

Project Fiche – IPA Annual Action Programme 2007 for Bosnia and Herzegovina
EU Support to Regional Economic and SME Development

1. Basic information

1.1 CRIS Number:

1.2 Title: EU Support to Regional Economic and SME Development

1.3 ELARG Statistical Code: 02.20 – Enterprise and Industrial Policy

1.4 Location: Bosnia and Herzegovina

Implementing arrangements:

1.5 Contracting Authority (EC): European Commission Delegation to Bosnia and Herzegovina on the behalf of the beneficiary country.

1.6 Implementing Agency: n/a

1.7 Beneficiary (including details of project manager):

Ministry of Foreign Trade and Economic Relations BiH

Ministry of Economy, Energy and Development RS

Ministry of Development Entrepreneurship and Craft FBiH

Regional Economic Development Agencies

Financing:

1.8 Overall cost: € 4 million

1.9 EU contribution: 100%

1.10 Final date for contracting: N+2

1.11 Final date for execution of contracts: N +4

1.12 Final date for disbursements: N + 5

2. Overall Objective and Project Purpose

2.1 Overall Objective:

The overall objective is to consolidate efforts already made to stimulate economic growth and employment generation thereby contributing to the creation of a basis for sustainable development and economic dialogue in BiH.

2.2 Project purpose:

1. Consolidate the establishment of a comprehensive institutional and legal framework for regional economic development (RED) and SME development.

2. To continue the improving the skills and knowledge of the business sector (especially SMEs) by fostering a learning environment and enhancing the capacity of local training providers.

3. To strengthen links between the education system and the needs of the economy by creating partnerships and networks to connect teacher training and education policy making with business and entrepreneurship.

2.3 Link with AP/NPAA / EP/ SAA

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. However, the short and medium term priorities of the European Partnership remain largely unaddressed.

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."*

EU Charter on SMEs

Countries of the Western Balkans have initially endorsed the European Charter for Small Enterprises in 2003. The Heads of State & Government of the region have committed their countries to the 10 principles and to the implementation of the Charter for a three year period. In late 2005, with the three-year period coming to an end, the Western Balkans countries issued, on 26 October 2005, the Belgrade Declaration, asking for the continuation of the process of its implementation. They described the Charter as "the catalyst" through which they all worked closely together "in order to harness the full potential of our small and medium-sized enterprises". This was in turn approved by European foreign ministers.

The European Commission (DG Enterprise), in cooperation with OECD, EBRD and ETF provides policy guidance and monitoring of Bosnia & Herzegovina's progress across 10 development areas as part of a wider national and regional tracking process on Charter alignment. The aim of the tracking process is, over time, to bridge the competition gap in SME sectors between the BiH, on the one hand, and candidate countries and Member States, on the other and ultimately to contribute to the wider support effort for integration of BiH within the European Union.

In the case of BiH, the implementation of the Charter has been a difficult and cumbersome process and has improved little over the last three years. Some of the issues hampering the process are: insufficient information and knowledge base of the respective government representatives, no tri-partite dialogue, lack of information sharing between the respective state and entity institution, lack of coordination mechanisms on the state level for this type of exercise with the regular Charter reporting structured along entities, Brčko District and state level.

2.4 Link with MIPD

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

2.5 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.

2.6 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 (2005-2007) 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 drafting process and adoption of the strategy has, however, not survived the political process in BiH. The Strategy document remains at political stand-still with Republika Srpska's opposition to the proposed state-level structures¹ and the responsible state ministry inept to move the process from the current deadlock².

The next steps in the Strategy adoption procedure should have been as follows:

- The public debate in both entities and Brcko district;
- Working group for Monitoring of implementation of the BiH PRSP discuss, agree and incorporates inputs received during the public debate;
- Working group for Monitoring of implementation of the BiH PRSP delivers the Strategy to Council of Ministers of BiH for adoption.

Nonetheless, shown below is the indicative table of main objectives of the strategy and its quantitative measures:

Harmonisation of the SME definition	The definition is integrated into all needed legislation and regulations
Simplifying and improving BiH legislation	All legislation and regulations under implementation plan's priority I and II are passed (around 16 laws)
Establishment of the most necessary institutional framework	Agency for the development and entrepreneurship and the Fund for development and entrepreneurship is established
Ensuring consideration of the interests of SMEs in the various BiH initiatives and policies	Entrepreneurship and Development Council is established
Usage of existing institutional framework on all levels and ensuring the equal distribution of SMEs support across the country for all target groups	The informal development network is established

¹ State law on SMEs promotion and development, Agency and Fund for SME and Fund Development etc;

² RS Government Conclusions on BiH SME Strategy from 05/05/2005;
RS Government Conclusions on BiH SME Strategy from 11/05/2006.

3. Description of project

3.1 Background and justification:

In the transformation and reconstruction of the BiH economy, following the Dayton peace agreement, small and medium enterprises, as an integral part of local and regional development, are considered as key drivers of economic growth. They are also instrumental in changing the entire economy, by increasing employment, decreasing social tensions and furthering economic and social integration into European Union. To enable this process, BiH needs to intensify efforts towards a creating a business friendly environment in which enterprises can easily operate. This implies a number of dimensions:

- a) creation and protection of the single economic space;
- b) a developed functional institutional environment;
- c) establishment of an acceptable regulatory system to support growth in SME sector;
- d) policies and programmes linked to financial and fiscal support.

A recent BiH mapping exercise strongly highlighted the absence of co-ordination and the fragmentation in the delivery of services to SMEs. Furthermore, important shortfalls in existing legal framework for SMEs, and the non-existence of adequate institutional support for businesses, as well as a difficult and complicated approach to investment, all represent big obstacles in the development of SMEs in B&H compared with other countries in the region.

On the positive side, the period since 2002 has seen the initiation of the Regional Economic Development in BiH. Its purpose is to achieve an economic balance between and within the five identified economic planning regions of BiH. It has also begun preparation so that the country is eligible for financial support from structural funds after accession. The Regional Development Process was founded on the 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 Strategies, The financing of a limited number of projects has taken place to improve the competitiveness of the regions by means of grants financing 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 four contracted (the fifth call is currently under evaluation) resulting in seven projects with total value of over € 7 million.

RDAs are now in a unique position owing to their experiences in assisting Partnerships elaborate Regional Strategies and in particular Regional SME action plans. With sufficient resources, they can now act as an interface between MOFTER and SMEs, to facilitate the effective co-ordination of SME services at regional level and the transfer of best practice.

On the regulatory front the adoption of the SME Development and Promotion Law, in accordance with EU best practice, and the introduction of the Statistical classification of SMEs, also in accordance with EU practice, has been proposed. Institutional infrastructure (policy, strategy, implementation, financing), capacity building measures for MoFTER are underway and crucial steps in the establishment of the Entrepreneurship and Development Council have been taken.

The next steps for the future development of the SME sector need to be prioritized within a coherent and harmonized institutional framework, supporting Regional Economic Development and SME Development. The framework will include policy, strategy, implementation and financial structures for the proposed reforms. The development of these sectors is a long process that will greatly depend on Government authorities and other stakeholders demonstrating a willingness and preparedness to push the SME & RED agenda forward, and the availability of resources to assist in this process. Furthermore, in order to develop an action plan to implement the EU Charter and the BiH strategy, as well as to facilitate SME policy development, MOFTER must develop mechanisms to ensure that it receives timely information as to the needs and the impact of policies as they are being implemented.

In relation to the two areas in the Charter concerning entrepreneurship learning - education and training for entrepreneurship (Chapter 1) and small enterprise skills (Chapter 4) assessments by the EU of BiH performance in 2005 and 2006 highlight the following:

- poor understanding of entrepreneurship development as a feature within education and training policies and delivery, with no linkages being made between the various levels of the learning system;
- where entrepreneurship learning is being developed it is generally confined to lower secondary, usually vocational, education, with little attention being given to earlier parts of the learning system where the promotion of entrepreneurship as a key competence will need to be addressed;
- significant emphasis of donor-driven developments for entrepreneurship learning with little evidence of experience and learning from projects being mainstreamed into national development;
- unclear systematic monitoring of SME training requirements with no quality assurance framework for SME training considered necessary for developing small business confidence in training provision;
- no coordination between the different regions in the country and no knowledge sharing particularly on areas where entrepreneurship learning is developing.

3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact (where applicable)

The proposed intervention would build on the results of associated previous assistance programmes by contributing to the further development of the institutional framework and continue giving support to the reform process in the sector. Furthermore, it addresses the concerns by means of a number of actions designed to create a broader development framework for entrepreneurship learning in BiH. The proposed assistance framework is structured with due reference to the provisions of the European Charter for Small Enterprises, SAA, the European Partnership, the European Commission's Communication on entrepreneurship learning³ and more recent policy signals on life-long entrepreneurship education from the European Union within the 'Oslo Agenda'.⁴

3.3 Results and measurable indicators:

The expected results of the proposed assistance are grouped and linked to the threefold project purpose .

³ Fostering entrepreneurial mindsets through education and learning. European Commission. February 2006. COM(2006). 33 Final.

⁴ http://ec.europa.eu/enterprise/entrepreneurship/support_measures/training_education/oslo/oslo_flash.pdf

1. Project purpose

- 1.1 Result: The institutional framework for SME and Regional Economic Development improved. *Measurable indicators:* the relevant department in MoFTER fully functional dealing with SME and RED issues in substantial and impact oriented manner; Agency for Entrepreneurship and Development established and the associated Fund proposed and agreed.
- 1.2 Result: a national partnership and knowledge management framework for policy development related to SME and Regional Economic Development enhanced. *Measurable indicator:* country-wide Council for Entrepreneurship and Development established and functioning.
- 1.3 Result: enhanced capacity of self assessment and cross-stakeholder ability to undertake objective critique of policies, structures and measures supporting the annual reporting process to the European Commission including timely and quality reporting to national and EU partners with particular reference to the reporting requirements for the European Charter for Small Enterprises. *Measurable indicator:* development and implementation of the functional inter-governmental system.
- 1.4 Result: functional coordination mechanism between various government bodies in-charge of SME and Regional Economic Development in place. *Measurable indicator:* the higher level SME/RED Working Group established and functioning.
- 1.5 Result: Functioning RDAs which effectively co-ordinate and mobilise resources and investment to implement projects in their respective regions in line with priorities of RED Strategies, as well as operate as effective intermediaries in advocating with national government for different regional and local stakeholders. *Measurable indicator:* RDAs reaching the development capacities required for sustainable and integrated operations.

2. Project purpose

- 2.1 Result: Continued support to SME related training based on the established systematic SME training needs' analysis framework and use of developed capacities. *Measurable indicators:* no. of persons trained, no. of SME trained and reporting operational improvements; no. of LESP's capacities enhances and no. of new companies started.
- 2.2 Result: Development of business infrastructure projects (business incubators, technological parks, industrial zones, business support units etc) through detailed analysis, stakeholder consultations and commitment as well as hands-on technical support. *Measurable indicator:* no. of projects developed and financed and no. of technical assistance measures offered.

3. Project purpose

- 3.1 Result: National Entrepreneurship Learning Partnership established. *Measurable indicator:* a national life-long entrepreneurship learning strategy and implementation plan with budgetary commitment agreed;
- 3.2 Result: proposals for revised curricula and teacher training provision for compulsory education levels (ISCED 2 and 3) based on clearly articulated entrepreneurship learning outcomes adopted;
- 3.3 Result: systematic SME training needs' analysis framework for BiH established. *Measurable indicator:* the agreement for the establishment of the national training needs analysis centre reached.

3.4 Activities:

Complementary to the stated results and measurable indicators an increased public awareness coupled with knowledge transfer about the problems and needs of the issues surrounding the sector of assistance will be mobilized as integral part of associated activities.

Activity 1: EU Support to institutional capacity building for Regional Economic and SME Development – phase III – a Technical Assistance contract

1.1. National partnership, coordination and knowledge management framework

The project will establish a national monitoring and assessment framework to assist the country in ensuring a coherent, unified reporting system to meet its annual reporting requirements to the European Commission. The assessment and reporting framework will be supported by the work of the Council for Entrepreneurship and Development. In particular, the framework will:

- a) identify which national and sub-national institutions, including social partners and civic interest groups, will be responsible for providing assessment and inputs to the annual indicators reporting process;
- b) ensure consensus is established between all parties contributing to the indicators prior to submission to the National Charter Coordinator;

1.2 Institutional and legal framework for RED and SME

Draft of the BiH SME Development Strategy contains proposals for improving SME legal and institutional framework, which would at the same time improve implementation of the chapters of the European Charter for Small Enterprises.

In relation to the legal framework the key new Law is the proposed Law on Development and Entrepreneurship. On the institutional framework side the key new institutions are expected to be the Council for Development and Entrepreneurship, Agency for Development and Entrepreneurship and the Fund for Development and Entrepreneurship. BiH Ministry for Foreign Trade and Economic Relations (MoFTER) with technical assistance of EURED II has prepared the first draft of the Law on Development and Entrepreneurship (Annex 1.), which is ready for discussion on the working group that would agree on the final outlook of the Law prior to submission for adoption. The draft Law also foresees establishment of the Council, the Agency and the Fund for Development and Entrepreneurship.

In the course of preparation of the first draft of the Law, including proposed chapters on the mission, function and composition of the Council, Agency and the Fund, there has been a comprehensive research on BiH institutional and legal framework for SME development and on practices and experiences in other European countries. This information is available in the report “Mapping and Analysis of existing BiH – SME and RED Institutional framework” providing an overview of SME related institutions in Bosnia and Herzegovina.

While the institutional framework in European countries varies from country to country, the common denominators are: central (national) support institutions, regional support institutions and local (municipal) support institutions. Common issues are related to coordination of these support institutions and the optimal solutions for different approaches of the top-down and bottom-up prospective.

Along the EU best practice examples the assistance will aim at strengthening MoFTER's work with Entity governments it is expected that the assistance will support all relevant ministries in co-ordinating approaches to SME and Regional Development in order to avoid duplication of effort and unnecessary competition between Ministries.

This will entail development of appropriate consultative mechanisms to guide it in these tasks. Given MoFTER's wider activities the most effective solution is to ensure inclusion of the relevant issues the approach would be two-fold. In-house technical support for the line ministries and support to the work of Development and Entrepreneurship Council (DEC).

Furthermore, it would focus on establishment of an Agency for Development and Entrepreneurship (ADE) and associated Fund, which would provide an effective institutional mechanism to drive the process and financing for the agreed policies.

Along the lines of the previous assistance projects continued technical assistance support to the development of capacities of RDAs in the light of their future role and required sustainability will be provided, including:

- Support to the continued process of formulation and implementation of regional development strategies and action plans;
- institution building and capacity strengthening of Regional Development Agencies SERDA, NERDA, ARDA, REDAH and REZ-RDA;
- Expert support to complement project funds for the implementation of specific interventions identified in the action plans and strategies.

Activity 2: *SME Training and related business infrastructure consultancy – Phase II – a Technical Assistance contract*

2.1 SME Training Needs Analysis Framework

The objective of the project component is to establish an information resource and analytical capacity which can reconcile the supply-demand concerns for workforce training in BiH contributing to more efficiency and effectiveness in training delivery by public and private training providers. The component focuses particularly on the skills requirements of small businesses and how the training market meets their requirements.

A national training needs analysis centre will be established. The Centre's key task will be to ensure a regular and systematic assessment of training needs of small businesses, in particular, and to communicate these needs to the range of different education and training providers.

The Centre will develop TNA methods and through a network of Training Needs Analysts at sub-national level, undertake training needs' analysis and assess on-going training with particular reference to its appropriateness and relevance to changing economic environment. Particular attention will be given to selected economic sectors demonstrating growth or growth potential and defined within a Centre strategy and work plan. A strategy and establishment plan for the TNA Centre will be elaborated with the objective of determining the feasibility of a public-private partnership arrangement, ideally involving SME advisory and support agents which have access to the SME market and have ready access to information.

Its strategy will clearly articulate conditionalities and expected commitments and endorsements by the range of stakeholders which will contribute to the Centre's operations.

To govern the Centre, a national TNA Committee (national and regional authorities, social partners, research institutes) will be established. Its core task will be to provide a consultation forum for all issues regarding training needs and skills forecasting of SMEs and ensure that training needs are communicated to all relevant organisations and partners.

The TNA Centre will also act as a primary reference point and institutional support framework for wider reform programmes in BiH, in particular in the labour market sector.

2.2 *Management and skills development training schemes*

Continuation of the tailor-made training schemes for SMEs in various priority sectors will be continued using as a basis the institutional base of the EUTAC project. As such the activities would focus on further development of REUs, assisting enterprises in modernising and improving management and organisational change in the framework of performance improvement and strategic development, enhancement of the capacity of well-trained, market-oriented practitioners (consultants and training providers) to deliver management training and other services to the business sector and raise awareness amongst managers and the general public of the benefits and needs for Human Resources Management and HRD training.

2.3 *Business Infrastructure Project Development Facility*

The key objective of this sub-activity will be to assist national, regional and local stakeholders and other related institutions to identify and prepare high quality, viable business infrastructure projects related to the establishment of business incubators, technological parks, industrial parks and other related project which would be ready to solicit financing from public and private sources in support of the objectives related to SME and RED. It will also focus on fostering link between the educational and business sector through specific technology transfer

The facility would inter-alia focus on the following key activities:

- provision of hands-on assistance aimed at the technical and financial engineering of the projects including project packaging skills;
- provide support to the enhancement of the expertise and capacity of wide-range of stakeholders;
- promote and integrated approach while promoting synergies between inter-linked sectors;
- assist in the problem identification and resolution as well as knowledge sharing.

Activity 3: *Promoting Entrepreneurship Learning in BiH – a Technical Assistance contract*

3.1. *National Entrepreneurship Learning Partnership*

In keeping with the European Commission recommendations for strategic action to support entrepreneurship learning (Oslo Agenda) this component addresses the policy chasm which typically undermines strategic life-long entrepreneurship developments. More specifically, the project will support the establishment of a National Entrepreneurship Learning Partnership

The particular emphasis given to partnership within the project underlines the importance of a range of different government offices, education and training authorities, enterprises, social partners and other civic interest groups that have a stake in promoting entrepreneurship

learning. The key objective of the partnership will to ensure ownership and commitment to entrepreneurship learning policy and its delivery by the range of interest groups, as a key feature in promoting a competitive economy.

The partnership building process will involve:

- Cross-stakeholder dialogue and agreement on defined objectives, with signed commitments by Ministers (national, regional/entity levels, as well as Brcko District) and allocation of staff and other resources to be defined in the dialogue phase;
- Establishing unequivocal commitment from the range of stakeholders with agreement on leadership with full consensus on vision and mission of the partnership;
- Development of policy awareness for the entrepreneurship learning field by way of workshop and seminars, with particular emphasis on the interface between education, employment, enterprise and R&D policies;
- Exposure to at least one national model for entrepreneurship learning outside of BiH (e.g. Finland, Netherlands, Norway) which clearly demonstrates how the cross-stakeholder consensus was established, the importance of high level political commitment, the role of partnership facilitation and the links between national strategy and its implementation at sub-national levels;

The key output from the partnership building process will be the Charter for Entrepreneurship Learning for Bosnia and Herzegovina which will provide the strategic framework and national commitment to a detailed strategy and time-based operational implementation plans which follow.

3.2 *Life-long Entrepreneurship Learning Strategy*

The National Entrepreneurship Learning Partnership will elaborate a Life-long Entrepreneurship Learning Strategy. The strategy will have an initial 4 year perspective (2009-2011) and will

- a) define separate chapters on each level of the education system (ISCED 2-6) outlining the results expected in terms of policy adjustments and articulation of workable implementation arrangements as a basis for the operational work programmes which will ensure that the strategy is fulfilled;
- b) building on good achievements reported in the 2006 Charter assessment, include a chapter on the potential contribution of non-formal entrepreneurship learning and in particular the role of enterprise, community business, press and broader media;
- c) ensure that clear provisions are established to forge the necessary policy linkages not only between the various parts of the formal learning system but between the range of policy lines which make up the country's development plan (education, employment, enterprise, R&D, inward investment, regional and local development).

On the basis of the national strategy, a 2 year implementation plan should be drawn up identifying immediate priorities to be addressed and with clearly defined outcomes to be achieved according to agreed timeframes and available resources. In this regard, the EL Partnership will be required to follow an intensive training course (applied to real-life scenario of BiH economy and learning systems) on full cycle project management using the logical framework approach.

3.3 *Entrepreneurship in the primary and secondary education system*

With the objective of promoting developments in entrepreneurship in the early school system which lies at the heart of the European Charter, specific attention will be given in this project to ISCED 2 and ISCED 3 levels.

On the basis of an open competition, schools will be invited to join a pilot reform process which will elaborate entrepreneurship learning outcomes and clearly define the implications for curriculum adjustment, teacher training and re-training and school governance. Up to 8 pilot schools for each ISCED level will participate in the pilot framework and will be supported and monitored by an ISCED EL Policy Reform Group whose mandate is, on the basis of the results from the pilots, to draft policy reform guidelines and policy implementation arrangements for the national and sub-national policy making authorities.

Incentives for schools participating in the pilot reform process will be built into the project plan, including the provision of ‘extra-murus’ technical and professional support staff at schools to assist teachers and administrators with the extra tasks involved in the reform effort, as well as teacher training, networking and curriculum working groups involving peers from innovative entrepreneurship learning environments in the Western Balkan region and European Union.

The Policy Reform Groups for ISCED 2 and 3 will additionally engage in a wider regional cooperation exercise in the Western Balkan region where technical knowledge and particularly policy reform processes, including constraints and how these are addressed, can be shared with other countries.

Underpinning the above activities communication campaign raising knowledge and understanding of matters pertaining to be covered by the proposed activities would be developed and implemented. The campaign would, inter-alia, address the importance of RED, SMEs, dialogue between the government and the private sector as well coordinated efforts in addressing the problems.

3.5 Conditionality and sequencing

The successful deployment of the above activities is conditional on continued support to the implementation of the EU Charter for SMEs and stakeholder support to the EU integration process in the area of SME and RED. It is further conditioned on the continued commitment to the reform process aimed at stimulating private sector development and full support to the proposed institutional arrangements for RED/SME.

3.6 Linked activities

3.6.1 EU Support to Regional Economic and SME Development – Phase II

Given the country and sector backdrop and the intertwined nature of regional economic development and SME development has led to a strategic decision of merging the assistance effort in the two sectors into one streamlined technical assistance programme. The phase two of EURED project (which initially dealt mainly with regional economic development), the EURED II project has been 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 BiH SME Development Strategy, the EU Charter on SMEs – Chapters 3 and 10, and regional development policies. The above is expected to be achieved through establishment of a coherent and harmonized institutional framework to support Regional Economic Development and SME Development.

3.6.2 EU Support to SME Training and Consultancy

The European Union Training and Consultancy Project (EU TAC) commenced in early 2006 with an overall objective to increase competitiveness of small and medium enterprises (SME) sector in Bosnia and Herzegovina. The project activities ensure awareness rising and foster a well-structured policy dialogue with all key stakeholders. It analyses the situation of SME training, develop tailor-made training courses and build the capacities for SME. Management development and skills development trainings in the sectors defined as priorities and with particular focus on entrepreneurship training, first-time job seekers and young unemployed.

Through Regional Entrepreneurship Units (REUs) housed within RDAs the project provides tailor made training packages in SME development strategy, operational management, marketing, human resource management, finances and entrepreneurship.

The project also contributes to EU integration process in accordance with the European Charter for Small Enterprises as well as regional economic development plans. Furthermore, the EU TAC project contributes to an increased range of competence handled under the umbrella of the RDAs. This project strengthens the RDAs outreach by delivering a consistent approach for training and consultancy services to Small and Medium Enterprises (SMEs) and to start-ups. RDAs are the key institutions by which the process is planned, organised and implemented.

The final goal is to create a sustainable economic space, which generates new employment, sustains or adapts existing employment, promotes investment opportunities and develops the region's competitive advantages over the medium and long-term. This will help them to react to the specific training needs of SME and Entrepreneurs in the regions they operate in. The planned work packages do not only address SMEs and entrepreneurs but also young unemployed and first time job seekers. This contributes to a wider objective which can be formulated as "increased opportunities for employment and self-employment".

3.6.3 European Fund for South-East Europe (EFSE)⁵

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 main incorporation of the preceding development finance initiatives into the Fund in December 2005 has led to:

1. Ensuring sustainability of operations through institutionalisation and facilitating flexible entry and exit of donors at the same time, including the transfer of ownership to local stakeholders,
2. Leveraging additional funds from private institutional investors in the form of Private Public Partnership,

⁵ Source: www.efse.lu;

3. Extending the scope of financial services to the partner lending institutions and the ultimate target groups, and
4. Generating operational efficiency gains. During 2005 / 2006, the funds transferred from these preceding initiatives to EFSE amounted to around 125 million EUR.

Background

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.

3.7 Lessons learned

In term of regional development as market economics systems have become 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, awareness and understanding, before passing laws.

While the institutional framework for SME development in European countries varies from country to country, the common denominators are: central (national) support institutions, regional support institutions and local (municipal) support institutions. Common issues are related to coordination of these support institutions and the optimal solutions for different approaches of the top-down and bottom-up prospective.

4. Indicative Budget (amounts in €)

Activities	TOTAL COST	SOURCES OF FUNDING											
		EU CONTRIBUTION	NATIONAL PUBLIC CONTRIBUTION							PRIVATE			
		Total	% *	IB	INV	Total	% *	Central	Regional	IFIs	Total	% *	
<u>Activity 1 – Institutional capacity building</u>													
EU Support to institutional capacity building for Regional Economic and SME Development – phase III -- services	2.5	2.5	100	100		100						2.5	100
<u>Activity 2 – SME training and consultancy</u>													
SME Training and related business infrastructure consultancy – phase II -- services	1.0	1.0	100	100		100						1.0	100
<u>Activity 3 – Entrepreneurship Learning</u>													
Promoting Entrepreneurship Learning in BiH -- services	0.5	0.5	100	100		100						0.5	100
TOTAL	4.0	4.0	100	100		100						4.0	100

* expressed in % of the Total Cost

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

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1*	I Q 2008	I Q 2008	II Q 2010

Contract 2	I Q 2008	IV Q 2008	IV Q 2010
Contract 3	I Q 2008	IV Q 2008	II Q 2010

*In accordance with PRAG, Section 3.2.3, sub-section 3.2.3.1 it is foreseen to contract additional services through negotiated procedure.

6. Cross cutting issues (where applicable)

6.1 Equal Opportunity:

Equal opportunity for participation of men and women will be assured in all aspects of the project implementation

6.2 Environment:

The project will not have negative environmental effects.

6.3 Minorities:

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

Annex 1 – Logical framework matrix in standard format

LOGFRAME PLANNING MATRIX FOR Project Fiche		Programme name and number	
		Contracting period) expires 31/12/2009	Disbursement period expires 31/12/2012
		Total budget : € 4 million	IPA budget: 4 million
Overall objective	Objectively verifiable indicators	Sources of Verification	
The overall objective is to consolidate efforts already made to stimulate economic growth and employment generation thereby contributing to the creation of a basis for sustainable development and economic dialogue in BiH.	Quality of the institutional infrastructure related to RED/SME improved	BiH Annual Charter reports; DG Enlargement Annual synthesis reports; Government reports; surveys and statistical information.	
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
Consolidate the establishment of a comprehensive institutional and legal framework for regional economic development (RED) and SME development consistent. To continue the improving the skills and knowledge of the business sector (especially SMEs) by fostering a learning environment and enhancing the capacity of local training providers. To strengthen links between the education system	Meeting Level 3 target of the SME Policy Index – Section 3.3 Institutional framework at the end of the implementation period. Meeting Level 3 of the SME Policy Index – Section 1.1 at the end of the implementation period. Meeting Level 3 of the SME	BiH Annual Charter reports; DG Enlargement Annual synthesis reports; Government reports; surveys and statistical information.	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 support to the process of the regional economic development.

<p>and the needs of the economy by creating partnerships and networks to connect teacher training and education policy making with business and entrepreneurship.</p>	<p>Policy Index – Section 1.1 at the end of the implementation period.</p>		
<p>Results</p>	<p>Objectively verifiable indicators</p>	<p>Sources of Verification</p>	<p>Assumptions</p>
<p>Important building blocks of the institutional framework in place setting foundations for the further development of the institutional elements for SME/RED;</p> <p>A national partnership and knowledge management framework for policy development related to SME and Regional Economic Development demonstrated by the functioning of country-wide Council for Entrepreneurship and Development;</p> <p>Enhanced capacity of self assessment and cross-stakeholder ability to undertake objective critique of policies, structures and measures supporting the annual reporting process to the European Commission including timely and quality reporting to national and EU partners with particular reference to the reporting requirements for the European Charter for Small Enterprises;</p> <p>Functional coordination mechanism between various government bodies in-charge of SME and Regional Economic Development in place including functioning of the higher level SME/RED Working Group;</p> <p>Functioning RDAs which effectively co-ordinate and mobilise resources and investment to implement projects in their respective</p>	<p>Fully functional department within MoFTER dealing with SME/RED issues;</p> <p>Agency for Entrepreneurship and Development established;</p> <p>Fund of Entrepreneurship and Development proposed and agreed.</p> <p>A national partnership and knowledge management framework established;</p> <p>DEC established and functioning;</p> <p>Unified reporting system established and functioning</p> <p>Functional mechanism agreed and implemented;</p> <p>SME/RED WG delivering on its mandate.</p> <p>RDAs reaching the development capacities</p>	<p>BiH Annual Charter reports; DG Enlargement Annual synthesis reports; Government reports and decisions on the establishment of required building blocks; RDA activity reports.</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 RED.</p>

<p>regions in line with priorities of RED Strategies, as well as operate as effective intermediaries in advocating with national government for different regional and local stakeholders;</p> <p>Continued support to SME related training based on the established systematic SME training needs' analysis framework and use of developed capacities;</p> <p>Development of business infrastructure projects (business incubators, technological parks, industrial zones, business support units etc) through detailed analysis, stakeholder consultations and commitment as well as hands-on technical support;</p> <p>A national life-long entrepreneurship learning strategy and implementation plan with budgetary commitment;</p> <p>Proposals for revised curricula and teacher training provision for compulsory education levels (ISCED 2 and 3) based on clearly articulated entrepreneurship learning outcomes adopted;</p> <p>Increased public awareness and knowledge about the problems and needs of the issues surrounding the sector of assistance.</p>	<p>required for the sustainable and integrated operations.</p> <p>No. of persons trained; No. of SMEs trained and reporting improvements; No. of LESPS capacities enhanced; No. of new companies started. No of projects developed and financed; No. of technical assistance measures offered.</p> <p>A national life-long entrepreneurship learning strategy and implementation plan with budgetary commitment agreed Meeting Level 3 of the SME Policy Index – Section 1.1.</p> <p>Communication strategy adopted and mobilized</p>		
Activities	Means	Costs	Assumptions
<p>Activity 1: 1.1. National Entrepreneurship Learning Partnership 1.2. Life-long Entrepreneurship Learning Strategy 1.3. Entrepreneurship in the primary and secondary education system (ISCED 2 and ISCED 3)</p>	<p>Technical Assistance project</p>	<p>€4 million</p>	

<p>Activity 2: 2.1. National partnership, coordination and knowledge management framework; 2.2 Institutional and legal framework for RED and SME;</p>	Technical Assistance project	
<p>Activity 3: 3.1 SME Training Needs Analysis Framework 3.2 Management and skills development training schemes 3.3 Business Infrastructure Project Development Facility</p>	Technical Assistance project	

ANNEX II: amounts (in €) Contracted and disbursed by quarter for the project

Contracted																	
2007		2008				2009				2010				2011			
	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EU Support to institutional capacity building for Regional Economic and SME Development - phase III		2.5 M															
SME Training and related business infrastructure consultancy - phase II					1 M												
Promoting Entrepreneurship Learning in BiH					0.5 M												

Cumulated		2.5 M			1.5 M												
Disbursed																	
EU Support to institutional capacity building for Regional Economic and SME Development - phase III			0.75 M		0.75 M				0.75 M			0.75 M					
SME Training and related business infrastructure consultancy - phase II						0.3 M			0.3 M			0.3 M	0.1 M				
Promoting Entrepreneurship Learning in BiH						0.15 M			0.15 M			0.15 M	0.05 M				
Cumulated			0.75 M		0.75 M	0.45 M			0.75 M	0.45 M		1.2 M	0.15 M				

ANNEX III 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. However, the short and medium term priorities of the European Partnership remain largely unaddressed.

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."*

Link with EU Charter on SMEs

The BiH's targets under regular reporting exercise for 2006 are: 1) Adopt final Proposal of Strategy on Working Group, and open process of it's adoption in legal procedure (2005 Carry-over); 2) Establishment of Council for Development and Entrepreneurship on the State level.

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.

Link with national/ sectoral investment plans (where applicable)

In the framework of European Charter for SMEs and PRSP, BiH has committed to design and adoption of a *medium-term (2005-2007) 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 drafting process and adoption of the strategy has, however, not survived the political process in BiH. The Strategy document remains at political stand-still with Republika Srpska's opposition to the proposed state-level

structures⁶ and the responsible state ministry inept to move the process from the current deadlock⁷.

The next steps in the Strategy adoption procedure should have been as follows:

- The public debate in both entities and Breko district;
- Working group for Monitoring of implementation of the BiH PRSP discuss, agree and incorporates inputs received during the public debate;
- Working group for Monitoring of implementation of the BiH PRSP delivers the Strategy to Council of Ministers of BiH for adoption.

⁶ State law on SMEs promotion and development, Agency and Fund for SME and Fund Development etc;

⁷ RS Government Conclusions on BiH SME Strategy from 05/05/2005;
RS Government Conclusions on BiH SME Strategy from 11/05/2006.

ANNEX IV Details per EU funded contract - TA contracts:

Contract 1

Proposed position in the project	Man/month	
Team Leader (SME expert)		22
RED Advisor		22
Fund Advisor M		15
Long Term Local Experts		110
STE Pool		15

Contract 2

Proposed position in the project	Man/month	
Team Leader		22
Long Term Local Experts		110
STE Pool		15

Contract 3

Proposed position in the project	Man/month	
Team Leader		17
Long Term Local Expert		17
STE Pool		6