

IPA National Programme 2008 Part II – Bosnia and Herzegovina

Fiche 7: Economic and Tourism Development

1. Basic information

1.1 CRIS Number: 2008/20-339

1.2 Title: Support to Economic and Tourism Development and other selected economic sectors in BiH

1.3 ELARG Statistical code: 02.20 – Economic criteria/ Enterprise and Industrial Policy

1.4 Location: Bosnia and Herzegovina

Implementing arrangements:

1.5 Contracting Authority: European Commission

1.6 Implementing Agency: European Commission

1.7 Beneficiary:

Ministry of Foreign Trade and Economic Relations BiH – Sector for water and tourism represented by Mr. Hamza Ajanovic, Advisor and Sector for Economic development and Entrepreneurship, represented by Mr. Ivica Miodrag, Head of Unit

FBiH Ministry of Environment and Tourism FBiH

Ministry of Trade and Tourism RS

Brčko District (BD)

Working Group for the Coordination of Tourism Activities BiH

Small and Medium Enterprises

Five Regional Development Agencies, NERDA, SERDA, REDAH, REZ, ARDA

Financing:

1.8 Overall cost (VAT excluded): EUR 9,903,800

1.9 EU contribution: EUR 7,000,000

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

2. Overall Objective and Project Purpose

2.1 Overall Objective

The overall objective is to generate economic growth and employment through targeted assistance to competitive economic sectors in BiH thereby contributing to sustainable economic development.

2.2 Project purpose

The purpose of this project will be to:

1. Increased capacities of the five Regional Development Agencies to support SMEs and municipalities;
2. Capabilities of the BiH tourism support structures at the state, entity and Brcko District levels strengthened to address the challenges faced by a growing tourism industry.
3. Identified competitive sectors in BiH supported to address obstacles in the sector supply-chain and the tourism sector reinforced for competitive tourism product development.

2.3 Link with AP/NPAA / EP/ SAA

European Partnership

A short-term priority of the European Partnership for Bosnia and Herzegovina is the adoption of a State-level SME strategy, medium-term priority is the implementation of the SME Charter. With particular emphasis on the development of the tourism sector the proposed assistance framework is structured with due reference to the provisions of the *European Strategy to Support the Development of Sustainable Tourism* (October 1998) and the new policy framework for tourism entitled *A Renewed EU Tourism Policy: Towards a stronger partnership for European tourism* (issued by the Commission in March 2006).

SAA

Article 94 of the Draft Text of SAA with BiH stipulates "*cooperation between parties shall be aimed at developing and strengthening private sector small and medium sized enterprises (SMEs) and will take due account of priority areas related to the Community acquis in the field of SMEs, as well as guidelines enshrined in the European Charter for Small Enterprises.*"

Article 111 of Draft Text of SAA with BiH stipulates "*the parties will seek to strengthen regional and local development cooperation, with the objective of contributing to economic development and reducing regional imbalances. Specific attention will be given to cross-border, trans-national and interregional cooperation. Cooperation will take due account of the priorities of the Community acquis in the field of regional development.*"

Article 94 of the Draft Text of SAA with BiH stipulates "*Co-operation between the Parties in the field of tourism shall be mainly aimed at strengthening the flow of information on tourism (through international networks, databanks, etc.), strengthening cooperation between tourism enterprises, experts and governments and their competent agencies in the field of tourism, and transferring know-how (through training, exchanges, seminars). Co-operation shall take due account of Community acquis related to this sector. Co-operation may be integrated into a regional framework of co-operation.*"

The assistance proposed under this activity will support the ten development areas of the European Charter for Small Enterprises in 2003. BiH has committed itself to the implementation of the Charter.

2.4 Link with MIPD

The EU Support to SME Development including regional and development of the tourism sector in BiH is fully consistent with MIPD Socio – Economic requirements and European Standards area of intervention.

2.5 Link with National Development Plan

The government of BiH has recognised the importance for BiH to implement a number of key structural reforms in order to address the challenge of poverty alleviation, particularly unemployment and creating the basis for sustainable development. This is reflected in the Poverty Reduction Strategy Paper (PRSP). This medium-term Development Strategy (PRSP) of BiH identifies enhancing the business environment and supporting entrepreneurship including stimulating regional economic development as its priorities in the medium-term. A number of industries, tourism among them, were identified as one of the branches of industry that should be considered as strategic and priority development sectors.

2.6 Link with national/ sectoral investment plans

A state-level working group with representatives from the Entities, chaired by the Ministry for Foreign Trade and Economic Relations is mandated with completing a state-level SME strategy. The working group is committed to completing the strategy within 2008.

The Republika of Srpska (RS) has developed their own strategy and the Federation of Bosnia and Herzegovina (FBiH) shall complete a strategy by the end of 2008. Regional strategies were developed for each of the five economic regions and were adopted by their respective municipal members.

Furthermore, since tourism in BiH falls under the jurisdiction of the two entities as per the constitutional framework, MOFTER, who is also responsible for the development of natural resources including environmental protection, has taken the lead in establishing a working group for the Coordination of Tourism Activities in BiH with membership drawn from the FBiH, Republika Srpska, Brcko District and the MoFTER. This working group is attempting to address the need for a national tourism policy and strategy, a state tourism law and the harmonization of relevant laws and regulations with EU tourism-related directives, recommendations and other measures.

3. Description of project

3.1 Background and justification:

In the transformation and reconstruction of the BIH economy, small and medium enterprises are considered to be drivers of economic growth. They are instrumental as an impetus to increasing employment, decreasing social tensions and furthering economic and social integration into the European Union. Discouragingly, the number of SMEs in BiH per capita

remains low in comparison with Central European countries as well as the region. The lack of a State-level government policy to support SME's, particularly those in growing and potentially competitive sectors, has contributed to BiH remaining one of the poorest countries in the region with a GDP per capita at only 26% of the EU average, outranking only Albania among the regional countries. The multitude of obstacles to the growth of businesses in BiH was also confirmed in the 2007 Global Competitiveness Report¹, where BiH's ranking fell to 106 a reflection of the deteriorating situation in the competitiveness of the economy. There is concern that with the forthcoming signing of the Stabilisation and Association Agreement and the recent adoption of the CEFTA, BiH companies will not be prepared to take advantage of these trade agreements, thereby raising the concern that the BiH economy will fall further behind in the short-term.

If BiH companies are to take full advantage of this trade agreement, SMEs in BiH will need support to meet the challenges and demands of sophisticated EU markets. In 2008, an assessment² was completed that analysed nine economic sectors in BiH. These sectors were chosen as their production and revenues were increasing consistently in the past few years. The sectors were analysed to determine which sectors include a large number of SMEs and had the potential to create and sustain jobs. Based on the findings from the first analysis the following sectors were chosen in order to complete a supply chain³ analysis: construction wood, furniture, fresh and processed fruit and vegetables including organic production, medicinal and aromatic herbs, dairy products, fabricated metal products. The supply-chain analysis identified the obstacles within each supply chain that impeded the further growth of each sector. Examples of where the supply-chains were assessed included: ability to design products for which there is a customer demand, ability to produce quality products, access to new technology, availability of research institutions to support new product development; availability of market information on buyers and prices, ability to obtain product certification; availability of inputs in the domestic market; access to affordable and suitable financing; appropriate management and marketing skills, and adequate supply of skilled labour.

The results of the assessment showed that there is very little collaboration among firms to jointly address the sector problems. Furthermore, most of the identified problems within the sectors are problems which affect an entire economic region and thereby the economic activities within each respective region. In order to address these problems a joint effort is required involving both the private and public sectors to offer solutions to increase economic activity within regions and most importantly create and sustain jobs.

On the positive side, the period since 2002 saw the initiation of regional economic development in BiH. Its purpose is to achieve an economic balance between and within the five identified economic planning regions of BiH. The regional development process is in effect preparing BiH to be eligible for financial support from the EU regional pre-structural and structural funds. The regional development process was founded on voluntary participation and consent of municipalities in the five economic regions, resulting in the establishment of 5 Regional Development Agencies, the elaboration of 5 Regional Economic

¹ Global Competitiveness Report – issued by the World Economic Forum. The Global Competitiveness Report identifies impediments to growth and thereby helps stimulate the development of relevant strategies to achieve sustained economic progress. The Global Competitiveness Report is the most comprehensive and authoritative assessment of the comparative strengths and weaknesses of national economies. It was first published in 1979 and its coverage has expanded each year since, now extending to 131 major and emerging economies.

² EU Value-chain analysis: EC Framework Contract Value-Chain analysis

³ Value-chain: A value chain is a string of companies or collaborating players who work together to satisfy market demands for specific products or services.

Strategies. The financing of a limited number of projects has taken place to improve the competitiveness of the regions by means of grants that financed business support infrastructure and tourism development. The EURED Fund facility was established in 2003 to provide co-financing grants for Regional Economic Development projects proposed and implemented by local partners. The Fund is managed by the EC Delegation to BiH. Since its establishment a total of five Calls for Proposals have been successfully launched and contracted, resulting in over EUR 10million in grants being awarded to BiH organisations supporting SMEs.

The RDAs initiated the process to create partnerships within each region that include cantonal and local administrations, private sector, non-government sector and civil society. This partnership group participated in the development of the regional strategies and supported their subsequent implementation. Experience to date has indicated that the partnership groups as a collective have the best knowledge about the real needs of their respective regions. The RDAs now lead and drive this partnership process in the updating of the regional strategies and leveraging financial resources to support economic development. The RDAs aim to co-ordinate regional economic development and regeneration, enable the regions to improve their competitiveness and reduce the imbalance within and between regions.

The RDAs' unique position in the regional development process allows them to interface with the Ministry of Foreign Trade and Economic Relations, Entity governments and SMEs, to facilitate the effective co-ordination of SME services at regional level and the transfer of best practice. Furthermore, the RDAs have the opportunity to expand their current monitoring role to monitor and evaluate economic sectors within their regions and to report on the bottlenecks to growth within each sector as well as the effectiveness of government and donor interventions. This information would be vital to policy-makers, who now complete policy-development in a vacuum.

The RDAs are also prepared to expand the services they offer SMEs as well as expand the number of SMEs they are working with – to reach out to the remote and micro SMEs. This can be handled through the increased provision of consultancy services. These micro and remote SMEs fail to engage consultancy services, there is a common perception amongst SMEs that the services of consultants are not for them and that consultants often fail to supply solutions and remedies to the challenges and problems the SME faces. A mechanism is required that would allow this *lack of faith* to be addressed, and is instrumental in growing the market for consultancy services beyond the delivery of basic services. Support will be provided under IPA 2007 through a technical assistance project to support the RDAs to develop a regional voucher system for consultants, thereby allowing SMEs to access consultants at a considerable lower fee than the market rate. This technical assistance project will also develop the capacities of the RDAs to conduct audit methodologies in order to ascertain the challenges of individual SMEs – and thereby provide concrete solutions. This would be an additional service offered by the RDAs.

The RDAs also offer specialised support to municipalities and provide training to SMEs on applying for EU funding. Given, the increasing opportunities to access EU funding, through IPA Cross Border Cooperation and Community Programs, municipalities are desperately seeking further support and training from the RDAs.

All RDAs are receiving financial support from their member municipalities and cantons which ranges from 20 to 80% of their total expenses. Certain municipalities are still facing difficulties in paying their membership fees due to their own low budgetary revenues. The RDAs receive no funding from higher-levels of government, as there has been no progress on regional policy development. However, with the recent initialling of the SAA, government

authorities are realising that if BiH is to access IPA Component III funds, they must start working on formalising and developing the structures for regional funds. The EC Delegation is providing support to the State-level SME working group chaired by MOFTER and including Entity-level representatives, the mandate of the working group is to develop a state-level SME strategy and law in 2008 but also to work on institutionalising the Economic Regional Areas. Therefore, until the issue of BiH regions is resolved through government policy or legislation, the RDAs still require EU funding.

The RDAs are the only agencies at the respective regional level providing services to their constituents, developing regional strategies, working on regional project identification and preparation all of which is necessary to be in place for pre-structural and structural funds and thereby their activities are directed towards achieving general European interest. They are the only agencies conducting such activities within their respective regions and therefore their unique position justifies their *de facto* monopoly in accordance with Article 168(c) of the Implementing Regulation to the Financial Regulation. As stated above the alternative funding sources are still insufficient to enable the RDAs to fund the costs necessary to undertake their activities. The total amount foreseen to be provided to the five RDAs is EUR 1,250,000 and will be proportionally less than previous grants provided. The Community funding will be 36% of the total eligible expenditures and needs to be concluded in the last quarter of 2008 and the first quarter of 2009.

In reference to the tourism component, the existing and potential future role of tourism in the BiH economy is greatly under-estimated. The available statistical information is generally believed to represent only about one-third of the true number of tourist arrivals, overnight stays and turnover in the industry, with the bulk of the activity going unreported.

While the policy of the two entity governments towards tourism is both progressive and cooperative, the operations of the industry are hampered by the country's multiple layers of administration and legislation, and the lack of state level coordination.

A Mapping Report⁴ completed in December 2007 to assess the bottlenecks in the development of the tourism sector in BiH, identified the following as the main weaknesses of the sector:

- lack of a coordinated national tourism policy and strategy;
- poor and/or non-functioning institutional relationships;
- a fragmented regulatory framework and approach to tourism development and control;
- an inconsistent approach to classification and grading of tourism operations, particularly accommodation establishments;
- a relatively narrow product base with comparatively few drivers of demand;
- inadequate promotion and levels of investment in the tourism product; and
- lack of an overall marketing and promotion strategy for BiH as a whole.

In addition, the report highlighted the shortfalls in the existing legal framework for tourism and the need to harmonize existing legislation with EU tourism-related rules and regulations.

To-date, the EU has not provided any assistance related to institutional capacity building and strengthening in the tourism sector as the main interventions have been made through co-financing grants under the EURED facility fund for regional projects proposed and

⁴ Assistance to the EC Delegation to BiH in Assessment and Design of Assistance to the Tourism Sector in BiH (December 2007)

implemented by local partners. The latter has included 19 tourism development projects (costing upwards of EUR3 million in total) aimed at developing and improving the sector's product offer, competitiveness, human resources, and creating employment.

A recent assessment⁵ of those projects (which were largely implemented via local NGOs and/or tourist associations) points to the need for a parallel approach aimed at institutional strengthening and capacity building for tourism at both state and entity levels, including the development of a coordinated national tourism development strategy, backed up by with appropriate legislation, in support of efforts by the EC to build an economically and environmentally sustainable BiH tourism industry.

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

The proposed intervention will build on previous and associated assistance programmes, including support provided under the EU RED Fund, support for the Regional Development Agencies, technical assistance for regional development and support to government policy-makers. This project will directly support activities that will address the obstacles identified in the supply chains, including support to provide solutions to increase BiH's tourism potential. The catalytic effect will be felt by private and public actors resulting in increased jobs and revenues for these entities. As the obstacles identified within the above priority intervention areas were identified by mentioned actors as impediments to their growth, the solutions provided through the targeted assistance will be to directly resolve these private and public sector identified problems, thereby contributing to their sustainability. The supply-chains including the tourism sector will be monitored by the RDAs and assessed to determine whether the interventions were successful. These monitoring reports will be provided to higher-level government authorities as a tool for policy development in support of the competitive sectors.

Furthermore, this activity will for the first time provide BiH tourism related structures with institutional and capacity building mechanisms to commence with consolidation of the national policy and legislation and to build the foundations for a comprehensive and coordinated approach to the development of the sector.

It will also continue to support the regional development agencies to ensure that BiH has proposed functions in place once BiH becomes eligible for components III of IPA and thereafter the structural funds. These activities will further support local actors, which will be better prepared for regional cooperation (cross border) to allow for access to economies of scale. Furthermore, the five economic regions were accepted as NUTS III equivalent for the purposes of IPA CBC programmes.

3.3 Results and measurable indicators

Result 1 -- Increased capability amongst RDAs to support municipalities, to implement SME support services and to monitor and evaluate economic sectors (value-chains); *Measurable Indicators: Increased number of projects implemented as identified under the regional strategies with EU and other funds; a greater number of SMEs are receiving consultancy advise through RDAs – including micro and remote SMEs; monitoring and evaluation reports completed by RDAs on economic (supply-chains);*

⁵ Assessment of EURED Tourism Initiatives in BiH (September 2007)

Result 2 *BiH has strengthened tourism institutions for preparation and development of a coordinated national tourism policy and strategy. Measurable Indicators: Entity strategies incorporated into a common and coordinated tourism strategy adopted by the Working Group; tourism working group is formalised and functioning, draft legislation prepared defining functions, powers and source of funding for a National Tourism Body, National Tourism Industry Forum established.*

Result 3 *–Competitive sectors within regions have increased economic activities and competitive tourism products implemented. Measurable Indicators: increased jobs, increased revenues and production within competitive economic sectors. Increased number of SMEs participating in competitive sectors. Decreased bottlenecks within supply-chains (competitive economic sectors). Designated safe areas established;. Increased linkages between key players (businesses, NGOs and local governments) for promotion of tourism product; Increased cultural, historical and natural heritage tourism products offered..*

3.4 Activities

Activity 1 – Direct support to the Regional Development Agencies to increase the RDAs' capacity to manage resources, to increase their support to municipalities and SMEs and to develop their capacity to complete monitoring and evaluation reporting of economic sectors (supply-chains):

The EC Delegation supported the establishment of the RDAs through the provision of direct grant support for their activities. Technical assistance was also provided through a separate contract to build the capacity of the RDA staff and management. Currently, the RDAs are receiving funding from different sources, including their member municipalities, however, as there still is no regional policy, the RDAs do not receive any state-level funding and therefore must rely on predominately EC funds. The EC Delegation's current grants with the RDAs are for a two-year period, and the level of EC funding compared to the total expenses varies between 20 and 80%. These grants will end in December 2008/January 2009.

This activity is intended to continue to support the Regional Development Agencies. The implementation modality for stated result 1 will be through a direct grant provided to the five regional agencies to partially support their action and business plans. Article 6.3.2 of the PRAG regulations allows for a Direct Award to be given to the five Regional Development Agencies. The direct grants will be for a smaller percentage of the entire amounts than previous EC grants provided to the RDAs. The grant support will be to increase the RDA's ability to manage resources and to absorb EU and donor funds, to monitor the impact of regional development and to increase their ability to support municipalities.

The grant support will also be provided to develop the RDAs' capacity to monitor and evaluate economic supply-chains within each of their regions. As such the RDAs' monitoring role will expand from monitoring individual EU grant projects to include the monitoring of an entire supply chain to determine whether projects implemented under Activity 3 have an impact on improving a supply-chain. The monitoring and evaluation reports will be provided to higher-levels of government for policy development purposes. This information should be provided to policy-makers in regular intervals to serve as a tool in updating the State and regional SME strategies and for the development of other policy papers.

Financing for the five Regional Development Agencies will be provided in the form of grants through the contracting mechanism of a direct award. Title VI of the Financial Regulation (FR) and Title VI of the Implementing Regulations (IR) allow for this. The direct grant awards will be made to five RDAs: Sarajevo Economic Region Development Agency

SERDA, Regional Economic Development Association of Herzegovina – REDAH, North East Regional Development Agency – NERDA, Regionalna Ekonomska Zajednica - REZ d.o.o/Regional Development Agency for Central BiH Region (REZ), Accredited Regional Development Agency of NW BiH (ARDA NW).

Activity 2: Institutional capacity building of State and Entity tourism institutions for development and implementation of a coordinated tourism policy and strategy:

This activity will be implemented through a Technical Assistance project comprising two main components as follows:

1) Strategy development: There is no overall strategy at state or entity levels to guide the development of tourism in BiH, which is seen by stakeholders as the main limiting factor holding back tourism development. Through the Working Group, both the entities and the state Ministry have recognized the need to ensure that the Entity strategies, which are currently being developed, be developed in a harmonised and coordinated manner. Depending on how far advanced they are, the project will incorporate relevant aspects of the entities' tourism strategies into a common and coordinated tourism policy and strategy for BiH as a whole. The state-level strategy should also address the following components:

Planning: the existing tourism planning framework, both at state and entity levels, will be reviewed with a view to creating an agreed framework to elaborate the best planning practices in ensuring controlled and orderly development of tourism enterprises and projects and enhancing existing tourism attractions and service provisions focused in prioritised areas of physical planning, land use, infrastructure development, accommodation development and environmental protection.

Investment promotion: In view of the perceived high risk nature of tourism investment generally, and particularly in BiH which has little or no credit history with respect to the tourism sector, the project will review existing loan schemes and investment incentives currently available in BiH for tourism projects in order to provide guidance to the Working Group on recommended changes, including possible amendments to the law establishing the Foreign Investment Promotion Agency (FIPA) in order to make it significantly more favourable to the tourism sector.

Legislation: Strengthening legislative framework will support the BiH in EU approximation process to result in expected full EU membership as there is need to harmonise tourism-related laws and regulations with Community law that directly or indirectly affects tourism. The project will therefore provide technical assistance to the Working Group to strengthen the legal framework for tourism including the mapping of all EU directives and regulations that directly or indirectly affect tourism and their cross-referencing with relevant BiH legislation at state and entity levels, and the conduct of a Regulatory Impact Assessment (RIA) for selected directives. The project will also lay the legal foundation for the establishment of an officially recognized National Tourism body that would oversee marketing strategy development and the overseas promotion of BiH's tourism potential and product offers.

Product development: As tourism industry in BiH witnesses being largely undeveloped in spite of large influx of mainly overland tourists to certain areas, the project will develop both a general and a community-based product development intervention package to change this situation. It will include harmonization (where appropriate) of entity, cantonal or municipality tourism product development plans so as to increase tourism earnings, help diversify the tourism product towards low to medium-volume, and maximize the economic benefits to BiH from tourism development.

Marketing and promotion: Very little such systematic tourism promotion is carried out at national level at present, apart from ad hoc projects for overseas marketing agreed by the Working Group. Inter-entity co-operation on overseas marketing is implemented via the BiH Tourist Association which currently has no legal status. There is need for a more coordinated approach to marketing and promotion that would incorporate relevant aspects of the FBiH and RS tourism marketing strategies into an overall strategy for BiH as a whole. Unlike most other countries, BiH does not have an official body responsible for tourism marketing and promotion for the country as a whole. This contributes to its relatively poor performance in attracting international visitors. The project will therefore work to identifying and developing modalities of establishing a National Tourism Body as well as drafting the necessary legislative bill defining the precise functions, powers and source of funding of the new body depending upon the level of the agreement reached. The implementation of the marketing strategy and its development will be conducted together with the appropriate BiH situation ensuring that this activity continues once EC funding ends.

As tourism promotional material is being produced by a variety of actors active in tourism, much of which witnesses poor content, foreign language and photographic standard quality, the project will propose how to ensure that all new marketing material produced by various level actors follow a harmonised approach.

2. Institutional strengthening: The project will address weak institutional framework by, firstly, conducting an in-depth analysis of the current organizational structure of the state and entity government departments responsible for tourism and, secondly, by making recommendations for the most effective and industry responsive future organizational structures, staffing levels and budgets. This activity will also include providing solutions for formalising the status of the Working Group and setting out a clear framework of cooperation, with stated goals and objectives as well as delivery of training for the entity institutions (based on the self-determined needs of each institution), focused primarily on the Ministries responsible for tourism development.

In line with the need for improved communication and information sharing between stakeholders in the tourism sector, the project will assist in formalising this aspect through the organization of an initial national Tourism Industry Forum involving public and private sector stakeholders, to discuss issues pertaining to the tourism sector and review marketing and other plans.

In addition, the project will identify a number of pilot and SME and community-based development projects for immediate implementation at state, entity, cantonal or municipality levels so as to provide potential investors with an outline development brief for each of the selected projects. The specific projects will be selected by the Working Group from short lists identified through the project.

Activity 3: Targeted support will be provided under two main interventions a) to provide solutions to selected supply-chains to address obstacles to competitiveness and b) grants for the development of competitive tourism products:

Competitiveness generally means that individual firms, the firms of a region or country or the firms of a sector/branch are well supplied with production factors, well organised and managed and are therefore able to rely on the necessary infrastructure that they can successfully assert themselves in domestic and world markets while maintaining a satisfactory standard of living. Competitiveness of a country should be promoted by a policy, focusing on specific economic sectors and applying solutions to improve the production within individual sectors thereby increasing their ability to perform in international and domestic markets. Such policies can be organised around the supply chain approach, whereby solutions are applied to

overcome obstacles within each supply-chain. Although the Medium Term Development Strategy for BiH (2004-2007) defined the following goals: accelerate economic development, decrease the trade deficit and increase the quality and competitiveness of domestic production, there is no systematic approach in place to support BiH competitive sectors. As such, those sectors where BiH has a comparative advantage are not able to fully reach their potential and become more competitive due to a multitude of constraints hindering their growth.

What is required is to effectively target identified obstacles and constraints within competitive economic sectors, in order to increase economic activity and create new jobs. An assessment completed in 2008 in BiH analysed nine potential economic sectors in BiH. The sectors were analysed taking into consideration which sectors had the greatest potential for growth, job creation as well as the number of SMEs in the sector. Based on these findings, a value-chain analysis of selected sectors was completed. This detailed analysis identified the obstacles within each value chain that impede their further growth. The purpose of this activity will be to provide grants to address these obstacles by implementing viable and sustainable solutions. Illustrative targeted solutions could include the provision of business support services, the provision of sustainable skills training, support for market integrators and support for business support infrastructure. The grants that will be financed under this component will have been identified in the five regional strategies thereby ensuring that a regional approach is applied in addressing the obstacles. The respective Guidelines for Applicants will identify in more detail the desired regions of intervention. The grants and the results will be monitored through the RDAs. In particular the RDAs will assess the supply-chains to determine whether they have been strengthened, whether new jobs have been created and sustained and if economic activities have increased.

The second grant intervention for tourism development will be to address common obstacles to the development of tourism at the local level. As eco-tourism has been identified as one of the main factors in BiH's tourism development, one great threat to the development of this sector is safety that is the land mines. Therefore, this intervention will support beneficiaries to implement the principle of the *Designated Safe Areas* i.e. to create designated areas that are marked, advertised, with well developed program of a wide range of activities and safe from mines, UXO's, and other remnants of the conflict. This would include a number of activities linked to reconstruction and improvement of mountain lodges, trail development and improvements, development of B&B clusters promotional materials etc. However, the respective Guidelines for Applicants will identify the desired regions of intervention, based on existing or emerging tourism content.

Grants will also be provided to link the key players in tourism development at a community level aiming at creating vital links between local governments, NGOs, private sector SMEs and individuals, towards good environmental and economically sustainable practices.

Finally, grants will be awarded in order to support the integration of heritage into the tourism sector. Linking tourism with heritage in BiH that is rich in cultural, historical and natural heritage where potential remains underutilized but also significantly contributing to local economic development.

The implementation modality for the activity 3 will be through the mobilization of the 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.

3.5 Conditionality and sequencing:

In general, the successful deployment of the above activities is conditional on continued support by the government structures to the functionality of the sector related Working Groups and generally economic support to the regional and economic development, including their full support for the envisaged institutional arrangements for economic reforms.

The five regional development agencies targeted under Activity 1 are operational and are currently receiving the 2nd tranche grants. Therefore, currently, all conditions are in place for them to receive further support. The Direct grant awards to the five regional agencies will need to be made as soon as possible given that the current grant support is due to end in December 2008/January 2009.

As for activity 2, it is conditional on substantial progress having been made on tourism strategy development at the entity level before the date of commencement of the proposed project, as well as on continued stakeholder support to the EU integration process in the area of SME development and the reform process aimed at stimulating private sector development.

Given the nature of the proposed assistance programme conditionality or sequencing does not apply for activity 3.

3.6 Linked activities

EU Support to SME Training and Consultancy

Operating through Regional Entrepreneurship Units (REUs) housed within RDAs, EU TAC commenced in early 2006 with the objective to increase the competitiveness of the SME sector in BiH. Project activities include: awareness rising and fostering a structured policy dialogue with all key stakeholders; an analysis of SME training, develop tailor-made training courses so as to build SME capacity's in management development and skills development; entrepreneurship training for first-time job seekers and young unemployed. EU TAC purpose is also to strengthen the RDAs outreach by delivering a consistent approach for training and consultancy services to SMEs and to start-ups. The project also support BiH's path in implementing the European Charter for Small Enterprises together with other regional economic development plans.

European Fund for South-East Europe (EFSE)⁶

The European Fund for Southeast Europe (EFSE) is the successor of various development finance initiatives that have been implemented since 1998 as a post-conflict reconstruction effort in Southeast Europe. These initiatives received financial support from the European Union, the Austrian, German, and Swiss governments as well as a loan from the Netherlands Development Finance Company (FMO). KfW, the German promotional bank, managed these funds under a fiduciary arrangement. These preceding initiatives in Bosnia and Herzegovina, Kosovo, Montenegro and Serbia provided long-term funds to local financial institutions for on-lending to micro and small enterprises and private households. Furthermore, comprehensive technical assistance programmes assisted in adjusting lending techniques to increase outreach to the target groups.

The Fund aims to foster economic development and prosperity in the Southeast Europe region through the sustainable provision of additional development finance. The Fund offers long-term funding instruments to qualified partner lending institutions (PLIs) to better serve the financing needs of micro and small enterprises and private households in the target region.

⁶ Source: www.efse.lu;

The EU has been the principal donor supporting Local / Regional Economic Development initiatives in BiH with pilot projects, during 2000 to 2002 in Brcko District, Tuzla Canton, Mostar City and Sarajevo Economic Region. Following on the success of these initiatives, the EC launched the EURED I project⁷, a series of Technical Assistance projects aimed the creation of economic regions and regional development framework in line with EU practice and support economic regeneration, job creation and Human Resource development, EURED I was completed in September 2005.

Phase two of EURED project, EURED II (dealing mainly with regional economic development and RDA support), was also tasked with providing support for the establishment of comprehensive institutional and legal framework for RED and SME promotion and development in BiH in line with support for attaining the BiH SME Development Strategy, the EU Charter on SMEs – support that is on going. EURED II also worked to develop partnerships between RDAs, municipalities and other stakeholders, involving them in identifying local economic needs and the type of response necessary to meet these needs. EURED II was operational in the period December 2005 to October 2007.

As a follow-on to the EURED projects, two Framework Contracts (FWC) are being implemented in 2008. The FWC EU RED provides technical assistance to the five RDAs in their capacity building and support to the RDA network. The second FWC, Support for MOFTER for SME Policy Development is providing support to MOFTER, the RS SME Agency and the Federation Ministry of Development, Entrepreneurship and Craft for policy development. Continued technical assistance support to the RDAs and SME policy development are planned under IPA 2007.

The EU has funded around 60 projects through its *EURED Fund Facility*, of which 19 were specifically for tourism development. The grants funded under the Fund Facility included support for infrastructure development for SMEs, tourism product development, reconstruction and cultural heritage trails to feasibility studies being largely implemented by tourism associations and NGOs within the sector.

In addition, *Cross border activities* funded and supported by the EU are aimed at strengthening regional ties as well as stimulating economic growth.

Other SME and tourism Donor Assistance: USAID has a number of SME focussed projects operational in BiH, these include cluster initiatives in the agricultural, tourism and wood processing sectors. GTZ also operates a cluster development initiative in the automotive sector, together with other initiatives as well as working with camping and rafting bodies in Herzegovina, providing promotional material and developing youth tourism and assisting the State Statistical Agency with the conduct of visitor surveys. Other donors include JICA who have concentrated their work in the North and South of BiH with a general focus on eco-tourism development and UNDP financed eco tourism related activities and assisted in mountain hut reconstruction, signage, road improvements and promotional material for the mountainous areas. The French Government is funding a tourism resource inventory and identification of tourism investment potential to support harmonisation of entity strategies for which preparations are being underway.

⁷ Detailed information on all activities on EURED II and specific information on BiH's economic regions and RDAs is available at: www.eured-bih.org

3.7 Lessons learned

In terms of regional development as market economics systems have been embedded, transition economies are increasingly aware of widening regional disparities and the need to provide preferential aid to problem regions. Furthermore, experience in the former accession countries indicate that the process for establishing a legal, institutional and financial framework for regional economic development takes time. An important lesson learned is to first develop the institutional capacities and understanding, before passing laws. One of the most important lessons learned in designing and implementing EU-funded tourism development projects in BiH is the need for a co-ordinated national tourism development strategy, the lack of which is seen as seriously obstructing the direction of growth and investment in the tourism sector. Furthermore, past activities have shown that support to the SME sector should also be targeted to areas where there is a demand and which are market-driven, thereby ensuring sustainability of implemented activities.

An evaluation of the EU RED Fund facility completed in August 2007, evaluated the past EU RED Technical Assistance projects- EU RED I and EU REDII, the operational grants to the five RDAs as well as the Fund facility. The evaluators determined that EURED Grant Fund Facility was highly relevant as it allowed regional stakeholders to secure funding for projects which arose out of the regional strategies; however the effectiveness of the fund was limited due to the size of the fund. Furthermore the evaluators stated: "The operational grants have been invaluable in allowing the RDAs to focus on core activities. The passage of time has shown them to be highly relevant and effective. "

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	3,125,000	1,125,000	36						2,000,000	64
contract 1.1		x	3,125,000	1,125,000	36						2,000,000	64
Activity 2	X		2,220,000	2,000,000	90	220,000	10		220,000			
Contract 2.1	X		2,000,000	2,000,000	100							
Contract 2.2	X		220,000			220,000	100		220,000			
Activity 3	X	X	4,558,800	3,875,000	85						683,800	15
contract 3.1	X	x	4,558,800	3,875,000 (IB)	85						683,800 (INV)	15
TOTAL IB			6,095,000	5,875,000	96.39	220,000	3.61		220,000		0	0
TOTAL INV			3,808,800	1,125,000	29.54						2,683,800	70.46
TOTAL PROJECT			9,903,800	7,000,000	71	220,000	2		220,000		2,683.800	27

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) Number of contracts under Activity 1 will be five although the exact amount for each contract can only be determined once the Grant Methodology is received from each RDA

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

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

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1.1	Q42008	Q1 2009	Q1 2011
Contract 2.1	Q4 2008	Q2 2009	Q2 2011
Contract 2.2	Q4 2008	Q2 2009	Q2 2011
Contract 3.1	Q4 2008	Q2 2009	Q2 2011

N.B: Activity 1, contract 1.1 refers to five grants to be directly awarded to the five Regional Development Agencies. For activity 3, contract 3.1, see below as indicated in Annex V.

6. Cross cutting issues

6.1 Equal Opportunity

Equal opportunity for participation of men and women will be assured in all aspects of the project implementation. As the proposed intervention will have a particular focus on provision of business support services, know-how and market needs oriented skills training, support for market integrators and business infrastructure, it will contribute to ensuring equal and sustainable income opportunities for women and men. In addition, an important component of the designed intervention will be directed towards supporting creation of viable partnerships of the key players - local governments, NGOs, private sector SMEs and individuals - in economic and tourism development at a community level, which will lead towards good environmental and economically sustainable practices.

6.2 Environment

Environmental friendly targeted actions will be encouraged through the targeted actions. By helping to create and support sustainable regional development countrywide including tourism industry as its key component, the project will protect and promote the natural and cultural heritage of the beneficiary country.

6.3 Minorities

As the project has no negative impact on minority or vulnerable groups, participation in the projected activities will be guaranteed on the basis of racial or ethnic origin, religion or belief, disability, sex of sexual orientation.

ANNEXES

- 1 Log frame in Standard Format
- 2 Amounts contracted and Disbursed per Quarter over the full duration of Programme
- 3 Description of Institutional Framework
- 4 Reference to laws, regulations and strategic documents
- 5 Details per EU funded contract

ANNEX 1: Logical framework matrix in standard format

LOGFRAME PLANNING MATRIX FOR Project Fiche		Programme name and number	" Support to Economic and Tourism Development and other selected economic sectors in BiH"; CRIS Number: 2008/20-339
		Contracting period expires: N+2	Disbursement period expires: N+5
		Total budget : EUR 9,903,800	IPA budget: EUR 7 million
Overall objective	Objectively verifiable indicators	Sources of Verification	
The overall objective is to generate economic growth and employment generation through targeted assistance to competitive economic sectors in BiH thereby contributing to the creation of a basis for sustainable development	Increased business activities in targeted sectors/New jobs created and current jobs sustained in targeted interventions/ Quality of the institutional infrastructure related to BiH tourism strengthened and improved.	BiH Annual Charter reports; DG Enlargement Annual synthesis reports; Government reports; surveys and statistical information. Project reports	
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
1. increased capacities of the five Regional Development Agencies to support SMEs and municipalities; 2. Capabilities of the BiH tourism support structures at the state, entity and Brcko District levels strengthened to address the challenges faced by a growing tourism industry. 3. Identified competitive sectors in BiH supported so as to be capable of addressing obstacles in the sector supply-chain and the tourism sector reinforced for competitive tourism product development.	Quality of the institutional infrastructure related to RED/SME improved RDAs have increased funding from other sources including municipal funding; Increased number of projects identified through regional strategies are implemented Economic activities within selected supply chains have improved. Increased tourism receipts and overnight stays	BiH Annual Charter reports; DG Enlargement Annual synthesis reports; Government reports; surveys and statistical information. Annual and periodic report for the five Regional development Agencies. Regional strategy implementation reports. Supply-chain evaluation reports	Macro-economic and political stability; Successful completion of SAA negotiations; European Partnership targets met; Continued commitment to the reform process aimed at stimulation SME development and RED; Continued cooperation through the Working Group on the Coordination of Tourism Activities BiH Continued support to the process of the regional economic development.
Results	Objectively verifiable indicators	Sources of Verification	Assumptions
<i>Result 1 - Increased capability amongst RDAs to support municipalities, to implement SME support services and to monitor and evaluate economic sectors (value-chains);</i>	Increased number of projects implemented as identified within the regional strategies with EU and other funds.. <i>A greater number of SMEs are receiving consultancy advise through RDAs – including micro and remote SMEs; monitoring and evaluation reports completed by RDAs on economic (supply-chains</i>	BiH Annual Charter reports; DG Enlargement Annual synthesis reports; Government reports and decisions on the establishment of required building blocks; RDA activity reports, RDA financial reports. RDA monitoring reports; other RDA reports	Maintenance of the political stability and continued commitment towards EU Accession and implementation of the EU Charter for SMEs; Government authorities and other stakeholders willingness to support SME and RED.

<p><i>Result 2 – BiH has strengthened tourism institutions for preparation and development of a coordinated national tourism policy and strategy</i></p> <p><i>Result 3 - Competitive sectors within regions have increased economic activities and competitive tourism products implemented</i></p>	<p>Entity strategies incorporated into a common and coordinated tourism strategy adopted by the Working Group; tourism working group is formalised and functioning, draft legislation prepared defining functions, powers and source of funding for a National Tourism Body, National Tourism Industry Forum established..</p> <p><i>Increased number of SMEs participating in competitive sectors. Decreased bottlenecks within supply-chains (competitive economic sectors). Designated safe areas established;. Increased linkages between key players (businesses, NGOs and local governments) for promotion of tourism product; Increased cultural, historical and natural heritage tourism products offered..</i></p>	<p>Working Group for the Coordination of Tourism Activities BiH/Technical assistance reports/International and domestic banks in BiH; Foreign Investment Promotion Agency (FIPA)/ Minutes of meetings of Tourism Industry Forum/Surveys and statistical information</p>	<p>Maintenance of the political stability and continued commitment towards EU Accession</p> <p>Government authorities and other stakeholders' willingness to support cooperation in tourism policy and strategies, institutional strengthening and capacity building, and coordination of product development and marketing strategies.</p>
<p>Activities</p>	<p>Means</p>	<p>Costs</p>	<p>Assumptions</p>
<p>Activity 1: Direct support to the Regional Development Agencies to increase the RDA's capacity to manage resources, to increase their support to municipalities, SMEs and to develop their capacity to complete monitoring and evaluation reporting of economic sectors (supply-chains):</p> <p>Activity 2: Support for strategy development including development of a <i>Tourism Planning Framework, improved tourism Investment Promotion, review of Tourism Legislation in accordance with EU requirements, tourism product development, marketing interventions.</i> Support for institutional strengthening will include <i>support to formalising the Working Group; Preparation of a tourism industry organisational framework; Support for the establishment of a Tourism Industry Forum; Technical Assistance in tourism development project identification and grant fund access (pilot project, direct support to SMEs and community development with other product</i></p>	<p>Direct grant awards</p> <p>Technical Assistance project</p>	<p>EUR 1,125 million</p> <p>EUR 2 million TA project;</p>	

<p><i>development initiatives)</i></p> <p>Activity 3: <u>Targeted support will be provided under two main interventions a) to provide solutions to selected supply-chains to address obstacles to competitiveness and b) grants for the development of competitive tourism products.</u> : Particularly support for tourism development will include grants for. Designated Safe Areas (DSA);.Linking businesses, NGOs and local governments in the tourism sector; and. Integrating cultural, historical and natural heritage into the tourism sector in the selected areas.</p>	<p>Grant fund facility</p>	<p>EUR 3.875 million grant fund facility</p>	
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ANNEX II: amounts (in EUR) Contracted and disbursed by quarter for the project

Contracted	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011
Contract 1.1.		1,125,000										
Contract 2.1				2,000,000								
Contract 3.1				3,875,000								
Cumulated		1,125,000		7,000,000								
Disbursed	Q3 2008	Q4 2008	Q1 2009	Q2 2009	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011	Q2 2011
Contract 1.1		450,000				562,500					112,500	
Contract 2.1				400,000		700,000		700,000				200,000
Contract 2.2												
Contract 3.1				1,550,000				1,937,500				387,500
Cumulated		450,000		2,400,000		3,662,500		6,300,000			6,412,500	7,000,000

Annex III Description of Institutional Framework:

State-level: The Ministry of Foreign Trade and Economic Relations (MOFTER) is responsible for a number of development policies in economic areas. In the area of SMEs it is responsible for improving the business environment for SMEs in cooperation with the Entities, cooperating with institutions that are responsible for SME development both national and international, and the development of a database for SMEs.

Entity level: The RS established the RS SME Development Agency. The Federation has a Ministry of Development, Entrepreneurship and Crafts. There is currently no SME agency in the Federation.

BiH is currently divided into five Economic Development Regions consisting of: the North-western Region (ARDA), the North-Easter region (NERDA), the Sarajevo region (SERDA), the Herzegovina region (REDAH) and the Central Region (REZ).

State level: There is no tourism investment plan or legislation concerning the tourism industry at state level.

Entity level: in accordance with the constitutional framework established under the Dayton Peace Accord, tourism in BiH falls under the jurisdiction of the two entities. In FBiH, tourism is regulated by the Ministry of Environment and Tourism, and in the RS by the Ministry of Trade and Tourism.

BiH Ministry of Foreign Trade and Economic Relations (MoFTER) has the authority to deal with some issues concerning development of natural resources, including environmental protection. It was therefore able to take the lead in establishing a Working Group for the Coordination of Tourism Activities in BiH with membership drawn from the FBiH, Republika Srpska, Brcko District and the MoFTER.

ANNEX IV Reference to laws, regulations and strategic documents:

Link with European Partnership

The European Partnership for Bosnia and Herzegovina, based on the provisions of Council Regulation (EC) No. 533/2004 and agreed through the Council Decision (EC) No. 9375/04, identifies short, medium and long term priorities for BiH's integration into European Union. These priorities in the short-term priority refers to adoption, without further delay, of the currently proposed State-level SME strategy and start implementation of the prioritised actions.

Link with SAA

Article 94 of the Draft Text of SAA with BiH stipulates *"cooperation between parties shall be aimed at developing and strengthening private sector small and medium sized enterprises (SMEs) and will take due account of priority areas related to the Community acquis in the field of SMEs, as well as guidelines enshrined in the European Charter for Small Enterprises."*

Article 111 of Draft Text of SAA with BiH stipulates *"the parties will seek to strengthen regional and local development cooperation, with the objective of contributing to economic development and reducing regional imbalances. Specific attention will be given to cross-border, trans-national and interregional cooperation. Cooperation will take due account of the priorities of the Community acquis in the field of regional development."*

Article 94 of the Draft Text of SAA with BiH stipulates *"Co-operation between the Parties in the field of tourism shall be mainly aimed at strengthening the flow of information on tourism (through international networks, databanks, etc.), strengthening cooperation between tourism enterprises, experts and governments and their competent agencies in the field of tourism, and transferring know-how (through training, exchanges, seminars). Co-operation shall take due account of Community acquis related to this sector. Co-operation may be integrated into a regional framework of co-operation."*

Link with MIPD

The EU Support to Regional Economic and SME Development is fully consistent with MIPD (see Socio-Economic Requirements / European Standards).

Link with National Development Plan (where applicable)

The government of BiH has recognised the importance for BiH to implement a number of key structural reforms in order to address the challenge of poverty alleviation, particularly unemployment and creating the basis for sustainable development. This is reflected in the Poverty Reduction Strategy Paper (PRSP). This medium-term Development Strategy (PRSP) of BiH identifies enhancing the business environment and supporting entrepreneurship including stimulating regional economic development as its priorities in the medium-term.

In addition, the Mid Term Development Strategy of BiH (PRSP) identifies tourism as one of the branches of industry that should be considered as strategic and a priority development sector. Measures of support to priority sectors will include adoption, or harmonization, of domestic regulations with EU regulations, improved access to credits and support to companies in adopting international standards. On the basis of a number of studies, executed in the preparation of the Mid Term Development Strategy, it was concluded that tourism should also be evaluated as an export-directed activity, and should be included in the ranks of industrial branches for which future fiscal and other exemptions should be ensured.

Link with national/ sectoral investment plans (where applicable)

In the framework of European Charter for SMEs and PRPS, BiH has committed to design and adoption of a *medium-term state strategy for SME's* to address the virtual lack of a policy design and delivery capacity at the level of the national state. The Ministry of Foreign Trade and Economic Relations set up a working group composed of public and private sector representatives of the two entities and the district of Brčko to accompany the project and to ensure ownership of the strategy. The working group is mandated to complete the strategy and state-level law by mid-2008.

As for tourism, the Working Group established is attempting to address the need for a national tourism policy and strategy, a state tourism law and the harmonization of relevant laws and regulations with EU tourism-related directives, recommendations and other measures. It has proven difficult to achieve consensus on any suggested transfer of competences from entity to state institutions, except in respect overseas marketing initiatives agreed on an ad hoc basis.

Since tourism in BiH is characterised by a preponderance of small and medium-sized enterprises (SMEs), it is affected by the efforts that have been made, within the framework of European Charter for SMEs and the PRSP, to design and adopt a medium-term state strategy for SMEs to address the virtual lack of a policy design and delivery capacity at the level of the national state. However, the implementation of the strategy remained at a political stand-still as the drafting process and adoption of the strategy did not survive the political process in BiH. The timeline for the strategy has since expired. Nevertheless, a working group established in 2007 under the chairmanship of MOFTER and including representatives from the Entities is now meeting on regular basis and is committed to completing a strategy for 2009-2011 by the end of June 2008.

ANNEX V Details per EU funded contract

Direct grant award to the five Regional Development Agencies

Technical assistance in support of the tourism industry in BiH:

Call for proposal for issuance of grants to support SME and tourism 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 150,000
- Maximum grant contribution per action: EUR 250,000

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.