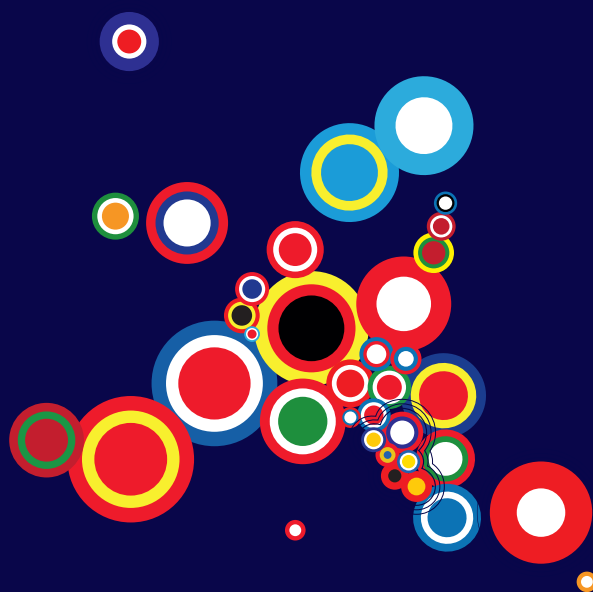




## INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

### COUNTRY

### Strengthening SMEs Competitiveness



#### **Action Summary**

The Action aims to support the recovery process of flood affected SMEs and municipalities and improve SME competitiveness in the context of an integrated local development. The assistance would enhance access to finance for SMEs of the wood, metal and agribusiness sector and would contribute to improved competitiveness of SMEs in selected business locations through the local partnerships and implementation of value chain initiatives.

At the local level, SMEs should benefit from the pilot implementation of measures which will promote the private sector needs through partnerships which will focus on competitiveness, innovation and jobs creation. The involvement of local actors in the implementation of the Small Business Act would help the country to improve its performance in dimensions reflecting SMEs competitiveness. Finally, the involvement of SMEs and municipalities in the flood affected areas would provide immediate EU assistance for economic recovery and social integration country-wide.

<b>Action Identification</b>	
<b>Programme Title</b>	Special Measure for flood recovery and flood risk management
<b>Action Title</b>	Strengthening SMEs Competitiveness
<b>Action Reference</b>	IPA 2014/ 037-703. 3/ Special measure on flood recovery and flood risk management / Strengthening SMEs Competitiveness
<b>Sector Information</b>	
<b>ELARG Sectors</b>	Competitiveness and Innovation
<b>DAC Sector</b>	32130 - SME development
<b>Budget</b>	
<b>Total cost (VAT excluded)<sup>1</sup></b>	EUR 9 million
<b>EU contribution</b>	EUR 9 million
<b>Management and Implementation</b>	
<b>Method of implementation</b>	Indirect
<b>Implementing Agency</b>	GIZ
<b>Location</b>	
<b>Zone benefiting from the action</b>	Bosnia and Herzegovina
<b>Timeline</b>	
<b>Deadline for conclusion of the Financing Agreement</b>	at the latest by 31 December 2015
<b>Contracting deadline</b>	3 years following the date of conclusion of the Financing Agreement, with the exception of the cases listed under Article 189(2) Financial Regulation
<b>End of operational implementation period</b>	6 years following the date of conclusion of the Financing Agreement.

---

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

## 1. RATIONALE

### PROBLEM AND STAKEHOLDER ANALYSIS

Although Bosnia and Herzegovina's SMEs operate in a **very complex business environment**, they have created over 60% of GDP and 40% of employment before the **catastrophic flooding** which have recently affected the country. Bosnia and Herzegovina has been hit by torrential rains in May 2014 creating the worst **floods** experienced in the past 100 years. Destruction of residential buildings, roads and local infrastructure has left **the population of the flooded areas**<sup>2</sup> extremely vulnerable. The magnitude of the natural disaster and its impact on the overall macroeconomic situation is yet to be determined. However, rough estimations indicate that some 25,000 jobs will be affected in addition to continued decline in the number of country-wide SMEs caused by reduced market opportunities over the past years. Especially in the agricultural sector country-wide GDP losses of 24 % can be expected. However, apart from these recent challenges Bosnia and Herzegovina has been slower than many neighbouring countries to adapt to the market changes. With less than 8 SMEs per 1,000 people, compared to the EU average of 40 SMEs, it lags behind other countries in the region in the stimulation of entrepreneurship. Concretely, in terms of SMEs export, none of the 100 largest exporters from Bosnia and Herzegovina fall under the category of small enterprises, while the export of lower added value products prevails amongst SMEs. Export of innovative products (medium and high-tech) and knowledge-intensive services is also amongst the lowest in Europe. While businesses in general spend less on innovation in Southern East Europe than any other region in Europe, investment in research and innovations is significantly below 1% of GDP in BiH. The **World Bank's Doing Business 2014** report ranked Bosnia and Herzegovina 104<sup>th</sup> out of 185 countries in ease of doing business. In the most recent **Global Competitiveness and Innovation Index**, Bosnia and Herzegovina ranks 87<sup>th</sup> out of 148 countries, with particularly low scores in innovation and business sophistication, reflecting the low level of commercialisation of research and development results.

The fact that 99% of businesses in Bosnia and Herzegovina are SMEs, of which a vast majority operate in local markets, the local communities have a crucial role to play in helping to improve the business climate and encourage business investments. The **key stakeholders** in this process in Bosnia and Herzegovina, besides SMEs, include entities, municipalities, RS Republic agency for SME development, local and regional development agencies, clusters and business associations, innovation support organisations and NGOs. The lack of access to finance for SMEs, coupled with a low level of innovation outputs and weak linkages between industry and universities are the major impediments to knowledge-based growth and local competitiveness. Further, it can be expected that SMEs are the ones that will have to bear the economic recovery after the flood disaster for the most part. The cooperation between entities, municipalities and SMEs can lead to a more effective, efficient and needs-based recovery and development to the benefit of those who were severely hit by the floods.

These conditions highlight a need for an **integrated approach to economic and social development**, with a **particular focus on SMEs competitiveness, innovation and growth at the local level** that is **essential for economic recovery**.

This Action aims to reduce barriers to **SMEs' access to finance specifically during the recovery process** and provide quality **business and innovation support**. It will focus on enhancing competitiveness of SMEs with growth potential in most dynamic sectors through an **area-based approach** to local economic development. This approach is based on local public-private dialogues which aim to promote local economic development through an implementation of measures along selected value chains. Furthermore, clustering amongst the relevant local economic development partners would be extended to include inter-municipal and entity level co-operation, which could be

---

<sup>2</sup> The term "flood affected" / "flooded" refers to SMEs and areas affected by floods and/or landslides

used as a driver for a faster **reintegration of flood affected areas into existing and well-functioning local development models.**<sup>3</sup>

#### **RELEVANCE WITH THE IPA II STRATEGY PAPER AND OTHER KEY REFERENCES**

This Action directly addresses priority 4.3 **Competitiveness and innovation**: local development strategies of the **Indicative Strategy Paper 2014-2017** : "IPA II will focus on the economic and social development at the local level, building on the ownership and partnership of local and regional stakeholders, including municipalities, private enterprises, in particular SMEs, and education, training and research institutions, cooperatives, development agencies, non-governmental organisations and civil society. In the SME sector, access to green products, innovative technology, business support services and finance for local entrepreneurship, particularly for production and export-oriented SMEs, remains limited". The priorities outlined in the **Multi-Country Strategy Paper (MCSP) 2014-2020**, which points out that all countries in the region should strengthen their economic governance and competitiveness by stimulating key long-term drivers of growth, have also been reflected through this Action, which would start with SMEs recovery and result in increased SMEs competitiveness: provision of **grants** to SMEs of the **wood, metal and agribusiness sector** to compensate damages caused by **floods** and develop **matchmaking schemes** for temporary dislocation or outsourcing of production.

This Action will implement **an integrated area-based local development programme** in 10 municipalities by **clustering all relevant partners** to stimulate private sector initiatives and **promote value chains** and the use of innovative technologies in competitive sectors (i.e. wood and food processing, tourism).

The components would aim at creating synergies in particular in **the municipalities** which have been **seriously affected by the recent floods**, and whose economies would require **some post-crisis measures for the rehabilitation of business infrastructure** prior to being able to absorb standard commercial lending.

The priorities of this Action are reiterated in the **Stabilisation and Association Agreement** which places the focus on industrial cooperation, SMEs development and training. It has been designed to boost market-oriented and demand-driven development of local economies through value chain and cluster development, access to finance, upgrading production standards and fostering local partnerships. Furthermore, the Action will contribute to the country's efforts to cope over the long-term with competitive pressure and market forces within the Union, as defined in the EU **"Enlargement Strategy and Main Challenges 2013-2014"**. The EU **Progress Report 2014** points at low degree of competitiveness and considerable weaknesses in the business environment which continue to negatively affect private sector development. "The policy actions for business support remain patchy and entrepreneurs still face considerable obstacles to conduct business across the Entities' borders". In the area of **research and innovation**, Bosnia and Herzegovina has adopted the framework law on science and the strategy for science development, however, the investment in research, is still very low (less than 0.20 % of GDP).

This Action is also aligned with the mutually reinforcing priorities of the **SEE 2020** based on the Europe **2020 Strategy**, whose main goal is to bring the **SMEs competitiveness** into focus. It is primarily in line with smart growth by supporting knowledge and innovation based on human capital. However, it will also address the principles of sustainable growth (by promoting competitive economy) and inclusive growth (by contributing to the social and territorial cohesion), because the Action will stimulate SMEs competitiveness, innovation, employment, energy efficiency and skills development in Bosnia and Herzegovina.

---

<sup>3</sup> This would include LEADER-type approach as a local development method which allows local actors to develop an area by using its endogenous development potential.

Finally, **The Small Business Act (SBA)**, and in particular, the SBA principles also emphasize the need for helping SMEs to take advantage of the opportunities offered by the Single Market and for upgrading their **skills and all forms of innovation**. This Action is expected to strongly contribute to an improved Bosnia and Herzegovina's scoring in the SME Policy Index on indicators related to SMEs competitiveness. This will be achieved by strengthening SMEs' capacities for the skills gap analysis and by an improved vertical coordination between the different levels of governance. Municipalities will be trained to develop and share information with the institutions responsible for country-wide reporting on SBA implementation.

#### **SECTOR APPROACH ASSESSMENT**

Bosnia and Herzegovina is lacking an overall socio-economic development strategy, which is presently preventing the country to move towards a sector approach to SMEs development. However, following the adoption of the Council of Ministers' programme for 2014<sup>4</sup>, the Ministry of Foreign Trade and Economic Relations was officially charged with the role of preparing the State-level SME strategy for the period 2014-2020. Also the Ministry of Foreign Trade and Economic Relations is planning to update Bosnia and Herzegovina Agriculture, Food and Rural Development Harmonisation Strategic Plan 2009-2011" and "Bosnia and Herzegovina Agriculture, Food and Rural Development Operational Programme 2009-2011 through support of Action Local Integrated Development (LID) from IPA 2004.

Therewith, following the adoption of the Council of Ministers' programme for 2014, the Ministry of Foreign Trade and Economic Relations was officially charged with the role of preparing the State-level Rural Development Plan.

Competence for the SMEs sector is on entity level. In relation with that the objectives for SMEs sector development in Bosnia and Herzegovina are defined in the existing SMEs Strategies and/or **Action Plans at the Entity** (including the Brcko District) and the Cantonal level. The priorities for SMEs development in Republika Srpska are defined in a new SME Development Strategy for 2014-2018 and programmes for the promotion of clusters and women entrepreneurship which focus on competitiveness, entrepreneurial learning and business environment. In the Federation of Bosnia and Herzegovina, the priorities for SMEs development are defined in the Strategy for Economic Development for 2009-2018 and the Action plan for the period 2013-2015. Brčko District defined its SMEs development priorities in its Development Strategy for 2008-2017.

Most of the local (Cantonal and municipal) strategies were developed with the assistance of regional, local and other development agencies, and their priorities are very broadly defined and donor-driven. As a result, at the local level there are a variety of strategies relevant for the development of SMEs, mainly being stand-alone actions which often do not specify financial allocations, and which have seen little progress made in their actual implementation. Most **municipalities** have their own development strategies and, in some cases, sector-specific strategies. Again, these activities are defined as stand-alone actions and there are no capacities for their implementation, monitoring and/or evaluation.

To ensure a better coordination of donors' funding, donor initiatives related to SMEs support are coordinated by the Ministry of Foreign Trade and Economic Relations, which also coordinates the Small Business Act activities.

#### **LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE**

The Action will build on the achievements and best practices of the previous IPA technical assistance and grant schemes related to SMEs, regional and local economic development and tourism sector.

---

<sup>4</sup> CoM Programme adopted on 80<sup>th</sup> session held on January 22, 2014

Lessons learned from this assistance indicate that commitment and ownership over the reform process are indispensable preconditions for success. Inadequate absorption capacities of the relevant institutions responsible for SMEs development and insufficient involvement of SMEs are the main reasons behind the limited impact of previous EU assistance. Alongside a further strengthening of the administration through future assistance should include all relevant stakeholders (state, entity and local level) at the grassroots level to stimulate a bottom-up approach in articulating the needs of the private sector and creating more direct and sustainable benefits for SMEs and the economy of Bosnia and Herzegovina.

**The Gesellschaft für Internationale Zusammenarbeit (GIZ)** has extensive experience in neighbouring countries in the area of SMEs competitiveness and improvement of business and investment climate; more precisely, it has cooperated with 14 partners from the private sector (5 chambers, 9 associations) providing 26 new/improved services in the selected sectors (i.e. EU project office for ICT cluster to access EU funds), studies in ICT and agribusiness for local and foreign investment.

**The GIZ** has also implemented innovation systems components within the SMEs Competitiveness project, and supported five R&D institutions and 14 associations with applications for joint research initiatives and introduction of new technologies and innovative management concepts. Support was given for capacities of training institutions and SMEs for accessing funds. Five new Quality Infrastructure services have been developed (e.g. testing service in ecological agribusiness, EU-standardized, important requirement for access products to EU market). There has been an increase of demand and diversification of services of testing institutions, improvement of quality that all significantly increased knowledge in applying for EU funds in the private sector (i.e. cluster and associations).

Concrete and tangible inputs were evident in the local initiatives and partnership activities support by grants schemes IPA 2008 and IPA 2011 aiming to support SMEs Competitiveness; IPA 2007- EU Support to Institutional Capacity Building for Regional and Local Economic and SME, under which strong capacity building program was provided on various SME development topics, such as business clusters, management and administration of business zones, financial instruments for SMEs, development of feasibility studies for investment projects, business planning, FDI attraction and SME consulting. IPA 2009 is providing bankable business infrastructure advisory services. This Action will create strong synergies with the Enterprise Development and Innovation Facility (EDIF), being the regional initiative aimed at increasing the financial resources made available to SMEs and providing technical assistance for strategic investments, where raising of local-level capacities to use such facilities is thought to be the most significant one. This Action will also build upon the results of the SMEs related project from the IPA 2013 package that is yet to be implemented. The main activities which will support SMEs competitiveness refer to a direct transfer of knowledge and exchange of good practices based on implementing the Small Business Act through SMEs cooperation in the wider regional and EU business and innovation network.

Rural Livelihood Development Project (RLDP), financed by an IFAD loan, OPEC Fund for International Development (OFID) loan and contributions from both entities' governments, support sustainable livelihoods, particularly the incomes and employment, in project area rural communities, through four main components: (i) Agricultural Production and Farmer Organisation, (ii) Rural Enterprise Development and (iii) Rural Finance. Some of project areas are situated in flooded municipalities.

In the period 2007-2013, Bosnia and Herzegovina participated as a full member in the Seventh Framework Programme for research and technological development (FP7), COST and the EUREKA networks, Culture 2007-2013 programme, Europe for Citizens programme and MEDIA 2007 programme. Preparations for participation in the new EU research and innovation programme Horizon 2020 for the period 2014-2020 have been initiated as well.

## LOGICAL FRAMEWORK MATRIX<sup>1</sup>

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (OVI)	SOURCES OF VERIFICATION	
To contribute to more dynamic economic and social development through an integrated approach for strengthening SMEs competitiveness.	<ul style="list-style-type: none"> <li>Doing Business, Distance to frontier, score (World Bank)</li> </ul>	Doing Business Report (World Bank)	
SPECIFIC OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (OVI)	SOURCES OF VERIFICATION	ASSUMPTIONS
To re-establish (after the flood disaster) and improve competitiveness of selected business locations and SMEs	<ul style="list-style-type: none"> <li>Turnover and number of employees in SMEs benefitting from improved access to finance (grants and loans) and advisory services</li> <li>The municipal capacity index</li> <li>Private sector support through public private dialogue and value chain</li> <li>Innovative cooperation initiatives between public and private sector</li> </ul>	Municipal capacity index assessment  Proposals of municipalities, cantons or entities Value chain forum statistics/ minutes of the meetings Statistics Agency of BiH, RS and FBiH Institute for statistics	Political and macro-economic stability  Stability of the financial sector  Sufficient market demand
RESULTS	OBJECTIVELY VERIFIABLE INDICATORS (OVI)	SOURCES OF VERIFICATION	ASSUMPTIONS
<b>Result 1:</b> SMEs of the wood, metal and agribusiness sectors have partially recovered.	<ul style="list-style-type: none"> <li>Enterprises in flood affected municipalities successfully applied for recovery funds (grants and loans)</li> <li>Preservation or re-establishment of production capacities through grants and matchmaking schemes.</li> </ul>	Number of approved credits and grants (paid out of special recovery funds) SME interviews	Financial institutions will offer special recovery credit lines
<b>Result 2:</b> Strengthened management capacities of 10 municipalities to support economic recovery and development, based on the LEADER-type approach. <sup>2</sup>	<ul style="list-style-type: none"> <li>Introduced instruments for economic recovery and development.</li> <li>Inter-municipal cooperation capacities including cooperation/linkages between flood affected and non-affected improved by 20 % in selected areas.</li> <li>Entities, cantons and municipalities have contributed in 4 cases of good SBA practices</li> </ul>	Baseline and progress assessment  Municipality index assessment report  Textbooks, Conferences, Webpage etc.	
<b>Result 3:</b> Cooperation between the public and private sectors to support economic recovery and strengthen competitiveness of selected business locations and their SMEs is improved.	<ul style="list-style-type: none"> <li>Measures for economic recovery and/ or business development implemented in pilot municipalities.</li> <li>Small Business Act (SBA) implemented in five pilot municipalities</li> <li>SMEs confirm economic recovery</li> </ul>	Minutes of the Public Private Dialogue  Baseline and Progress Assessment Survey of flood affected SMEs	

<sup>1</sup> Area based approach: 10 municipalities to be selected according to commitment and economic potential with a preference for municipalities affected by flood disaster

<sup>2</sup> LEADER, („Links between the rural economy and development actions“) is a local development method which allows local actors to develop an area by using its endogenous development potential. The LEADER approach formed one of the four axes of EU Rural Development Policy 2007–2013. Since the new EU funding period 2014 have started, it has been replaced by “Community Led Local Development” (CLLD), which is now used for implementing LAG’s through the bottom up approach.

<p><b>Result 4: GIZ</b></p> <p><b>Inclusive business models along value chains are strengthened.</b></p>	<ul style="list-style-type: none"> <li>• value chain forums established and functional</li> <li>• value chains developed and supported in different competitive sectors (agriculture, wood, metal).</li> <li>• business support providers offer new specific and innovative training/ advisory packages with modules</li> </ul>	<p>Minutes of the value chain forums' meetings</p> <p>Evaluation forms of trainings</p>	
<b>ACTIVITIES</b>	<b>MEANS</b>	<b>OVERALL COST</b>	<b>ASSUMPTIONS</b>
<p><b>Activities to achieve Results 1:</b></p> <ul style="list-style-type: none"> <li>• Call for proposal to select flood affected SMEs, rapid technical assessment (based on results of rapid needs assessment of EU/WB/UN), matchmaking schemes, advisory services to enhance absorption capacity of SMEs to utilise funds and to prepare business plans, approval and provision of grants by grant committee</li> </ul>	<p>Indirect Management Delegation Agreement (IMDA) with GIZ (activities 1-4)</p>	<p>9.000.000 €</p>	
<p><b>Activities to achieve Results 2:</b></p> <ul style="list-style-type: none"> <li>• Selection and capacity building of municipalities in economic recovery and LED and strengthening inter- municipal cooperation for joint projects preparation (e.g. joint economic recovery, joint investment promotion, branding and implementation of best practice)</li> </ul>			<p>Municipalities willing to participate in the programme</p>
<p><b>Activities to achieve Result 3:</b></p> <ul style="list-style-type: none"> <li>• Implementation of selected SBA principles according to conducted gap analysis and needs of SMEs and dissemination of good practices of SBA implementation, development and implementation of support packages for flood affected SMEs</li> </ul>			<p>Stakeholders and SMEs willing to participate in PPD platforms</p>
<p><b>Activities to achieve Result 4:</b></p> <ul style="list-style-type: none"> <li>• Value chain analysis by identification implementation and support of measures for sectors with potential of growth and need for economic recovery and key actors with capacity building of SME providers involved in value chains</li> </ul>			<p>SMEs willing to participate in capacity building</p>



## ADDITIONAL DESCRIPTION

The methodology of the programme is based on a multi-level approach. The methodological approach for local and regional economic development focuses on mobilising actors from the public and private sectors.

**The GIZ** will support economic recovery and improvement of competitiveness. The assistance for the revitalisation of SMEs sector and the flood affected municipalities, which will be designed on the basis of the RNA results, would include provision of SMEs finance (grants) and the implementation of an area based development programme. In addition to direct support to SMEs the programme will contribute to the rehabilitation of jointly used business infrastructure. The GIZ will gradually extend its initial recovery support to flood affected enterprises and municipalities into a more comprehensive programme to boost local competitiveness which will therefore also include non-flood affected locations.

The action will start with a call for proposal to identify recipients of grants for business related rehabilitation measures in the private and public sector. This support will be provided to the wood, metal and agribusiness sector. In order to avoid market distortion, SMEs have to provide business records proving business viability prior to flooding, evidence on the flood caused damages, and proof of the exclusive use of grants to eliminate these damages. The Grant Committee will define the conditions and volume of co-funding by recipients as well as other conditions for allocation of grants such as the number of jobs to be re-established.

In addition to the flood recovery grants, a second grant scheme will be related to issues identified through the public-private dialogue as a development priority. Inter-municipal projects and initiatives related to innovation and new technologies will have an advantage. Detailed priorities, selection criteria and rules for application will be developed and discussed in public-private dialogue forums. Before calls are launched, specific tailored training will be provided to the target groups in order to ensure good quality proposals. An independent evaluation panel will select the best proposals on a competitive basis. Support will be available to grant beneficiaries during the implementation of their project.

With a certain time-lag after the start of the flood recovery interventions the area based local economic development assistance will begin with the selection of municipalities. They will be chosen according to a set of criteria which include the willingness to cooperate and their economic potential. Equal participation of both Entities will be taken into account. The GIZ is currently implementing a local economic development program (ProLocal) with 10 municipalities<sup>7</sup>. Some of these have been affected by flooding, and will equally benefit from recovery measures implemented in the framework of this Action.

**The GIZ** approach will support SMEs in adapting to the demands of a market economy by providing them with specific training programs and best international expertise regarding challenges relevant to their expansion and growth. Linking locations which have been affected by floods but have a promising economic development potential with those which have not been directly affected by flooding, will create additional impact on economic growth. Furthermore, the GIZ will support the development of innovative products and services which will contribute to strengthening SMEs' ability to become more efficient and conduct business in an innovative way. The project will support SMEs by providing them with specific, tailor-made consultancy services in the selected sectors. It will in addition build local business development services and a domestic consultancy industry thus contributing to the implementation of the Small Business Act, which emphasises the importance of the country's framework for SMEs' growth and expansion. The fourth component of this project is in line

---

<sup>7</sup> Kozarska Dubica, Srbac, Gradiška, Laktaši, Teslić, Tešanj, Žepče, Jablanica, Konjic, Prozor-Rama

with the principles of the SBA implementation related to the necessity for an upgrading of skills and all forms of innovation support.

## **RISKS**

Due to different administrative structures and a lack of coherent strategies, planning security for municipalities is limited. The programme operates in a context in which it is difficult to influence the crucial factors at the state and entity levels. Additional risk is the willingness/commitment to cooperate and communicate in a sustainable manner (cooperation of municipalities and between the public and private sector). This is further strained by the lack of continuity in the budget and by the restrictions this imposes on the medium and long-term strategic orientation of government-operated promotion programmes including those to support economic recovery. The resulting lack of planning security for private sector investments affects the urgently required modernisation of value chains. Moreover, the widespread lack of openness for innovation and investment on the part of value chain actors represents a risk for success of the programme. Many banks are not sensitized and qualified for loans in the SME sector. This can lead to a lack of access to finances for SMEs especially those which are already heavily affected by flood disaster.

## **3. IMPLEMENTATION ARRANGEMENTS**

GIZ will be responsible for the implementation of this Action. GIZ methodology of the programme is based on the multi-level approach. Interaction of measures at the following four levels is targeted: policy frameworks at macro-level (entities and municipalities), business-related non-financial and financial services at the mid-level, enterprises at the micro-level, and socio-economic structures/networks and behaviour patterns at the meta-level.

The bottom-up approach from the municipal level to the cantonal, entity and District Brčko levels will have a positive influence on the economic development and planning process.

The instruments include e.g. strategic project management (from analysis via planning and implementation to monitoring and evaluation), assessment procedures for the investment climate and measures to improve frameworks for SME development. This is supplemented by advisory inputs on process optimisation and organisational development, methods and instruments for analysing and developing value chains, regional planning concepts, and social (soft) skills for management of networks and for public relations (PR).

## **ROLES AND RESPONSIBILITIES**

GIZ will be responsible for the overall management and implementation of the Action. A Project Steering Committee will guide the implementation of the Action and include main institutional stakeholders in accordance with common practice. The indicative list of institutions involved in the Project Steering Committee includes representatives of: Ministry of Foreign Trade and Economic Relations (MoFTER), Federal Ministry of Development, Entrepreneurship and Crafts, RS Ministry of Economic Relations and Regional Cooperation, RS Ministry of Industry, Energy and Mining, Federal Ministry of Justice, FBiH Ministry of Agriculture, Water management and Forestry, RS Ministry of Agriculture, Forestry and Water management, RS Ministry of Administration and Local self-governance, Brčko District of BiH Government, FBiH and RS Association of Municipalities (Economic Commissions).

At the local level, wider range of stakeholders will be involved in the guidance of the Action and will include local development agencies and municipalities, regional development agencies and relevant cantonal ministries.

## **IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING**

This Action will be implemented by means of an Indirect Management Delegation Agreement with GIZ. The duration of the action will be three years. GIZ will be responsible for achievement of results concerning economic recovery of SMEs in the wood, metal and agribusiness sector as well as local economic development through area based approach by means of service contracts and grants.

Delegation agreement and co-financing with German Ministry of Economic Cooperation and developments (BMZ) project implemented by GIZ.

#### **4. PERFORMANCE MEASUREMENT**

##### **METHODOLOGY FOR MONITORING (AND EVALUATION)**

The GIZ will be responsible for monitoring the implementation of the Action in line with the set of indicators overleaf. At the start of implementation, the GIZ will refine the matrix of indicators for the Action after undertaking the necessary research and data collection to define accurate baselines and realistic targets. The matrix of indicators will be discussed with the EUD and approved by the Steering Committee. The monitoring arrangements (including data to be collected, responsibilities, tools and frequency of monitoring activities) will be detailed in the Implementation Manual to be developed at the start of the Action. An independent evaluation will be conducted at mid-term and upon completion of the Action.

## INDICATOR MEASUREMENT

Indicator	Description	Baseline (2010)	Last available (2013)	Milestone 2017	Target 2020	Source of information
<b>Overall objective</b>	<b>CSP indicator(s) (outcome/impact)</b>					
Doing Business – Distance to frontier-score	The distance to frontier score aids in assessing the absolute level of regulatory performance and how it improves over time. This measure shows the distance of each economy to the “frontier,” which represents the best performance observed on each of the indicators across all economies in the <i>Doing Business</i> sample since 2005.	52,95	56,08	Still under discussion (tentatively 61-63)	Still under discussion	World Bank
<b>Specific objective</b>	<b>Outcome indicator</b>					
Turnover and number of employees in SMEs benefitting from improved access to finance (grants and	Increased value of the turnover and a number of employees in SMEs having benefitted from access to finance (grants and loans) and advisory services	This activity was not part of LRED <sup>8</sup>	This activity was not part of ProLocal	Turnover: Baseline + 15 %	Turnover: Baseline + 20 %	SME survey Biannual report

<sup>8</sup> Local and Regional Economic Development Project (LRED) is ProLocals predecessor project (2010-2012)

Indicator	Description	Baseline (2010)	Last available (2013)	Milestone 2017	Target 2020	Source of information
loans) and advisory services	two years after the received support		Baseline to be assessed at the start of this project	Number of employees: Baseline + 10 %	Number of employees: Baseline + 15 %	
The municipal capacities strengthened compared to baseline index	Municipal capacity index (MCI) assesses the municipal capacities in local economic development with a maximum score of 100. It was already assessed in LRED project. Five LRED municipalities continued the cooperation within ProLocal (1 <sup>st</sup> assessment in 2010) and five municipalities were added and assessed for the first time in 2013.	LRED: 37 (average of all assessed municipalities)	ProLocal: 48 (average of all assessed municipalities)  New municipalities under this action: to be assessed at the start of this project	ProLocal and new municipalities: Baseline +20 % (ProLocal: 58 in average)	ProLocal and new municipalities: Baseline +30 % (ProLocal: 63)	MCI assessment Baseline report Biannual reports
Private sector support through public private dialogue and value chain	Number of joint measures for private sector addressed through public private dialogue and increased number of stakeholders involved in value chain	This activity was not part of LRED	<u>PPD measures</u> ProLocal: 3; This action: Baseline at the start of this project  <u>VC stakeholders</u> ProLocal: VC support started in June 2014, figures are not yet available This action:	<u>PPD measures</u> ProLocal: 10; This action: 6  <u>VC stakeholders</u> ProLocal and measures under this action: Baseline +15 %	<u>PPD measures</u> ProLocal: 15; This action: 10  <u>VC stakeholders</u> ProLocal and measures under this action: Baseline +30%	Minutes of PPD and VC team meetings Biannual reports

Indicator	Description	Baseline (2010)	Last available (2013)	Milestone 2017	Target 2020	Source of information
			baseline to be developed at the start of the project			
Innovative cooperation initiatives between public and private sector	Number of innovative cooperation initiatives between public and private sector and research and development institutions established and operational by the end of the project.	This activity was not part of LRED	This activity was not part of ProLocal  Baseline to be assessed at the start of this project	5 cooperations established	5 cooperations operational and 5 more cooperations established	Cooperation agreements and minutes of cooperation meetings Biannual reports
<b>Result 1</b>	<b>Immediate results indicator</b>					
Enterprises in flood affected municipalities successfully applied for recovery funds (grants and loans)	Number of applications for grants provided under this action and commercial loans provided by banks	This activity was not part of LRED	This activity was not part of ProLocal	50 successful applications for grants and 10 for loans	In case of further floods or other natural disasters 20 more successful applications for grants and 10 more for loans	Approval of grant and loan applications Biannual reports
Preservation or re-establishment of production capacities through grants and matchmaking schemes	Number of preserved or re-established production capacities based on grants or matchmaking	This activity was not part of LRED	This activity was not part of ProLocal	50 preserved or re-established	In case of further floods or other natural disasters 30 more successfully re-established or preserved	SME survey Biannual reports

Indicator	Description	Baseline (2010)	Last available (2013)	Milestone 2017	Target 2020	Source of information
<b>Result 2</b>	<b>Immediate results indicator</b>					
Introduced instruments for economic recovery and development	Number of municipalities introducing new management instruments for LED such as export and investment promotion, locational marketing, employment policies to address skilled labor force shortage, new public management instruments etc.	This activity was not part of LRED	ProLocal: 2 management instruments in 7 municipalities  New municipalities under this action: Baseline to be assessed at the start of this project	ProLocal: 3 management instruments in 10 municipalities  New municipalities under this action: 2 management instruments in 8 municipalities	ProLocal: 5 management instruments in 10 municipalities  New municipalities under this action: 4 management instruments in 10 municipalities	Biannual reports Evaluation report
Inter-municipal cooperation capacities including cooperation/linkages between flood affected and non-affected improved by 20 % in selected areas	Municipal capacity index (MCI) was assessed in ProLocal predecessor project Local and Regional Economic Development (LRED). Some LRED municipalities continued the cooperation within ProLocal (5) and some municipalities were added (5) and newly assessed.	LRED (MCI): 3,3	ProLocal overall (MCI): 3,8  New municipalities: Baseline to be assessed at the start of this project	ProLocal: 4,5  New municipalities: Baseline +20%	ProLocal: 5  New municipalities: Baseline +30%	MCI assessment Baseline-Study Biannual reports
Entities, cantons and municipalities have contributed in 4 cases of good SBA practices	Number of cases including contributions of public institutions to good practices of implementation of measures from SBA principles	This activity was not part of LRED	ProLocal: 0 cases This action: 0 cases	ProLocal and this action: 6 cases	ProLocal and this action: 10 cases	Biannual reports and evaluation report

Indicator	Description	Baseline (2010)	Last available (2013)	Milestone 2017	Target 2020	Source of information
<b>Result 3</b>	<b>Immediate results indicator</b>					
Measures for economic recovery and/ or business development implemented in pilot municipalities	Number of measures for economic recovery and business development	This activity was not part of LRED	ProLocal: 3 Baseline: 0	ProLocal: 10 This action: 6	ProLocal: 15 This action: 10	Biannual reports and evaluation report
Small Business Act (SBA) implemented in five pilot municipalities	Number of measures from SBA principles and number of municipalities implementing measures from SBA principles	This activity was not part of LRED	ProLocal: 0 measures  This action: Baseline: 0 measures	ProLocal: 3 SBA measures in 5 pilot municipalities  This action: 3 SBA measures in 5 pilot municipalities	ProLocal: 3 SBA measures in 10 pilot municipalities  This action: 3 SBA measures in 10 pilot municipalities	Biannual reports and evaluation report
SMEs confirm economic recovery	Number of SMEs confirming economic recovery according to interviews/ survey	This activity was not part of LRED	This activity was not part of ProLocal	35 SMEs	In case of further floods or other natural disasters 20 SMEs	SME survey and Biannual reports
<b>Result 4</b>	<b>Immediate results indicator</b>					
Value chain forums established and functional	Number of VC forums established and functioning as dialogue and coordination platforms for VC specific activities	This activity was not part of LRED	ProLocal: VC support started in June 2014, figures are not yet available, tentatively: 0 VC forums  This action:	ProLocal and this action: 5 VC forums established	ProLocal and this action: 5 VC forums functional	Minutes of VC forums Biannual reports



Indicator	Description	Baseline (2010)	Last available (2013)	Milestone 2017	Target 2020	Source of information
			tentatively 0			
Value chains developed and supported in different competitive sectors (agriculture, wood, metal)	Number of VCs selected within the named sectors and number of successful matchmaking between VC actors	This activity was not part of LRED	ProLocal: VC support started in June 2014, VCs and matchmaking opportunities to be selected and identified  This action: VCs and matchmaking opportunities to be selected and identified	ProLocal and this action: 5 VCs, 7 matchmaking deals	ProLocal and this action: 7 VCs, 10 matchmaking deals	Biannual reports and evaluation report
Business support providers offer new specific and innovative training/ advisory packages with modules	Number of new training/advisory packages	This activity was not part of LRED	ProLocal: activities started in June 2014, for ProLocal and this action business support providers need to be identified and training and advisory packages to be developed.	ProLocal and this action: 4 business support providers, 5 packages	ProLocal and this action: 6 business support providers, 8 packages	Biannual reports, Evaluation report

## **5. CROSS-CUTTING ISSUES**

### **ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)**

Actions related to the cluster development and SME support will take into consideration environment protection and green entrepreneurship as cross - cutting issue.

### **ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER NON-STATE STAKEHOLDERS)**

The Action encompasses a civil society element. Representatives from the civil society will take an active role in local partnership activities, particularly in the public - private dialogue activities.

The Action will promote their involvement in designing and implementing different business models. Civil society organisation may contribute directly with their experience in project management and project preparation.

The Action will also strengthen the links between local and regional development agencies and the civil society, and give opportunity to civil society organisations to build their capacities in the field of PPD and value - chain initiatives.

### **EQUAL OPPORTUNITIES AND GENDER MAINSTREAMING**

In Bosnia and Herzegovina the labour market participation of women is low, while 63,1% of young women and men aged between 15 and 24 are unemployed. The Action is aimed at supporting women and youth entrepreneurship by facilitating and improving their access to finance, support to start-ups and access to targeted training and advisory services. Especially equal access to recovery grants will be ensured.

### **MINORITIES AND VULNERABLE GROUPS**

The grant scheme will support projects targeting vulnerable groups and minorities in order to increase their skills, and/or creating the conditions for enabling them to join the active labour market.

## **6. SUSTAINABILITY**

The sustainability will be ensured through the capacity building program created at the municipal and cantonal level, public private dialogue and participative approach in project preparation.

Strong and active participation of SMEs in the design and implementation of concrete projects and initiatives like centres of excellence, technology centres, and one stop shop for investors and start-ups will create ownership and long-term linkages and commitment among partners.

The partnerships will continue to function as the main instrument for discussing needs and creating consensus around newly created initiatives.

Successful municipalities and public private initiatives (by creating centres of excellence) will serve as good practice examples to others.

## **7. COMMUNICATION AND VISIBILITY**

Communication and visibility will be given high importance during the implementation of the Action.

The implementation of the communication activities shall be the responsibility of the beneficiary, and shall be funded from the amounts allocated to the Action. A communication and visibility plan will be

developed at the beginning of the project implementation. The plan will describe communication tools and targets in detail.

The Project Steering Committee will approve and adopt the communication plan. All visibility and communication related measures will be designed and implemented in accordance with the provisions of the Communication and Visibility Manual for EU External actions.

The Action will place particular emphasis on the dissemination of best practices and exchange of information in order to increase the impact of results and ensure conditions for the multiplier effect in other parts of the country.

Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives and the accession process. Actions shall be aimed at strengthening general public awareness and support of interventions financed and the objectives pursued. The actions shall aim at highlighting to the relevant target audiences the added value and impact of the EU's interventions. Visibility actions should also promote transparency and accountability on the use of funds.

It is the responsibility of the beneficiary to keep the EUD fully informed of the planning and implementation of the specific visibility and communication activities.

The beneficiary shall report on its visibility and communication actions in the report submitted to the IPA monitoring committee and the sectoral monitoring committees.