV.

### **3. Description of project**

#### **3.1 Background and justification**

Numerous reports indicate that SMEs are operating in a complex environment. The main administrative and institutional burdens for SME policy coordination present inconsistent legal and institutional frameworks, a different pace of reforms, multi-level and uncoordinated support measures and different administrative procedures.

The 2010 Progress Report states that the framework for SME support is weak and that the SME sector itself in BiH is under-developed in comparison with neighbouring countries and particularly in relation to EU Member States. Consolidated efforts of all players at State, Entity and local levels to address strategic and economic priorities continue to be important as:

- BiH's economy is only slowly recovering from the impact of the world economic and financial crisis.
- despite some signs of recovery in 2010, reflected in an increase in the volume of industrial production and exports, BiH's economy remains exposed to the risks in international markets.
- major challenges remain – amongst others - the predominance of low value-added industries, weaknesses in workforce skills, and difficulties in attracting investment.

To enhance BiH's position towards achieving a single economic space, BiH authorities have become increasingly aware of the necessity for launching measures that will improve business environment at local level in a fully participatory manner. This process has been supported through the currently implemented IPA 2007 project for regional and local economic

development which facilitates partnership between the local stakeholders. Overall, the local economic development in BiH is still in an embryonic state.

The absence of a high level policy for inclusive and integrated local economic development with other key socio-economic policies, in addition to the complex governmental framework, resulted in insufficiently developed or coordinated practices relevant for support to entrepreneurship at local level.

However, over the last decade different local economic development actors emerged including regional and local development agencies, chambers, business associations and clusters. The majority of these local economic development actors require further strengthening and support to become sustainable.

Municipalities and local development agencies do much to contribute to the promotion of employment, innovation, education, and social inclusion. Most of BiH municipalities have their local economic development strategies (and/or local economic action plans) for the current period, often developed in cooperation and with the assistance of international donor organisations. However, the quality of these strategies is not standardised across the country and municipalities are lacking skilled and experienced staff for the preparation of quality local development projects. There is a central role to play not only in the support of those small businesses that operate in local markets, but also to facilitate improved performance of growing businesses striving to enter wider, international markets.

Although similar problems are encountered by most underdeveloped municipalities in BiH (lack of communal infrastructure, lack of access to capital markets, ageing or under-skilled population etc.), cooperation between local authorities is still patchy. Regional Development Agencies together with the RS SME Agency, Local Development agencies, the Association of Cities and Municipalities of FBiH and the Association of Local Authorities of RS provide one of the few environments fertilising development cooperation between municipalities.

The present project aims to provide direct assistance to local actors (Municipalities and local Development Agencies) in the implementation of projects designed to provide improved support, facilities and business infrastructure for small businesses and entrepreneurs. The programme will provide support for improved innovation and competitiveness in the SME sector. In addition, the project will assist in the development of partnerships between the local organisations and the financial institutions (banks, etc.) in the development of funds and financial instruments which will contribute to facilitating investment in SMEs.

### **3.2 Assessment of project impact, catalytic effect, and sustainability**

The project is aimed at accelerating the provision of support and facilities for SMEs, business development and entrepreneurs by working with the local actors (Municipalities and local development agencies). This will be achieved through the provision of direct support for the implementation of grant projects using local, national donor and private sector funds. The project impact will depend on the quality of project ideas developed by local stakeholders.

In many cases, projects have already been identified but could not be successfully realised due to a lack of financial resources of local capacities. The present project will improve the availability of good quality business support and advice, and particularly the market for business premises and other infrastructure for SMEs. This will facilitate business development and help to provide an improved environment for the development of the SME sector in general. The central role played by Municipalities and local development agencies in this project will ensure that sustainable capacities are created. Through building partnerships with

banks and other financial institutions, a foundation for continuing future investment will be created.

As local economic development activities impact on the economic viability of the surrounding region not just of the locality, Local Economic Development (LED) initiatives must be coordinated with economic initiatives and economic development actors operating at the regional and national level.

### **3.3 Results and measurable indicators**

Result 1: Improved business environment at the local level conducive to the growth and development of SMEs and entrepreneurship

*Measurable indicators:*

- At least 25 new business support services provided for SMEs and entrepreneurs;
- Increase of 5% in the availability of the total serviced land for industrial and commercial development;
- At least 40 new one-stop-shops and other relevant business support services established at the local level to facilitate business registration, regulation and licensing systems;
- At least 20 new measures introduced by local partnerships to reduce regulatory constraints and to make administrative tariffs more business and investor-friendly.

Result 2: SMEs benefit from improved local business support facilities contributing to increased business competitiveness, the adoption of innovations and upgrading the quality of products and services.

*Measurable indicators:*

- Increase of at least 5% in the total availability of new and refurbished industrial and commercial premises for SMEs and entrepreneurs;
- At least 50 SMEs benefit from the adoption of innovations and new technologies facilitated through local support centres and services;
- Competitiveness of at least 75 SMEs and entrepreneurs facilitated through services provided by local support facilities for product development, cluster formation, marketing and innovation;
- At least 50 SMEs benefit from the availability of a better qualified workforce resulting from the provision of skills training programmes, job placement and other direct employment measures;
- At least 200 SMEs benefit from the increased availability of funding provided through the introduction of new and improved financial instruments made available by local partnerships of municipalities and financial institutions (i.e. loan guarantee schemes);

Result 3: Adoption of enhanced standards in entrepreneurship to EU best practice levels, ensures that local communities benefit from improved quantity and quality of employment opportunities and training provision

*Measurable indicators:*

- Local communities benefit from the introduction of at least 25 tailor-made training programmes aimed at improving management and entrepreneurship abilities;
- At least 25 new, effective business support centres created in local communities;
- At least 500 employment and training opportunities created at local level;

- At least 30 new entrepreneurship development programmes developed to provide opportunities for young people, women and vulnerable groups;
- At least 10 new businesses and innovation support centres created by local partnerships to provide support for SME and entrepreneurship development.

### **3.4 Activities**

The present project will provide grants for the development of local partnerships to enhance support to SMEs and entrepreneurs. The implementation modality will be through the mobilization of a Call for Proposals in accordance with PRAG section 6.3.1.2. Eligibility and selection/award criteria will be established in accordance with PRAG section 6.4.3.

Due to the nature of the Call for Proposal, it is not possible to specify further specific activities at this time.

Eligible actions will be further defined in the guidelines for the Call for Proposals. The grant proposals themselves are then envisaged to include activities and:

- Create and develop business and innovation support centres and related services, and training opportunities at the local level to facilitate improved SME competitiveness and entrepreneurship;
- Implement measures by local partnerships to improve the availability of serviced land for industrial and commercial development, and the provision of new and refurbished industrial and commercial use.
- Implement measures to improve the level of investment funding available to SMEs through the introduction of new financial instruments by local partnerships of municipalities and financial institutions.
- Adopt measures to improve the local business environment in line with the criteria set out in the Small Business Act.
- Implement measures to improve SME competitiveness through the adoption of innovation and new technologies, product and process development, marketing, and research and development.

### **3.5 Conditionality and sequencing**

In general, the successful deployment of the above activities is conditional on continued support by the stakeholders to the functionality of the sector related structures at local level and to the local economic development, including their full support for the envisaged institutional arrangements for economic reforms.

In specific, given the nature of the proposed assistance programme, conditionality or sequencing does not apply for this project.

### **3.6 Linked activities**

A range of current and past donor funded projects – EU and bilateral donors - have provided assistance for SME development and capacity building of the Municipalities.

The EU support for Regional Economic Development in Bosnia and Herzegovina, (EURED) operated under the CARDS Programme. Since 2003, technical assistance has helped to establish and strengthen five regional development agencies and assisted them in the

preparation of regional economic development strategies. The wider objectives of the programme were to contribute to sustainable development and preparation for EU integration. The immediate objectives were to support economic regeneration of BiH and to strengthen capacity of institutions to procure and manage public funds.

***Training and Consultancy (EUTAC) Project (CARDS 2005)*** supported development agencies in BiH in activities for increasing the competitiveness of the SME sector. It also contributed to EU integration in accordance with the European Charter for Small Enterprises as well as economic development plans.

***EU VET programme (CARDS)*** provided support to BiH's vocational training system reform. The VET system is essential as a means of providing the qualified and skilled staff that are critical in order to ensure local SME competitiveness within the export markets.

***EU support to institutional capacity building for regional and local economic and SME development in BiH (IPA 2007)*** - Ongoing EU project which aims at introducing the new regional and local development and SME initiatives that build upon activities undertaken in previous EC assistance by supporting the economic development and SME training and consultancy.

***SME policy development support (IPA 2007)*** – Ongoing technical assistance which supports development of BiH authorities in SME policy development and in the implementation of the EU Charter/SBA for SMEs.

***SME entrepreneurship learning (IPA 2007)*** - has the objective of developing a curriculum within the primary and secondary educational sectors to encourage development of an entrepreneurial culture with positive impact on SME development.

***Support the Development and Integration of the Higher Education System in BiH.*** - The relevance of this EU assistance should be taken in context of the role that universities play in supporting SMEs education and the development of Science and Technology Parks.

***Support to export development and promotion in BiH (IPA 2007)*** - Ongoing technical assistance aimed to support development of an export promotion strategy and implementation of measures with selected export oriented enterprises.

***Support to economic development in BiH (IPA 2008)*** – A grant scheme for support to SMEs within BiH competitive sectors (tourism, dairy, wood procession, metal industry and agri-food processing) and capacity building in tourism sector.

***Co-financing support to implementation of the Regional Development Agencies (RDA's) business plans for 2009-2011 (IPA 2008)*** - A follow up assistance to initially implemented EURED project supporting the five Regional Development Agencies to implement their operational programmes.

***EU contribution agreement with EBRD to support SME's for implementation of TAM/BAS project (IPA 2009)*** - TAM and BAS Projects are complementary schemes aimed at assisting enterprises adapt to the free market economy through the innovative management schemes and provision of advisory services.

***EU support to introduction of Quality Management Systems (QMS) (IPA 2009)*** – The purpose of this project will be to support SMEs to introduce Quality Management Systems in accordance with International Quality Standards series ISO 9000.

**USAID-SIDA:** Within its FIRMA project, the support is provided for developing the services for SMEs to improve their competitiveness in the local, regional and international markets. An overall aim of this project is to improve BiH's capacity to cope with competitive pressure



and market forces in accordance with the Copenhagen criteria. The project works with three sectors of the BiH economy: wood processing, tourism and light manufacturing which account for 40% of BiH export.

**World Bank:** Past support was provided to development of the Export Credit Agency for BiH (IGA) which provides various types of SMEs facilities, such as factoring, ex-credit insurance and guarantees/bonds. The sectors supported are mainly the metal industry, furniture/wood and food.

**The bilateral donors** in BiH include Germany, Sweden, Netherlands, Italy, Switzerland, Japan, Canada, The United Kingdom and Norway. Important projects for stimulating the SME competitiveness include:

**German Development Cooperation** programme administered by the KfW Group-concentrates on providing a range of financial services for SMEs and guarantee funds.

**German Technical Cooperation (GTZ)** has launched a six-year project to modernise curricula and improve students' practical skills in vocational and technical education and is very active within the development of a comprehensive support for SME development and competitiveness within BiH.

The aim of the current project is to build on the activities undertaken by the above projects but to focus more specifically on the implementation process and to achieve tangible results

### **3.7 Lessons learned**

Within the context of a wide range of donor-funded and other projects to support the development of the SME sector, it has been recognised that many actions are most effectively implemented at the local level through Municipalities and associated local development organisations. However, these organisations often lack appropriate support and capacities, as well as finance, to implement projects and programmes. If tangible results are to be achieved, effective, direct support needs to be provided at this level.

#### 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		X	3 530 000	3 000 000	85						530 000	15
Contract 1 Grants (Call for Proposal)	-	-	3 530 000	3 000 000							530 000	15
TOTAL IB												
TOTAL INV			3 530 000	3 000 000	85						530 000	15
<b>TOTAL PROJECT</b>			<b>3 530 000</b>	<b>3 000 000</b>	<b>85</b>						530 000	15

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))
- (3) The Number of contracts under Activity 1 will depend on the successful applications from the Call for Proposals

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

Contracts	Start Tendering	of Signature contract	of Project Completion
Contract 1 (Grants through CFP)	Q3/2012	Q2/2013	Q2/2016

## **6. Cross cutting issues**

### **6.1 Equal Opportunity**

The project is not specifically aimed at achieving equal opportunity objectives. However, it is recognised that within the context of the assistance to be provided, special attention will be given to ensuring that women and young entrepreneurs are recipients of the training and other support provided.

### **6.2 Environment**

The project is not specifically aimed at meeting specific environmental criteria. However, within the context of the assistance to be provided, special attention will be given to the environmental impact of the form of business infrastructure provided and the nature of the processes employed by the enterprises supported.

### **6.3 Minorities**

The project is not specifically aimed at providing support for specified minority groups. However, it is recognised that within the context of the assistance to be provided, special attention will be given to ensuring that the needs of minority groups are addressed.

**ANNEX I: Logical framework matrix**

LOGFRAME PLANNING MATRIX		<b>IPA National Programme 2011 – Bosnia and Herzegovina</b>		
		<b>Fiche 5 " Local Economic Development"</b>		
		Contracting period expires: Three years following the date of the conclusion of the Financing Agreement		Disbursement period expires: One year following the end date for the execution of contracts
CRIS Number:		Total budget : EUR 3 530 000	IPA budget: EUR 3 000 000	
<b>Overall objective</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>		
To stimulate economic growth and employment generation	Increased business activities in targeted sectors  New jobs created and current jobs sustained in targeted interventions	BiH Annual Charter reports; European Commission Progress Report on Bosnia and Herzegovina, Government reports; surveys and statistical information/reports, Project reports		
<b>Project purpose</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>	
To facilitate the implementation of local economic development measures through local partnerships.	Increased number of projects identified through local development strategies are implemented  Economic activities within selected areas of intervention have improved	BiH Annual Charter reports; European Commission Progress Report on Bosnia and Herzegovina; surveys and statistical information/reports, Annual and periodic project reports	Macro-economic and political stability  Successful completion of SAA negotiations  Continued commitment to the reform process and support aimed at stimulation SME and LED development	
<b>Results</b>	<b>Objectively verifiable indicators</b>	<b>Sources of Verification</b>	<b>Assumptions</b>	

<p>1.Improved business environment at the local level conducive to the growth and development of SMEs and entrepreneurship</p>	<p>1.1 At least 25 new business support services provided for the support of SMEs and entrepreneurs;  1.2 Increase of 5% in the availability of the total serviced land for industrial and commercial development;  1.3 At least 40 new one-stop-shops and other relevant business support services established at the local level to facilitate business registration, regulation and licensing systems;  1.4 At least 20 new measures introduced by local partnerships to reduce regulatory constraints and to make administrative tariffs more business and investor-friendly.</p>	<p>BiH Annual Charter reports; European Commission Progress Report on Bosnia and Herzegovina; Government reports; project progress and financial reports; monitoring reports; other reports and statistical information.</p>	<p>Maintenance of the political stability and continued commitment towards EU Accession and implementation of the EU Charter for SMEs</p> <p>Government authorities and other stakeholders willingness to support SME and LED</p>
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<p>2. SMEs benefit from improved local business support facilities contributing to increased business competitiveness, the adoption of innovations and upgrading the quality of products and services.</p>	<p>2.1 Increase of at least 5% in the total availability of new and refurbished industrial and commercial premises for SMEs and entrepreneurs;  2.2 At least 50 SMEs benefit from the adoption of innovations and new technologies facilitated through local support centres and services;  2.3 Competitiveness of at least 75 SMEs and entrepreneurs facilitated through services provided by local support facilities for product development, cluster formation, marketing and innovation;  2.4 At least 50 SMEs benefit from the availability of a better qualified workforce resulting from the provision of skills training programmes, job placement and other direct employment measures;  2.5 At least 200 SMEs benefit from the increased availability of funding provided through the introduction of new and improved financial instruments made available by local partnerships of municipalities and financial institutions (i.e. loan guarantee schemes);</p>		
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<p>3. Adoption of enhanced standards in entrepreneurship to EU best practice levels, ensures that local communities benefit from improved quantity and quality of employment opportunities and training provision</p>	<p>3.1 Local communities benefit from the introduction of at least 25 tailor-made training programmes aimed at improving management and entrepreneurship abilities;  3.2 At least 25 new, effective business support centres created in local communities;  3.3 At least 500 employment and training opportunities created at local level;  3.4 At least 30 new entrepreneurship development programmes developed to provide opportunities for young people, women and vulnerable groups;  3.5 At least 10 new businesses and innovation support centres created by local partnerships to provide support for SME and entrepreneurship development.</p>		
<p><b>Activities</b></p>	<p><b>Means</b></p>	<p><b>Costs</b></p>	<p><b>Assumptions</b></p>
<p>The project will provide <u>grants</u> for the development of local partnerships to enhance support to SMEs and entrepreneurs. Due to the nature of the <u>Call for Proposal</u>, it is not possible to specify further specific activities at this time.</p> <p>Eligible actions will be further defined in the guidelines of Call for Proposal. The grant proposals themselves are then envisaged to include activities and:</p> <p>-create and develop business and innovation support centres and related services, and training opportunities at the local level to</p>	<p>Grants, through Call for Proposals</p> <p>The implementation modality will be through the mobilization of a Call for Proposals in accordance with PRAG section 6.3.1.2. Eligibility and selection/award criteria will be established in accordance with PRAG section 6.4.3.</p>	<p>Total cost EUR 3 530 000</p> <p>EU Contribution EUR 3 000 000</p>	<p>Quality project ideas developed by local stakeholders</p>

<p>facilitate improved SME competitiveness and entrepreneurship;</p> <p>-implement measures by local partnerships to improve the availability of serviced land for industrial and commercial development, and the provision of new and refurbished industrial and commercial use.</p> <p>-implement measures to improve the level of investment funding available to SMEs through the introduction of new financial instruments by local partnerships of municipalities and financial institutions.</p> <p>-adopt measures to improve the local business environment in line with the criteria set out in the Small Business Act.</p> <p>-implement measures to improve SME competitiveness through the adoption of innovation and new technologies, product and process development, marketing, and research and development.</p>			
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**ANNEX II: Amounts (in EUR) Contracted and disbursed by quarter for the project**

<b>Contracted</b>	<b>Q2/2013</b>	<b>Q3/2013</b>	<b>Q4/2013</b>	<b>Q1/2014</b>	<b>Q2/2014</b>	<b>Q3/2014</b>	<b>Q4/2014</b>	<b>Q1/2015</b>	<b>Q2/2015</b>	<b>Q3/2015</b>	<b>Q4/2015</b>	<b>Q1/2016</b>	<b>Q2/2016</b>
Contract 1	3 000 000												
<b>Cumulated</b>	3 000 000												
<b>Disbursed</b>													
Contract 1	1 200 000						1 500 000						300 000
<b>Cumulated</b>	1 200 000						2 700 000						3 000 000

### **ANNEX III Description of Institutional Framework**

The state level institutional structure is presented by the Ministry of Foreign Trade and Economic Relations (MoFTER) which is responsible for the coordination and development of policies in the economic areas. In cooperation with the entities, its Sector for Development and Entrepreneurship<sup>2</sup> has also a responsibility for improving the business environment for SMEs. Council of Ministers (CoM) adopted the decision on appointment of the members of BiH Forum for Promotion and Development of Entrepreneurship in February 2011. The Forum will act as an advisory body to the CoM when passing decisions, measures, programs and other acts significant for the promotion and development of entrepreneurship. Its establishment is currently ongoing.

The competent entity level authorities for local economic and SME development include:

#### **Federation of BiH:**

- Ministry of Development, Entrepreneurship and Crafts of FBiH
- Ministry of Environment and Tourism of FBiH
- Municipalities and towns of FBiH
- Local Development Agencies in FBiH

#### **Republika Srpska:**

- Ministry of Industry, Energy and Mining of RS
- Ministry of Administration and Local Self-Governance of RS
- Ministry of Economic Relations and Regional Cooperation of RS
- Ministry of Tourism and Trade of RS
- Republic Agency for SME development
- Municipalities and towns of Republika Srpska
- 18 Local development agencies in Republika Srpska

Brcko District of BiH has a centralized SME support capacities, through Department of Economic Development, Sport and Culture (equivalent to national and sub-national level Ministries) and its Sub-department for Economic Development. Brcko District of BiH had a Brcko District Development Agency (RABD) that ceased to exist and currently has no other local nor regional development agencies active in Brcko District of BiH.

There are also Regional Development Agencies which support the economic development in Bosnia and Herzegovina: the North West Region (RDA), the North East region (NERDA), the Sarajevo region (SERDA), the Herzegovina region (REDAH) and the Central Region (REZ) as well as other business support centres and other actors operating at the local level.

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<sup>2</sup> Sector for Development and Entrepreneurship is comprised of the following four departments: Department for entrepreneurship, Department for technical regulation, Department for assessment of compliance and Department for consumers' issues and competition.

#### **IV Reference to laws, regulations and strategic documents**

The legal framework for implementation of the BiH Strategy for SME Development has not yet been finalised after failed adoption of BiH Law on promotion of SMEs and entrepreneurship by the BiH Parliament in June 2010. While some initiatives have been taken at the entity level to support SMEs, including amendments to the entity laws, the existing entity level legislation remains partially harmonised with the *acquis*. The Entities have adopted legislation on establishing guarantee funds, support to clusters, technological business parks, traditional crafts and support to public private partnership. They have also provided various incentives to entrepreneurship, such as support to infrastructure, establishing business zones and introduction of the quality schemes in SMEs (ISO standards). Furthermore, the entities have introduced various export promotion measures to alleviate effects of economic and financial crisis on the sensitive industries, such as metal industry, wood processing and textile industry. Nevertheless, lack of harmonised support measures is preventing the synergies at national level and SMEs continue to operate under the different conditions across the country.

##### **State level Strategies**

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

##### **Federation of Bosnia and Herzegovina**

- Draft FBiH Economic Development Strategy
- Draft Strategy on Development of small and medium enterprises in the FBH
- Draft Development of industrial policy in the FBH" Project
- 2007-2010 Crafts Development Program in FBiH, adopted in 2007
- Draft Tourism Development Strategy of FBH
- Strategy for Development and Strengthening of Industrial Export Competitiveness in FBiH under CEFTA

##### **Republika Srpska:**

- Law on Promotion of SME development
- Law on local self-governance
- Draft 2011 - 2013 Strategy for Development of Small and Medium Enterprises and Entrepreneurship in RS
- 2009-2013 Action Plan of Support to the Establishment and Development of Business Zones in the RS, adopted in 2009
- 2009 – 2013 Sector Strategy for Industrial Development of the RS, adopted in 2009
- 2009-2015 Strategy for local self-governance development in the RS
- 2011-2015 Strategy training for the local governments employees
- Trade Development Strategy of RS by 2015
- 2009-2012 The strategy for encouraging of export in the RS, adopted in 2009
- Draft 2009-2012 Strategy for Encouraging and Developing of Foreign Investment in the RS, 2012
- Draft 2010 – 2020 Tourism Development Strategy of the RS

##### **Brcko District of BiH:**

- Development Strategy of Brcko District of BiH 2008 – 2017
- Law on Private – Public Partnership
- Law on Economic Development

## **V Details per EU funded contract**

Call for proposal for issuance of grants to support SME and local economic development:

The implementation modality for the stated results would be mobilization of the Call for proposals in accordance with PRAG section 6.3.1.2. The size of grants to be awarded under this programme would fall between the following minimum and maximum amounts:

- Minimum grant contribution per action: EUR 350 000
- Maximum grant contribution per action: EUR 500 000

whereas a grant would not be for less than 50 % of the total eligible costs of the action and would not exceed 85% eligible costs of the action. Eligibility and selection/award criteria will be established in accordance with PRAG section 6.4.3.