

**COMPETITIVE REGIONAL ECONOMIC DEVELOPMENT
IN NORTH-EAST BOSNIA AND HERZEGOVINA
CREDO
ELABORATION OF THE PROJECT ACTIVITIES
FOR THE SECOND PHASE**

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LIST OF CONTENT

1. CREDO PHASE 1	5
1.1. How the Project was initiated	5
1.2. Goals and Objectives of CREDO	5
1.3. What has been done in CREDO Phase 1	5
1.3.1. Baseline Study and Integrated Economic Analysis	6
1.3.2. Sectoral Approach	7
1.3.3. SMEs and Industrial Sectors	8
1.3.3.1. Wood Industry	8
1.3.3.2. Food Industry	9
1.3.3.3. Metal Industry	10
1.3.3.4. Cross-Sectoral Common Areas	11
1.3.3.5. SME Database	11
1.3.3.6. SME Barometer	11
1.3.3.7. Program "Improve Your Business" (IYB)	12
1.3.4. Municipalities and the Regional Economic Development Board	12
1.3.4.1. Work with Municipalities	12
1.3.4.2. Regional Economic Development Board	13
1.3.5. NERDA Capacities and the External Support (Experts and Consultants)	13
1.4. General Conclusion After Phase 1	14
2. CREDO PHASE 2	15
2.1. Objectives	15
2.2. Main Action Areas in Phase 2	16
2.2.1. Allocation of Resources	16
1. Start-up Activities	17
2. SME Development/ Industrial Sectors	17
2.1. Metal Sector	17
2.1.1. Implementation of the Plan of Activities from CREDO 1	17
2.1.1.1. Analysis of needs for specific education in Metal Sector	18
2.1.1.2. Improving the cooperation between: companies in metal-processing sector, Faculties of Technical Science, Secondary Technical Schools, Unemployment Offices, Government, etc.	18
2.1.1.3. Promotion of possibilities and benefits of a professional career in metal-processing sector	18
2.1.1.4. Gathering data on potential buyers/customers/markets	18
2.1.1.5. Promotion, increasing of reliability and confidence in metal-processing companies in NE BiH	19
2.1.1.6. Support to the Board's initiative to establish the Association of metal-processing sector	19
2.1.1.7. Raising the QA awareness among the metal-processing companies in NE BiH	19
2.1.1.8. Increasing the number of companies in metal processing sector with QA certificates	19
2.1.1.9. Supporting the establishment of effective cooperation between companies in metal-processing sector and R&D institutions	20
2.1.1.10. Analysis of current situation in terms of the state of machinery	20



2.1.2. Monitoring of indicators and update of plan of activities	20
2.1.3. Sessions of the Development Board for Metal Sector	20
2.2. Food Sector	20
2.2.1. Implementation of the Plan of Activities from CREDO I	21
2.2.1.1. Identification of strategic products	21
2.2.1.2. Definition of current requirements in companies in NE BiH according to needs, competitiveness and skills	21
2.2.1.3. Design of courses and trainings offered to companies and creation of a Virtual Training Center	22
2.2.1.4. Analysis of present situation regarding certification and QA	22
2.2.2. Monitoring of indicators and update of plan of activities	22
2.2.3. Sessions of the Development Board for Food Sector	22
2.3. Wood Sector	23
2.3.1. Implementation of the Plan of Activities from CREDO I	23
2.3.1.1. Strengthening of the Development Board for Wood Sector	23
2.3.1.2. Improving the position of the wood processing industry in relations with forestry	23
2.3.1.3. Increase competence and knowledge on marketing and export issues	23
2.3.1.4. Initiate cooperation, discussions between industry and education system representatives in order to meet the needs of industry	24
2.3.1.5. Identification of strategic products for the whole sector	24
2.3.1.6. Presentation of new technology and trends in wood industry (best practices)	24
2.3.1.7. Improve Quality Assurance and Certification in wood industry in NE region	24
2.3.1.8. Initiation and promotion of the idea to establish a National Institute for Wood Testing	25
2.3.2. Monitoring of indicators and update of plan of activities	25
2.3.3. Sessions of the Development Board of Wood Sector	25
2.4. Common Cross-Sectoral Activities	25
2.4.1. SME Barometer	25
2.4.2. B2B Matching	26
2.4.3. Dissemination of findings in sectors at Regional Development Forum	26
2.5. New sectors (ICT, Plastic)	27
3. MUNICIPALITIES	28
3.1. Regional Economic Development (RED) Board	28
3.2. Territorial Database	29
3.3. Barometer of Business Environment	30
3.4. Promotion of Foreign Direct Investment (FDI) Certification	30
3.5. Promotion of the Methodology for Competitiveness Index	31
3.6. Annual Regional Development Forum	32
4. LABOR MARKET	33
5. CREDO DEVELOPMENT FUND	34
5.1. The Main Principles for the Implementation of the Development Fund	35
5.2. Criteria For Industrial Sectors	35
5.3. Eligible Beneficiaries of the Development Fund	36
5.3.1. SMEs and their associations	36
5.3.2. Municipalities	36
5.3.3. Actors on the labor market	36
5.4. The Purpose of the Development Fund for Eligible Beneficiaries	36
5.5. Eligible Interventions of the Development Fund	37
5.5.1. Eligible interventions of the Development Fund for SMEs	37
5.5.2. Eligible Interventions of the Development Fund for Municipalities	37
5.5.3. Eligible Interventions of the Development Fund for the Actors on the Labor Market	37
5.6. Working Principals of the Development Fund	38
5.7. Financial Structure (allocation of resources) of the Development Fund	39
5.8. The Main Selection Criteria for Interventions of Development Fund	39
5.8.1. The Main Selection Criteria for Interventions of Development Fund for SMEs	39



5.8.1.1. Pre-conditions for the evaluation of applications	39
5.8.1.2. Evaluation criteria/selection of applicants (initial proposal)	40
5.8.2. The Main Selection Criteria for Interventions of Development Fund for Municipalities	40
5.8.2.1. Pre-conditions for the evaluation of applications	40
5.8.2.2. Evaluation criteria/selection of applicants (initial proposal)	41
5.8.3. The Main Selection Criteria for Selection of Interventions of Development Fund for Actors on the Labor Market	41
5.8.3.1. Pre-conditions for the evaluation of applications	41
5.8.3.2. Evaluation criteria/selection of applicants (initial proposal):	41
5.9. Monitoring and Evaluation of the Development Fund	42
5.10. Indicators of Success for the Development Fund interventions	42
5.10.1. For SME sector	42
5.10.2. For municipalities	42
5.10.3. For actors on the labor market	42
6. PROGRAM "IMPROVE YOUR BUSINESS"	43
PROJECT CONTROL, EVALUATION AND REPORTING	44
SUSTAINABILITY	44
RISKS AND ASSUMPTIONS	45



1. CREDO PHASE 1

1.1. How the Project was initiated

In June 2007 NERDA signed the contract with Sida for the implementation of the CREDO Project designed to support the competitive regional economic development in NE BiH through two phases. In the first phase the sectoral problems as well as goals and capacities of the business infrastructure interventions were identified with the engagement of over 250 stakeholders, while in the second phase the selected set of interventions is to be implemented through actions of SMEs, municipalities and actors on labor market in the region financially supported through the CREDO Development Fund.

The main philosophy behind the CREDO project is based on the goals-driven process focused on the utilization of capacities, where the identification of problems is based on the definition of measurable goals in such a way that the efforts are directed towards the elimination of obstacles that are the binding constraints for the identified goals.

1.2. Goals and Objectives of CREDO

The main goal of CREDO is to create/formalize and/or sustain jobs, reduce poverty and improve the economic status of NE BiH, through two-phase interventions, supporting SMEs development and growth, applying the NERDA Integrated Economic Development (IED) methodology.

1.3. What has been done in CREDO Phase 1

It has been realized within NERDA team that the a/m goal of CREDO can only be achieved **through systematic interventions** in selected industrial sectors, municipalities and SMEs, in which NERDA took on the role of the one who initiates and facilitates this process. Methodology developed in the first Phase of CREDO project, which provides framework for synergy of actions of key regional stakeholders in economic development process, was branded as **Integrated Economic Development methodology**.

Applying IED methodology, by involving a significant number of stakeholders, including men and women from entire Region, and giving them a chance to provide valuable contribution to the process from its inception, NERDA ensured a **wide ownership of economic development process** clearly positioning itself as the coach.

The regional stakeholders were not only observing and supporting the process - they actively participated in the identification of opportunities and obstacles, definition of the action plan and will be realizing some of the proposed interventions in the second phase.



1.3.1 Baseline Study and Integrated Economic Analysis

Some of the first actions implemented during the Phase 1 were directed towards development of the **Baseline Study of Industrial Sectors**, which presents the results of extensive research and assessment in the following areas:

- Main socio-economic development trends of the NE BiH economic region
- Analysis of selected industrial sectors (including identification of key actors, obstacles and binding constraints for development)
- Identification of sectors with the highest growth potential (including definition of measurable goals for each of the selected sectors)

By the use of the ranking selection method and based on the determined indicators (both quantitative and qualitative) of growth potential, the prioritization of sectors with the highest growth and employment potential resulted in the following list:

- Metal industry
- Food industry
- Wood industry

It was also recognized that an additional fourth sector, called “innovation-technology based sector”, with projects based on the application of the new technologies and on innovative organizational models, should be considered as a priority sector. This “innovation-technology based sector” in the beginning will primarily, but not exclusively, rely on the projects from the ICT sector as well as innovative projects from the sector of processing plastics.

In **Integrated Economic Analysis (IEA)** NERDA supported by an international consultant produced another important strategic document, which determined and streamlined some of the actions proposed for Phase 2. This document was produced by the use of Sida Pro-Poor methodology and it has a strong focus on labor market, identifying obstacles for marginalized groups of population to access the formal labor market. The IEA study substantially affected the portfolio of actions for Phase 2, namely, the decision of NERDA to involve the intervention at the labor market as eligible actions for co-funding from the CREDO Development Fund.



1.3.2 Sectoral Approach

Following the elaboration of the Baseline Study NERDA intensified the work with SMEs through selected sectors. By applying this sectoral approach NERDA ensured focused involvement of SMEs as well as a wider contribution to the growth process of priority sectors.

Besides SMEs, NERDA recognized the municipalities as equally important stakeholders and has identified actions aimed at improving of local business-enabling environment.

The a/m concept of involving different stakeholders in development process was realized by introduction of the new methodology which is based on establishment of sectoral/regional development boards.

Together with international experts NERDA decided to establish four Development Boards with the aim to produce effective results through joint work of selected representatives of the Region. The following Boards were established in Phase 1:

- Development Board for Wood Industrial Sector
- Development Board for Metal Industrial Sector
- Development Board for Food Industrial Sector
- Regional Economic Development Board

The members of the first three sectoral boards are mainly prominent businessmen from the Region, representatives of Academia, and experts from specialized institutions linked to the respective industries.

The members of the Regional Economic Development Board are mayors of municipalities from the Region, and respectful and prominent members of business society as well as representatives of financial organizations and labor market institutions.

Throughout the Phase 1 of the project, the Boards worked closely with NERDA staff supported by local and international experts. Each Board based its work on seven sessions, which were held between May and December 2008.

By application of this sectoral approach and introduction of the Regional Board NERDA is establishing a system that is able to consistently identify problems and reacts to them by designing appropriate plans of actions with wide and continuous participation of key stakeholders.



1.3.3 SMEs and Industrial Sectors

1.3.3.1 Wood Industry

The Development Board for Wood Industry analyzed the current situation in the sector and identified the following main characteristics of wood industry in the NE BiH region:

- Local availability of (renewable) raw materials basis (cca 40 m³ of the wood per capita),
- Long tradition and (internationally recognized) production experience in a wide range of products,
- Skilled labor force,
- Availability of domestic sources of energy (coal and electrical power),
- Relative proximity of large markets.

The Board members and NERDA staff also worked on the creation of list of obstacles for further growth of this sector, which are the problems encountered in the wood industry of the NE BiH region in the post-war period:

- Enormous increase in the number of small saw mills that led to the utilization of high-quality raw material (solid wood) for simple products (with the low-level of finalization),
- Heavy illegal logging (during the war as well as in the post-war period) and uncontrolled export of wood logs, and in this way, transferring value abroad (low-level of value-added components)
- Loss of potentially important markets due to the war and poorly organized presentation in the international markets,
- Heavy dependence on import of wood products from abroad (mainly from Italy),
- Necessity of technological renewal (followed by professional education and specialization)
- Low level of capacity usage (specially in big companies),
- Insufficient level of standardization and certification and poor quality control,
- Impossibility to finance export and investments due to insufficient own accumulation,
- Low energy efficiency in technological processes and low level of utilization of wood waste as renewable bio-fuel.

Having identified these key issues, the Board proposed the following priority specific activities for future:

- The need to focus on the higher level of product finalization, such as production of furniture and laminates.

- Export-oriented production, based on the good quality natural raw materials - "natural products".
- Product certification.

1.3.3.2 Food Industry

The Food Industry Development Board followed the same dynamics of sessions as the other sectoral boards and has identified the main characteristics of food processing industry of NE BiH Region as follows:

- Available and rather significant potential of arable land, as well as potential for fruit cultivation and livestock rearing.
- Great possibilities for substitution of food import with domestic production
- Significant export potential
- Particular opportunities for production (and export) of natural and healthy food.

In addition to that, the Board also listed key issues burdening the sector especially in the post-war period:

- Underdeveloped system of quality management and control and certification of food products at all levels of food chain (not complying with EU directives)
- Low level of value added production (sale of raw materials and semi-finished products)
- Undeveloped marketing of local products (practically, there are no recognized local brands)
- Explicit vertical reproduction incompatibility (according to findings of different researches this presents the main problem for intensification of primary food production)
- Poor connections with distribution chains in the country and abroad (this makes room for significant share of companies from the region in the BiH market)
- Exposure to the competition of well-known and acknowledged brands from the region (often supported by state subventions of mother countries)
- Outdated technology.

In the closing sessions the Board members, NERDA staff and local/international experts closely examined the main development goals and priority activities in the food processing industry in the forthcoming period, defining the following priority actions:



- Harmonization of laws and regulations in the field of quality and safety of products with world standards in order to protect life, health, environment and customers,
- Change the production structure through the development and promotion of domestic products, locally produced, authentic and autochthones products with local and regional attributes (there were identified great potentials for niches markets of **natural food production**)
- Improve the production quality control and, parallel to quality improvements and enlargement of assortment, increase the supply for domestic and local markets,
- Substitute the imported food with domestic products (improving marketing at the local market and better connection with distribution chains in BiH)
- Improve the business efficiency through cooperative relations in the production chain
- Organize and encourage connection to distribution chains in EU
- Initiate activities related to the creation of regional brands.

1.3.3.3 Metal Industry

As was the case with the other two sectoral boards, the Metal Industry Development Board started off with the initial situational analysis of the industry, listing its main characteristics that are relevant for the NE BiH Region:

- In addition to the direct impact, this sector also has an indirect (multiplicative) impact on the development of industry and the whole economy
- This industry sector has a large number of SME's and a high participation in employment, GDP, as well as in the total economy
- High export potential
- Relatively high-accumulative sector (relatively high earning capacity)
- Special development opportunities for business cooperation (inclusion into production chains) and joint ventures with foreign partners -companies from the developed EU countries
- Due to its technological complexity, the sector is suitable for cooperation with high-educational institutions and research centers (initiating cooperation between university and industry)
- There are unused capacities in the sector, as well as the potential for development without major investments

After this thorough analytical work and based on lessons from the study visit to Hungary, the Board concluded that the following activities need to be done so as to ensure higher competitiveness of the metal sector in NE BiH:



- Linking the companies from Metal Sector into production chains and networks in order to create market potential and more efficient production;
- Applying international standards related to quality and safety of the products;
- Engaging and integrating development and research capacities of the region/state in the process of implementation of the Metal Sector Strategy;
- Applying modern methods in company management and marketing.

1.3.3.4 Cross-Sectoral Common Areas

Although each of the three industrial sectors has its specific features and is unique in its own way, still the analytical work showed that all three of them shared some common issues, or better said areas that need improvement.

The areas that all three industrial boards identified as either under-developed or those they deem important but in which they lack the needed skills and knowledge are:

- marketing, especially branding
- continuing education/training
- certification and standardization

1.3.3.5 SME Database

During the Phase 1 NERDA collected data on over 300 companies from the Region for the purpose of analysis of industrial sectors, which were then incorporated into a SME Database. During the visits to companies NERDA staff were accompanied by persons from Municipal Business Development Departments from respective municipalities, who ensured guidance and recommendation for selection of SMEs. The process of data collection is not completed and new companies will regularly be added to the SME Database, while the data on the companies already in the Database will be revisited and updated at least annually. This Database will become NERDA's tool for monitoring of the SME sectors and therefore the maintenance of the Database will be carried onto the Phase 2 of CREDO.

1.3.3.6 SME Barometer

Another tool for assessment of the SME sector that NERDA introduced in the Phase 1 of CREDO was the **SME Barometer**.

This is one of the most frequently used tools in analysis of the situation in modern markets and findings of the researches carried out by the Barometer are a common basis for decision-making for both micro (company) and macro level (region, entity and state).

The SME Barometer as a modern solution for market research has the purpose to ensure proper facts for evaluation, investigation and making conclusions (decisions) about present and expected trends in economy.

1.3.3.7 Program “Improve Your Business” (IYB)

Following the tendering procedure for international Training Organization for the delivery of the Program (Subcontractor), NERDA worked closely with the Subcontractor to ensure preparation for the launch of the Program in NE BiH. This engagement of NERDA was triggered by the failure to find appropriate local partner organization for the Subcontractor.

Despite these difficulties and with assistance and support of NERDA the following activities were done in Phase 1 under the IYB Component of the Project:

- Presentation of IYB (group and individual presentations and promotion via media, mail and web)
- Recruitment of trainees
- Three out of five modules delivered (by the end of December 2008)

NERDA’s evaluation of the work done so far under this Project Component is that the Training Program Methodology and the approach are rather new and different from what has been offered in the training market so far. The concept of virtual boards was well accepted by the trainees.

1.3.4. Municipalities and the Regional Economic Development Board

1.3.4.1. Work with Municipalities

Municipalities were regarded as important stakeholders in Phase 1 and they gave a great contribution to CREDO by participating in all of the workshops and brainstorming sessions that were organized, especially as part of the preparation of the Integrated Economic Analysis (IEA) of the Region. Municipalities were not only a source of valuable information, but also drove the process towards identification of key issues burdening the labor market and affecting the high unemployment rate throughout the Region.

NERDA and municipal staff, in particular those working in Business Development Departments, jointly discussed the difficulty to produce any analytical paper due to the fact that the needed data are either not reliable or are difficult to obtain from various state institutions. This triggered NERDA’s initiative to develop a Territorial Information System (TIS) available to all municipalities and NERDA, which would be a tool to both collect the socio-economic data in a unified manner, but also a tool for benchmarking and various analyses of municipalities.



By procurement of computers for all municipalities and development of a web-based Territorial Database NERDA ensured initial grounds for further development of the Territorial Information System, which will be fully operational during the Phase 2 of CREDO project. NERDA ensured education for municipal staff appointed to populate and maintain the TIS, and the process of data collection and population of TIS has been initiated.

1.3.4.2. Regional Economic Development Board

Being an economic and not administrative region, the NE BiH has no governing body officially responsible for the development of the Region. Therefore it was decided to establish a Regional Economic Development (RED) Board with the purpose to play the role of a “virtual regional government”. The Board structure included mayors, business managers and persons from labor market institutions as well as from financial institutions.

Their mission, as described in the methodology proposed by international process consultants, was to act as the so called “roof board” for the three industrial boards, which would report to them and address issues that call for the RED Board’s action. Given the fact that the issues raised usually exceeded the range of authority of the RED Board, it proved difficult to expect the RED Board to act upon these issues, and the RED Board encountered problems in its work.

The reasons for difficulties in the work of RED Board were linked to the wrong timing of their actions - summer break, and to the fact that the majority of Board members (the mayors) were preparing for local elections that were scheduled for the fall of 2008.

This led to a conclusion that the RED Board’s Mission was too wide and lacked focus, and the Board did accept the fact that in line with their capabilities and authorities they should try to tackle the problems commonly felt by the three industrial boards, which could be influenced on local level, in particular those related to education system and labor market.

1.3.5. NERDA Capacities and the External Support (Experts and Consultants)

According to the initial Project Description for CREDO Phase 1, the role of NERDA was supposed to be provision of technical support mainly through facilitation and administrative/logistic support. However, as the process was developing the role of NERDA evolved. **It went from facilitation of project implementation to project management and active implementation of activities.** It was most evident in the work of Development Boards where each of the Boards was coordinated by one NERDA staff member, who played the most essential role in making the Board members believe in the positive outcome of their commitment to participate in

CREDO project. NERDA staff also provided great support to the IYB Program, in a particular in the preparation phase and recruitment of trainees. This turn in the role of NERDA led to addendum of the contract with Sida with reallocation of time and increased participation of NERDA Staff.

Given the fact that NERDA did not implement such a large scale project before, the initial Project Description called for a significant involvement of international experts and consultants. They provided NERDA and CREDO with the methodology and guidance in running of the project, however their involvement did not prove to be cost-effective. Therefore, the conclusion of the NERDA's Internal Evaluation of the Phase 1 is that international experts should be engaged in Phase 2 only in highly specialized areas (i.e. Marketing and Branding) for which it is difficult to seek expertise in BiH.

Local experts proved to be of great support to CREDO as they possess both a valuable local knowledge and necessary expertise. Based on this experience in Phase 1 NERDA will work to establish a pool of local experts in Phase 2, both sectoral and specialized, and thus ensure a wider support to CREDO and other future NERDA activities.

1.4 General Conclusion After Phase 1

The activities implemented in Phase 1 were a novelty to the Region and NERDA and represent a process and not a one-time-intervention. The complexity of the actions called for the introduction of the new systematic concept (Integrating Economic Development) in Phase 2.

The integrating methodology proposed for Phase 2 will be further tested and fine-tuned in coordination with regional stakeholders and project beneficiaries.

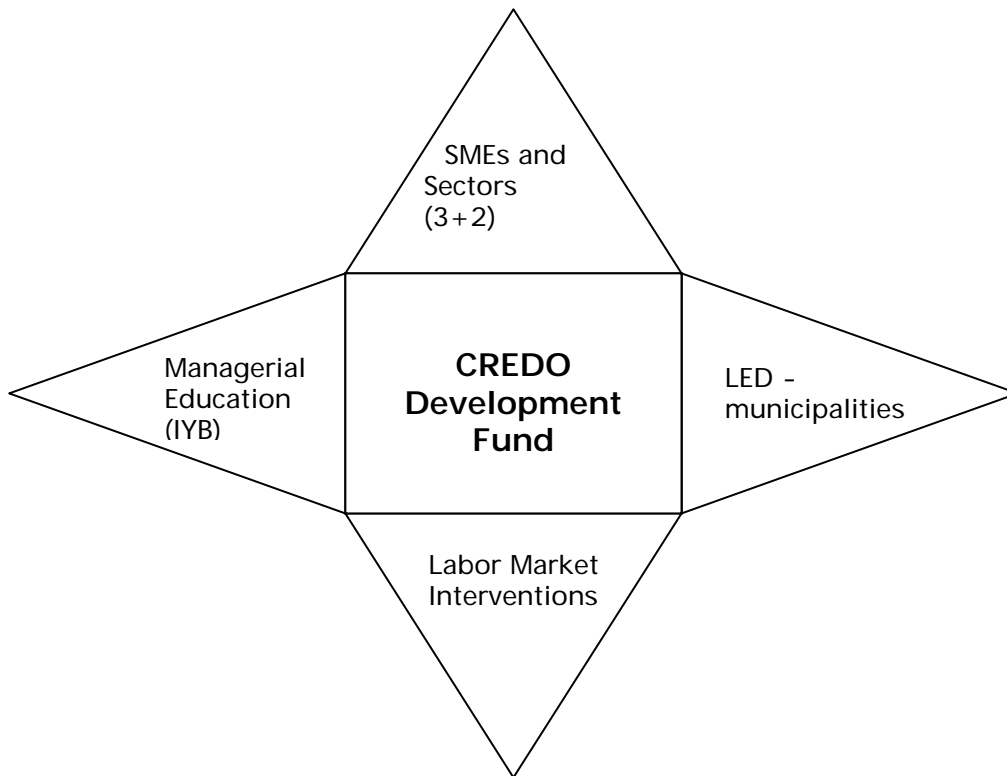
The Phase 1 proved that positive impact in the Region, particularly among SMEs and municipalities, can be achieved if wider commitment and participation of key stakeholders are ensured.



2 Credo Phase 2

2.1. Objectives

Based on lessons learned in the Phase 1 it is proposed to somewhat re-define the objectives of CREDO for the Phase 2 and focus on Integrated Economic Development (IED).



Picture 1: Concept of Integrated Economic Development

The IED Concept

The IED Concept will ensure participation and utilization of all relevant sectors and stakeholders whose coordinated actions will jointly lead to achievement of the Main Goal of CREDO - job creation and competitiveness improvement in the Region.

Namely, the actions in and with municipalities will lead to increasing of their competitiveness and creation of business-friendly environment, which indirectly will affect the long-term job creation in the Region.

CREDO actions will be directly implemented in SMEs and Sectors, through the work of Sectoral Development Boards and through interventions of the Development Fund. In addition to that, the Improve Your Business Program will provide

managerial education, which has been recognized as one of the preconditions for the growth of SMEs and job creation.

Labor Market Interventions are closely linked to Industrial Sectors as the Sectoral Boards have already identified the need to establish a **Virtual Training Center**. In addition to that, the interventions at the Labor Market are in line with the findings of the Integrated Economic Analysis that was developed by the use of Pro-Poor Methodology during Phase 1. CREDO interventions on the Supply Side of Labor Market will include:

- Retraining and additional training of labor force
- Upgrading of labor force skills to match the requirements of the labor market
- Actions aiming to transfer jobs from informal to formal sector.

CREDO actions in labor market will be done in coordination with municipalities, micro-financing institutions, NGOs and by cooperation with labor market operators in order to produce a position paper for this field.

The objectives of Phase 1 regarding the development of consultancy base in BiH generally remain the same in Phase 2 except for the fact that NERDA will not be developing the consultancy market in BiH only through Development Fund interventions but also by building the network/pool of strategic professional associates through activities of NERDA.

As was the case in the Phase 1, NERDA will continue to deliver its activities in close cooperation with its network of stakeholders respecting the equal opportunity principle and involving men and women from the Region.

2.2. Main Action Areas in Phase 2

2.2.1. Allocation of Resources

Based on the a/m IED Methodology, CREDO activities are designed in a way to be complementary to each other. The main objective is to facilitate the Development Fund projects implementation aimed at job creation/increased competitiveness.

The following sections will offer a detailed description for activities planned to be implemented in the Phase 2.



1. Start-up Activities

As was the case with the Phase 1, NERDA will start off the Phase 2 with development of a detailed Work Plan. This will be done through in-house workshops aimed at defining the dynamics and detailed timeline for actions described in this Project Elaboration Paper. Based on proposal from internal Monitoring of Phase 1 for the Phase 2 NERDA will use professional PM software (i.e. Micro Soft PM), which will enable introduction of Integrated Resource Monitoring procedure in Phase 2. In this early stage of Phase 2 NERDA will also revise the Logical Framework that was developed during Phase 1.

2. SME Development/ Industrial Sectors

The Baseline Study identified the three priority industrial sectors, while the fourth sector remained loosely defined as the so-called "innovation-technology-based sector". Besides the interventions in the three priority sectors and the work with the three sectoral boards that will be carried onto the Phase 2, NERDA will also introduce two new sectors which have been listed under the "innovation-technology-based sectors", namely, the sector of plastics and the sector of ICT. The new sectors will be subjected to the methodology that was applied to the other three sectors in Phase 1.

Below are activities that will be implemented under each industrial sector.

2.1. Metal Sector

Based on the results of the work of the Development Board for Metal Sector, NERDA staff and international and local experts, the Gap Analysis for Metal Sector was produced and it identified five key gaps in the development of this sector:

- 1st Gap: Skilled workers
- 2nd Gap: End-user approach
- 3rd Gap: Quality Assurance (QA) Certifications
- 4th Gap: Design and Development departments in the companies
- 5th Gap: State of Machinery

The following activities proposed for Phase 2 of CREDO are aimed at overcoming of the identified gaps.

2.1.1. Implementation of the Plan of Activities from CREDO 1

2.1.1.1. Analysis of needs for specific education in Metal Sector

This activity is planned to provide a direct response to the issues of **lack of skilled labor force** in Metal Sector. It will commence with analysis of current needs and training capacities in NE BiH, which will be based on interviews with companies in

Metal sector in NE BiH and with acknowledged training providers. The Analysis will serve as a good platform for discussion at workshops and brainstorming sessions aimed to intensify communications between all parties interested in metal-processing sector NE BiH. The discussion should be based on the Analysis of current needs and training capacities and should answer the question whether the NE BiH Region needs a Centre for knowledge and technologies transfer - CKTT and what should be its structure.

2.1.1.2. Improving the cooperation between: companies in metal-processing sector, Faculties of Technical Science, Secondary Technical Schools, Unemployment Offices, Government, etc.

To help overcome the issue of the lack of skilled labor force, it is planned to improve cooperation between metal companies, universities, schools, unemployment offices, governments, etc. This will be done through analysis of needs for skilled workers in metal-processing sector. The Analysis will provide input for defining of proposal for future entry policy for Faculties of Technical Science and Secondary Technical Schools

2.1.1.3. Promotion of possibilities and benefits of a professional career in metal-processing sector

One of the key conclusions of the Metal Sector Development Board was that there is a need to promote a professional career in metal-processing sector, particularly among school-age population. In reaction to this, NERDA will prepare a brochure "Career in Metal-Processing Sector" which would focus on presenting the benefits of the career in metal sector stressing that the choice of metal sector guarantees a safe and well-paid job.

Once the Brochure is produced NERDA will present it to the public and the promotion of professional career in metal-processing sector will be done in cooperation with the Metal Sector Development Board and with successful metal companies.

In support of this activity NERDA will also provide technical assistance in establishment and maintenance of the web portal of the Metal-Processing Association, once the Association is established.

2.1.1.4. Gathering data on potential buyers/customers/markets

The second gap in Metal Sector is the poor end-user approach, and NERDA will therefore do an Analysis of current buyers/customers/markets (e.g. ABC analysis) within metal processing companies, which will accordingly be published and presented to the public.

2.1.1.5. Promotion, increasing of reliability and confidence in metal-processing companies in NE BiH

Once the a/m analysis is completed NERDA will offer assistance to SMEs in metal sector in approach to potential major customers in Europe. The assistance will include:

- organization of matchmaking sessions,
- organization of internet conferences,
- assistance in advertising in abroad,
- assistance in web marketing, etc.

2.1.1.6. Support to the Board's initiative to establish the Association of metal-processing sector

During the sessions of the Development Board for Metal-Processing Sector in Phase 1, the Board members initiated the idea to establish an Association of Metal-Processing Sector in NE BiH. As this was embraced as a positive idea by all Board members NERDA accepted to support the realization of this idea in Phase 2, in the following way: together with the Board NERDA will analyze the current situation in metal-processing sector NE BiH with the focus on formal and informal associations in the sector. This analytical work should confirm the thesis that such an association is or is not needed, and will generate ideas on the Association's structure, mission and financing sources.

NERDA will provide assistance to the stakeholders in determining what type of legal status the association should have and also in preparing the founding documents.

2.1.1.7. Raising the QA awareness among the metal-processing companies in NE BiH

The third gap identified for the Metal-Processing sector is the area of **Quality Assurance Certification**. In reference to this gap, NERDA will carry out the Analysis of awareness of metal-processing companies in NE BiH about Quality Assurance (QA). The Analysis will provide inputs for further discussion on this topic that will be organized during workshops and brainstorming sessions with metal sector actors, QA companies, technical faculties, NGOs, etc.

Together with the Development Board for Metal-Processing Sector NERDA will organize presentations of best practice in the field of QA.

2.1.1.8. Increasing the number of companies in metal processing sector with QA certificates

Another activity aimed at tackling the gap of QA Certification will be the promotion of QA- certificate importance in global market. Together with the Development Board for Metal-Processing Sector NERDA will organize presentations of QA certificate focusing on the benefits and importance of such certificates for



companies who wish to be players at global markets. For SMEs that decide to introduce QA procedure that will be eligible action in CREDO Development Fund.

2.1.1.9. Supporting the establishment of effective cooperation between companies in metal-processing sector and R&D institutions

The Gap Analysis of Metal-Processing Sector outlined another problem commonly shared by metal-processing companies, and that is the non-existence of **research and development departments** within companies.

In dealing with this problem, NERDA will firstly analyze the current status of development departments within companies which will be followed by group discussions between companies and R&D institutes/university departments aimed at promoting the importance and benefits of establishment of R&D departments within companies.

2.1.1.10. Analysis of current situation in terms of the state of machinery

The Gap Analysis of the Sector also stressed that **the state of machinery** used in metal-processing sector is an important issue in the development of this industry. NERDA will therefore analyze the current state of machinery through both visits to companies and interviews in order to produce a Report presented to the Development Board for Metal-Processing Sector.

2.1.2. Monitoring of indicators and update of plan of activities

This will be a permanent activity focused on updating the plan of activities should a need arise. Through continuous work with the Board and stakeholders NERDA will observe whether there is a need for modification of the Plan of activities and will act accordingly.

2.1.3. Sessions of the Development Board for Metal Sector

The Development Board for Metal Sector will hold six (6) sessions per year through which they will monitor and coordinate all of the a/m activities. Their activities will also include two study visits per year, which will be organized in smaller groups and the targeted destinations will be in neighboring countries.

2.2. Food Sector

Based on the results of the work of the Development Board for Food Sector, NERDA staff and international and local experts, the following activities will be implemented in Phase 2:

2.2.1. Implementation of the Plan of Activities from CREDO I

2.2.1.1. Identification of strategic products

As the Gap Analysis of the Food Sector identified the **lack of local brands** as one of the key gaps, CREDO Phase 2 will include activities aimed at identification and promotion of strategic products.

The first activity in this area will be to produce a situational analysis, including:

- areas of interest for strategic products,
- material and human resources for production and processing,
- quality and quantity of produced and processed products,
- analysis of production capacities.

The initial analysis will be additionally supported by feedback of stakeholders received through workshops and brainstorming sessions, as well as by additionally analytical work related to quality and quantity of proposed products and raw materials.

Once the analytical work is completed and feedback is received, NERDA will produce a brochure on strategic products in NE BiH, which will be widely promoted, both through presentations and media.

The activity that will follow will be to define a strategy for promotion of domestic products and creation of local brands, starting off with the analysis of local brands. Based on the analysis NERDA will produce a "Branding for Local Market" brochure which will be a practical guide for branding activities.

NERDA will ensure a wide promotion and presentation of the Brochure.

2.2.1.2. Definition of current requirements in companies in NE BiH according to needs, competitiveness and skills

Based on the information obtained from food sector companies and remarks from the members of the Food Board it is evident that there is a need for further education of the work force in the Food Sector. Therefore the second gap identified in the Gap Analysis of the Food Sector is **the need to improve the skills of human resources** in the sector. In order to tackle this problem, the Plan of Activities foresees a definition of current requirements for skills and knowledge in companies in NE BiH.

It is proposed to carry out a needs analysis in the companies in Food Sector. The needed information will be collected through visits to companies and by means of a questionnaire, especially designed for this purpose.



The findings of the visits and the questionnaire will present a solid base for design of future trainings and courses.

2.2.1.3. Design of courses and trainings offered to companies and creation of a Virtual Training Center

Based on the needs analysis, trainings and specialized courses will be identified and made available through a Virtual Training Center. The Virtual Training Center will be a sub-section of the NERDA web portal and will include all relevant information related to the training for Food Sector companies.

It is also proposed that besides the Virtual Training Center, NERDA will produce a brochure with an overview of trainings and courses, which will be disseminated to SMEs.

2.2.1.4. Analysis of present situation regarding certification and QA

This activity derived from another gap identified in the Food Sector: **Certification and Standardization**. However, this analysis is closely linked to the previous one which includes a development of a questionnaire for the area of human resources development. Namely, the questionnaire will include questions related to the level of certification and standardization.

Once the data are collected and the state of certification and standardization is assessed, NERDA will create a Virtual Center for Certification, i.e. a sub-section under NERDA web portal which will offer an overview of all relevant certificates and standards available for Food Sector.

2.2.2. Monitoring of indicators and update of plan of activities

This will be a permanent activity focused on updating the plan of activities should a need arise. Through continuous work with the Board and stakeholders NERDA will observe whether there is a need for modification of the Plan of activities and will act accordingly.

2.2.3. Sessions of the Development Board for Food Sector

The same dynamics as with the Metal Sector (see above under 2.1.3.).

2.3. Wood Sector

Based on the results of the work of the Development Board for Wood Sector, NERDA staff and international and local experts, the following activities will be implemented in Phase 2:

2.3.1. Implementation of the Plan of Activities from CREDO I

2.3.1.1. Strengthening of the Development Board for Wood Sector

The first gap in the development of the Wood Sector in NE BiH is the lack of cooperation in Wood Sector, as stated in the Gap Analysis. In order to improve this and overcome the problem of lack of cooperation the idea is to strengthen the Development Board for Wood Sector and support it in their initiative to establish a Wood Processing Industry Association. This activity will start off with a detailed survey of wood industry associations formally existing in the region and BiH, which will be followed by the report presented to the wood board.

NERDA will accordingly establish and update a database of wood processing industry in the NE region so as to ensure solid grounds for future activities in the sector.

NERDA and the Development Board for Wood Sector will also review the status of wood industry development strategies in BiH, in order to define and propose a list of measures and interventions to address the higher authorities.

2.3.1.2. Improving the position of the wood processing industry in relations with forestry

During the discussions with Wood Sector representatives it was pointed out that the relations between wood industry SMEs and forestry need to be improved. In addition to that, the study visit to Latvia (organized for Wood Board in Phase 1) showed an example of positive cooperation in this field, and generated ideas for CREDO Phase 2, namely to organize presentations of best international practice to sector representatives and to initiate roundtable discussions.

2.3.1.3. Increase competence and knowledge on marketing and export issues

The second gap identified for the Wood Sector is the need to develop human resources, with the focus on specific skills and knowledge. NERDA will therefore do an analysis of the needs of SMEs for skills and knowledge particularly in the field of marketing and export.

Based on the a/m analysis, NERDA will produce a brochure on branding in wood sector, and will organize workshops to address the issue of specific marketing and export related knowledge and skills that are missing in the wood sector.

2.3.1.4. Initiate cooperation, discussions between industry and education system representatives in order to meet the needs of industry

The analysis of the Wood Sector showed that there is a lack of employees with university education and highly qualified workers in this industry. Another problem was re-training and additional (upgrading) training for current employees.

In order to mitigate the human resources development gap in a long term perspective, NERDA will carry out the analysis of the present situation in the NE region and produce a report that will serve as the basis for discussion between the industry and educational system representatives (secondary as well as university).

2.3.1.5. Identification of strategic products for the whole sector

Similar to other two industrial gap analyses, the analysis of wood sector identified the **poor or lack of knowledge on modern production requirements and strategic products among wood processing SMEs in the NE region BiH**. The identification of strategic products will include whole value chain in wood processing industry. It is also needed to improve production processes, to ensure right investments in modern facilities and replacement of outdated technology based on already available skills and experiences. In order to address this gap it is planned for NERDA and the Wood Sector Board to carry out a survey on strategic products for NE BiH wood processing industry including preparation of ABC study, which will be the basis for a report on strategic products.

2.3.1.6. Presentation of new technology and trends in wood industry (best practices)

Based on the a/m analysis and report NERDA and the Board will also prepare and develop a brochure on new wood technologies and best practices that will be disseminated to wood sector SMEs.

2.3.1.7. Improve Quality Assurance and Certification in wood industry in NE region

The fourth gap identified for the Wood Sector is that there is **no institution for testing and certification of wood-made products**. Improving the QA&C in Wood Industry is closely linked to this gap and derived from the survey of wood industry SMEs in phase 1, which showed that only around 5% of companies surveyed had quality assurance and certification systems in place.

Therefore NERDA and the Wood Board will prepare and publish a brochure on standardization and certification in wood industry in order to raise awareness on the needs and benefits of QA&C. The brochure will be widely disseminated and promoted.

2.3.1.8. Initiation and promotion of the idea to establish a National Institute for Wood Testing

Closely linked to the previous activity and the QA/C gap, the Wood Sector Analysis identified the need to establish accredited testing laboratories in BiH. The study visit to Latvia also showed the importance of a sector institute for the wood-processing industry's development of particular new and strategic products, but also for the access to a national organization for testing of material for the European markets

In order to initiate the idea of national institute for wood testing NERDA and the Wood Sector Board will organize round tables to discuss the idea and pursue further support to this initiative.

2.3.2. Monitoring of indicators and update of plan of activities

This will be a permanent activity focused on updating the plan of activities should a need arise. Through continuous work with the Board and stakeholders NERDA will observe whether there is a need for modification of the Plan of activities and will act accordingly.

2.3.3. Sessions of the Development Board of Wood Sector

The same dynamics as with the Metal Sector (see above under 2.1.3.).

2.4. Common Cross-Sectoral Activities

The Gap Analyses of the three a/m industrial sectors outlined these key areas commonly shared by all three sectors:

- Marketing, especially branding
- Continuing education/training
- Certification and standardization

CREDO actions in Phase 2 will be directed towards ensuring specific expert knowledge in these three areas that will be delivered to SMEs. This will be coordinated through the three sectoral boards in the first year and involving all five sectoral boards in the second year of Phase 2.

2.4.1. SME Barometer

This new tool for SME support will ensure the following benefits for stakeholders in NE BiH:



- Improved communication between economic operators in the NE BiH (development agency, chambers of commerce, business associations, ministries, faculties, investors, etc.),
- Provision of realistic information about the market, expectations for the upcoming period, business atmosphere in the region, as well as trends in key areas (sales, receivables, payables, import, export, inventory turns and inventory issues, etc.)
- Eased and prompt reaction to possible market changes, adjustment to the situation, etc.
- Provision of business-related information especially useful for potential investors;
- Identification of market segments that call for a change (the type of information that is important for agencies, faculties, ministries)

Through this action NERDA will involve a certain number of SME managers who will be invited to participate in the surveys. During the Phase 1 NERDA already prepared and designed a questionnaire for this purpose, and initial testing of questionnaire was done in 60 companies. This was the grounds for the first cycle of the Barometer survey which was produced in the last quarter of 2008 and in Phase 2 this survey will be carried out semi-annually.

The SME Barometer will be complementary to the SME Database, and NERDA will produce a brochure with information collected through the surveys. The brochure will be printed and widely disseminated throughout the Region, while it will also be made available through NERDA/CREDO Website.

2.4.2. B2B Matching

B2B Matching for companies will be one of the activities for each sector based on NERDA's knowledge of sectors and comprehensive Database of SMEs. NERDA will also be supported by an external international expert who will facilitate and ensure links between bh. companies and companies abroad.

2.4.3. Dissemination of findings in sectors at Regional Development Forum

The dissemination of findings in each sector will be done through NERDA's Regional Development Forum which will be organized annually in coordination with RED Board and five sectoral Development Boards.



2.5. New sectors (ICT, Plastic)

Apart from the three priority sectors included in the Phase 1 of CREDO, the Phase 2 will have additional two sectors to work in: information and communication technologies (ICT) and the industry of plastics. The methodology applied to the three sectors in Phase 1 will be applied to these two new sectors in 2009, and it will primarily enable the following:

- Help identify current situation in the sectors
- Help identify and establish measurable goals for the two additional prioritized industrial sectors: ICT and plastics industry.
- Help identify binding constraints
- Help identify interventions aimed at helping SMEs overcome their binding constraints.

In Phase 2 NERDA will establish Development Boards for the two new sectors, too.

The two Development Boards for ICT Sector and Plastics Industry will include competent stakeholders from the respective value chains so as to be able to assess the situation in the sectors and identify constraints and growth possibilities, with the power and impact to make proposals and implement changes on local/regional level. The general purpose of the Boards will be to assist companies to prepare and achieve a better position of the sector. It will be necessary to identify efficient solutions/sets of interventions that would enable companies to raise competitiveness and to be able and ready to grow.

In order to increase the value added and competitiveness of these two industries the Boards will:

- identify impediments and constraints, external and internal;
- engage in discussions to suggest targets for the forthcoming sector development;
- participate in a study visit aimed to learn from the experience of other countries;
- identify alternative solutions and recommend measures to be taken and present the results to the public.



3. MUNICIPALITIES

Given the fact that besides SMEs, municipalities are key stakeholders of NERDA and beneficiaries of CREDO actions too, NERDA will propose a set of activities to be implemented in CREDO Phase 2. The activities will be directed at increasing the capacities of municipalities to affect the business-enabling environment.

It is evident that municipalities cannot significantly contribute to direct job creation but they do play a role in creation of conditions for SMEs to create and sustain jobs. Municipalities will be recipients of a series of services such as:

- Annual socio-economic overview of the Region (produced on the basis of information in the Territorial Database)
- Barometer of business environment (semi-annual report on trends affecting the business environment in municipalities)
- Methodology of municipal competitiveness
- Presentation of best practices of Local Economic Development
- Organization of annual Regional Development Forum (also aimed at promotion of the Region and NERDA)

This package of CREDO interventions will cover all municipalities of the Region, while additional and rather significant support to their development will be enabled through the CREDO Development Fund. (see more under section No. 5.5.2. Development Fund)

3.1. Regional Economic Development (RED) Board

Based on the experience with the RED Board in Phase 1, this Board will have to undergo modifications in Phase 2. Firstly, the structure of the Board membership will call for amendments so as to ensure a more homogenous group of persons involved. The profiles of members will have to match the mission of the Board. Secondly, and most importantly, the RED Board's mission and tasks will have to be clearly defined with a focus on:

- Promotion of Region's competitiveness, and
- Links between labor market and education system
- Municipal interventions (including informal training), which contribute to formal job creation.

In terms of competitiveness of municipalities and of the Region, the RED Board will be involved in introduction of the Methodology for Municipal Competitiveness, based on the experience gained through the study visit to Croatia organized during the Phase 1.

In the second year NERDA will pilot the Regional Competitiveness Index Methodology with five municipalities (see more about the Methodology under 3.5.).



Links between the labor market and education system turn out to be a weak link widely recognized and identified throughout workshops and meetings of the RED and sectoral boards. This is also deemed as a rather complex issue to be dealt with as its resolving would call for changes in legislation at different levels of governments. However, it would still be possible for the RED Board to be engaged in activities that would lead towards promotion of the need to adjust the profiles of students to the needs of labor market, i.e. SMEs.

In particular, these activities would include promotion of skills and occupations that are lacking among the available labor force due to the fact that students are neither interested nor motivated to enroll in schools that deliver such training/education programs. Another cause of this discrepancy between the needs of SMEs and the education system is the fact that some specialized courses do not even exist within the existing formal education system.

The RED Board will also deal with activities of municipalities that contribute to creation or formalization of jobs. Such activities are for instance support for informal training initiatives and actions aimed to introduce farmers to the formal employment.

Apart from these three action areas, the RED Board will also be engaged in tackling the issue of data collection from APIF and AFIP (Agencies for Financial, IT and Mediation Services) as this problem was addressed by municipalities during the Phase 1. Namely, the respective Agencies are charging the provision of data on businesses which is a financial burden for municipalities who need the data for both the Territorial Database and other analytical activities.

This is one of the areas in which the RED Board will try to lobby for a change in legislation that allows for such a procurement of data from APIF and AFIP (possibly in cooperation with other projects like GAP II).

3.2. Territorial Database

The Territorial Database was designed and developed during Phase 1 and it will be further populated by data during Phase 2. Once the data are populated the Territorial Data Base will actually become the Regional Information System (IS) that will be able to produce a series of reports and analyses of socio-economic indicators in the Region.

The IS will offer possibilities to municipalities to compare their level of development to other municipalities in the Region and to the Region average as well and thus easily make their own strategic planning.

It will be a tool for benchmarking and continuous monitoring of development indicators too.



Based on the data from the IS NERDA will produce annual socio-economic overview of the Region that will be made available to all municipalities and other instances of governments, donors and international organizations.

3.3. Barometer of Business Environment

Similar to the SME Barometer NERDA will introduce a Barometer for municipalities through which NERDA will measure and monitor trends in business environment in the Region.

In Phase 2 NERDA will design a questionnaire for municipalities related to services and infrastructure supporting business development. Once it is prepared NERDA will test the questionnaire with approx. 10 municipalities to see what the level of responsiveness and readiness to participate in such a survey is. After this initial testing, all municipalities will be invited to take part in the survey.

Based on the qualitative data and findings of the Barometer NERDA will produce a semi-annual report that will be widely disseminated to the public.

3.4. Promotion of Foreign Direct Investment (FDI) Certification

During the study visit to Croatia, NERDA and the RED Board visited the Varaždin Development Agency "AZRA" and was introduced to the FDI Certification for municipalities, which "AZRA" is accredited to issue to municipalities. The FDI Certificate involves three standards that need to be ensured within a municipality if it wishes to become a holder of FDI Certificate.

The three standards are:

- Information Standard (ensuring that all data and info are located at a single collection point in electronic version and available to potential investors)
- Property Standard (Introduction of Digital Cadastre and Land Registry)
- Marketing Standard (specific in-house marketing skills and knowledge)

NERDA will ensure presentation of this methodology to all municipalities so that they can be informed of the benefits of FDI certification. Municipalities will be offered to engage into the certification process depending on their willingness, capacities and readiness. CREDO Development Fund will also be available for co-funding of such interventions.

3.5. Promotion of the Methodology for Competitiveness Index

Based on the experience of the Republic of Croatia, and their National Competitiveness Council (NCC), NERDA will introduce the methodology for Competitiveness Index. The Croatian NCC annually publishes the Regional Competitiveness of Croatia, which is the result of research based on the methodologies of the World Economic Forum (WEF) and the International Institute for Management Development (IMD). "The Regional Competitiveness Index of Croatia" provides detailed insight into the competitiveness of Croatia's regions and counties by evaluating the competitiveness of the business environment and the business sector itself. It also provides a means of comparing the causes of the differences and the identification of the potential of and limitations on individual counties and regions.

The research undertaken on the competitiveness of Croatian regions and counties analyzed quantitative (statistical) and qualitative (survey) data, in two areas - the quality of the business sector (businesses) and the quality of the business environment. The results obtained by applying this methodology constitute the final competitiveness indexes.

Both methods (WEF and IMD) share the opinion that wealth is primarily generated at the enterprise level, and that enterprises operate in an environment that can either support or hinder their ability to compete.

Analytical approach to the Regional Competitiveness Index calculation is based on recognition of 8 factors, e.g. "pillars" of competitiveness, divided into two groups: A. Business environment, and B. Business sector.

A. Business Environment

- Demographics, health and culture
- Education
- Basic infrastructure and public sector
- Business infrastructure

B. Business Sector

- Investment and entrepreneurship dynamics
- Entrepreneurship development level
- Economic results - level
- Economic results - dynamics

All of the above will be presented to regional stakeholders with the focus on the benefits of such a survey and calculation of the Competitiveness Index.

This will be done through coordination with the Regional Economic Development Board and will be targeted at municipalities, primarily, but also at other stakeholders that will represent sources of information for such survey in future.



3.6. Annual Regional Development Forum

Having in mind the changing circumstances on the global and national scene that affect economy of Bosnia and Herzegovina, it is proposed to introduce a new annual event in the North-East BiH, which completely fits into the scope of CREDO Project and the mission of NERDA as a Regional Development Agency.

It is planned that NERDA will host an Annual Development Forum in NE BiH which will bring together economic developers from across the Region and the country to discuss regional economic development policies, programs, and issues with their peers. The current state of the economy in BiH poses significant challenges while also creating substantial opportunities for economic developers.

The Regional Economic Development Board will participate in organizing the Forum together with NERDA and will act as the Forum's Organizing Committee.

The Forum will provide its participants with a platform to find innovative solutions, approaches and best practices. Local economic development best practice from NE BiH, BiH and a wider Region will be presented and the participants will be able to learn from the experience of neighbors.

It will also give an opportunity to network with other economic development practitioners. Business leaders will have a chance to influence governments on economic development issues, as it is planned to involve municipal, cantonal and entity/state governments in the work of the Forum, too.

The Forum will build on the work of economic development practitioners, business and industry leaders, private and public sector personnel and those enterprising individuals and agencies engaged in driving local, regional and national development.

The Forum will address the changing dynamics of economic development in BiH with particular emphasis on new initiatives, new strategies, and new directions. It will therefore be a place to be for donor organizations and embassies in BiH as well, so as to receive first-hand assessment of the needs and identification of opportunities and constraints. Embassies and donor organizations will be offered to present their country economic strategies, plans and programs, too.



4. LABOR MARKET

The strategic documents produced during the Phase 1 of CREDO (Integrated Economic Analysis and Gap Analyses of Industrial Sectors), showed that some activities aimed at overcoming the gap between supply and demand on the labor market will be included in CREDO Phase 2. The a/m documents outlined the complexity of the labor market pointing that significant influence can be achieved only through coordinated actions of the state, entities, cantonal and municipal governments. Results can be expected only after active participation and contribution of all actors in economic development process which could lead to changes in legislation directed towards creation of new jobs.

For the first year of CREDO Phase 2 it is planned to hire a local expert to produce a position paper and plan of actions for labor market. This paper will be prepared in coordination with municipalities, micro-financing institutions, NGOs and labor market actors.

Labor Market interventions will be closely linked to the activities within CREDO Industrial Sectors. Namely, it is proposed to support the establishment of a Virtual Training Center within the Food Sector. The Center will offer an overview of trainings and specialized courses that will be laid out in a sub-section of the NERDA web portal. It will include all relevant information related to the training for this sector. Also, NERDA will produce a brochure on trainings and courses, which will be disseminated to SMEs.

The Gap Analysis of Wood Sector showed that there is a lack of employees with university education and highly qualified workers in this industry. Based on analysis of the present situation in the NE BiH Region NERDA will produce a report that will serve as the basis for discussion between the industry and educational system representatives (secondary as well as university). Another identified need is a re-training and additional (upgrading) training for current employees.

The Analysis of current needs and training capacities in Metal Sector in NE BiH posed a question of establishment of a Centre for Knowledge and Technology Transfer - CKTT. Further activities of the Metal Sector Development Board in CREDO Phase 2 should provide an answer to this question. In addition to that, the Board and NERDA will engage in defining a proposal for future entry policy for Faculties of Technical Science and Secondary Technical Schools.

Also, in order to overcome the issue of the lack of skilled labor force, it is planned to improve cooperation between metal companies, universities, schools, employment offices, governments, etc. Namely, it is foreseen to work on promotion of possibilities and benefits of a professional career in metal-processing sector among school-age population.

In addition to the above, NERDA will facilitate the mediation between supply and demand on the labor market through the CREDO Development Fund. The interventions of actors on the labor market will be aimed at creation of new jobs as a result of implemented trainings, re-trainings, matching as well as formalization of the non-formal sector.

Labor Market Interventions of the Development Fund will also be closely linked to Industrial Sectors and Development Boards of Sectors, while it is expected to receive support from micro-finance institutions that could be interested in trainings and re-trainings in order to increase their client's competence on the market.

The role of NERDA will be to support and coordinate such actions between the industrial sectors, labor market actors and municipalities as well as to effectively engage the Regional Economic Development Board in this action area.

Once the first year of Phase 2 is completed and evaluated NERDA will define whether the second year interventions will remain the same or will need to be modified.

5. CREDO DEVELOPMENT FUND

In the first phase of CREDO NERDA cooperated with international and local experts, with universities, economic development NGOs, SMEs representatives, local community and statistic data providing institutions in order to ensure relevant information in defining sectors, companies and municipalities with highest growth and development potential.

In the second phase NERDA will **manage the Development Fund** in order to ensure implementation of the determined interventions, as defined in the first phase. The Development Fund interventions will be based on key findings/recommendations presented in Integrated Economic Analysis; Baseline Study of Industrial Sectors, Sectoral Gap Analyses and recommendations of the Sectoral Boards and of the Regional Economic Development Board.

Specific project interventions through Development Fund will be co-funded by the beneficiaries (SMEs, municipalities, actors on the labor market). This approach ensures that the designed interventions reflect real needs of the selected beneficiaries as well as their ownership of the development process. Co-funding principle is also expected to enhance prospects for a long term sustainability of the realized interventions.

During the implementation of approved Development Fund interventions, NERDA will at the same time build its own capacities and adopt specific knowledge needed for the processes of SMEs development, development of local institutions and local institutions/organizations which are offering support for the capacity development.

Those activities will at the same time also represent a pilot phase for the support of development in the scope of improved competitive factors such as strengthening of technological and innovative capacities of SMEs, information and communication technologies, Europeanization, internationalization, partnership and networking. Development Fund will be important component for financing support of the future infrastructure for the technological development of North-east economic region, as well.

The Functioning of the Development Fund will be based on principles and policies of Sida, the EU and BiH Institutions, for this kind of support. At the same time, the Development Fund will be based on and complementary to the previous experience of other projects e.g. BAS, GAP, and will rely on the experience of other support funds implemented by local institutions. The functioning principles of the Development Fund are also based on the draft version of Sida's The Making Markets Work for the Poor (M4P) Approach, on the Law on Support and Promotion of SME Development as well as on the Draft Strategy of SMEs development in BiH for the period 2009-2011.

Principles, criteria, structure and the ways of implementation of the Development Fund are elaborated in more details in the following text.

5.1 The Main Principles for the Implementation of the Development Fund

- Principles, policies and best practices for supporting grants which are in line with principles, policies and best practices of Sida, the EU and BiH
- Coordination with donor projects implemented in the region e.g. GAP, FARMA, FIRMA
- Work with existing institutions of local government, SMEs and institutions on the labor market (centers, institutes for formal and non-formal education and employment)
- Support to the development of consultancy market for the professional services at higher level of interventions (based on the experience of projects like BAS, EUTAC, GTZ).

5.2 Criteria For Industrial Sectors

The Development Fund will focus its work, for all beneficiaries, on the interventions in the following industrial sectors: (ref: NERDA Baseline Study of Industrial Sectors, Gap Analyses of Sectors, Integrated Economic Analysis, Final Report of the Phase I of CREDO):

- Metal and electro processing industry
- Wood processing industry
- Food industry



- Information technologies
- Production/processing of plastics

5.3 Eligible Beneficiaries of the Development Fund

Eligible beneficiaries of the Development Fund are:

5.3.1 SMEs¹ and their associations

5.3.2 Municipalities

5.3.3 Actors on the labor market²

Project ideas that include common interests and goals shared by two or more eligible beneficiaries will be additionally positively evaluated.

5.4 The Purpose of the Development Fund for Eligible Beneficiaries

- **The Purpose of the Development Fund for SMEs:** Creation of new values for SMEs (in the selected industrial sectors, see under 5.2.), creation of new products, services, markets and business connections which will result in creation of new jobs and increasing competitiveness.
- **The Purpose of the Development Fund for municipalities in economic region NE BiH:** Establishment of systemic process of integrated local economic development which, continuously, includes all economic and social actors, focused on creation of business-enabling environment as well as preparation for the implementation of the Law on Local/Regional Development, encouragement of SMEs development and the use of the EU structural funds.
- **The Purpose of the Development Fund for the participants on the labor market:** To work on overcoming the gap between supply and demand through promotion of professions that are in deficit on the labor market as well as creation of the new working places through coordinated/joint actions with SME sector, Institutions- and agencies for employment.

The overall purpose of the Development Fund is to create jobs, to support growth and competitiveness of SMEs, sectors and municipalities in NER BiH.

¹ SMEs are, according to Law on SMEs, defined as:

- Micro enterprises are enterprises employing 10 and less persons;
- Small enterprises are enterprises employing from 11 up to 49 persons;
- Medium enterprises are enterprises employing from 50 up to 249 persons.

² Institutions, NGOs, municipalities and other organizations active in the field of mediation between supply and demand on the labour market, informal trainings, additional qualifications and retraining of population capable to work.



5.5 Eligible Interventions of the Development Fund

5.5.1 Eligible interventions of the Development Fund for SMEs are:

- Increasing market shares (on local/foreign markets)
- Increasing competitiveness in the value chain (e.g. development of local brands, projects aiming at creation of the strategic product, marketing strengthening, export promotion)
- Strengthening technological and innovative capacities of SMEs
- Standardization and certification
- SMEs networking (B2B, B2C)
- Linking SMEs with big companies in value chain
- Sector and cross-sector linking of SMEs (SMEs network and semi-clusters).

Project ideas in which two or more SMEs are jointly applying will be preferred.

5.5.2 Eligible Interventions of the Development Fund for Municipalities are:

- Development and application of tools for local economic development (LED)
- Improvement of business environment for SMEs
- Increasing efficiency and competitiveness of SMEs and their products
- Projects of common interest for "geographical and typological municipal clusters" (multiplicative effects - municipal network aiming at realization of ideas of common interest)
- Certification for FDI
- Projects defined in CREDO Phase 1, based on municipal analysis in NE BiH
- Establishing or strengthening of the existing Guarantee Fund for SMEs (criteria- actions in the selected sectors, with possible co-financing of interest rates by municipalities)

Project ideas in which two or more municipalities are jointly applying will be preferred.

5.5.3 Eligible Interventions of the Development Fund for the Actors on the Labor Market are:

- Reducing the gap between supply and demand on the labor market through trainings (additional qualifications and retraining in accordance with employers needs)

- Mediation in the employment process (harmonization of supply-demand on the labor market)
- Status transformation from informal to formal employment (i.e. formal registration of farmers)

5.6 Working Principals of the Development Fund

- The leading principle in the functioning of the Development Fund is **transparency**. Therefore, the conditions and criteria for applying to the Development Fund resources shall be published and applications will be collected based on the public call (minimum two calls to be launched) with defined application form for eligible beneficiaries of the Development Fund.
- The Development Fund resources will be allocated based on the principle of co-financing, among others.
- Resources allocation procedures shall be defined in detail in the Development Fund Rules of Procedures.
- Approval and allocation of DF resources will be performed by the Managing Board of the Fund (the Board will have three members and its establishment will be subject to Sida's verification).
- Preparation of the pre-approval process as well as monitoring after the approval will be carried out by NERDA. Secretarial and organizational support to the Fund shall be performed by NERDA.
- NERDA is responsible for the management and usage of the Development Fund resources.
- The rights and obligations of the Development Fund resource beneficiaries shall be regulated by the particular contracts. The contract shall provide for necessary respect of the all contractual obligations that are important to prevent/decrease frauds and false agreements as well as rules of the project implementation, duration of the project, total amount of the refundable expenditures upon the completion of the project, etc.
- The mechanism of the payment from the Development Fund shall be based on the reimbursement principle (upon the completion of the project or repayment bank guarantee)
- Evaluation of the Fund's functioning will be carried out after the first call, i.e. after the assessment of the results and experiences gained through the implementation of the projects from the first call. Based on the assessment and evaluation results, modifications in the Development Fund operating procedures could be made subject to approval by Sida.
- Evaluation of the effects of the Development Fund will be carried out after the completion of the second call.



5.7 Financial Structure (allocation of resources) of the Development Fund

The total amount of the Development Fund will be up to 1.2 mil €.

The allocation of resources shall be carried out according to the following principles:

- Fifty percent (50%) of the Fund resources will be directed to SMEs projects. Minimum planned number of interventions directed towards SMEs from the Development Fund is 40. Minimum value of the project is 5.000 € and maximum value 30.000 €. Total number of new jobs created in SMEs sector is planned to reach 160 jobs.
- Thirty percent (30%) of the Fund resources shall be directed to the municipalities. Minimum planned number of the Development Fund interventions in municipalities is 10 (maximum 20). It is not realistic to expect that interventions and measures implemented in municipalities will directly create new employment opportunities during the second phase of CREDO project. However, it is expected that the new employment opportunities will be created as the indirect result of the project implementation in a long term. Minimum value of the project is set to 15.000 €, and maximum to 75.000 €.
- Twenty percent (20%) of the Fund resources will be directed to the actors on the labor market, e.g. towards the institutions, organizations and non-governmental sector active in the field of mediation between the labor market supply and demand side, informal education, re-qualification and prequalification of labor active population.
- The planned average value of single intervention (creation of one working post) in the labor market will be set to a maximum of 3.000 €. The total number of jobs expected to be created in this sector is 170.

5.8 The Main Selection Criteria for Interventions of Development Fund

5.8.1. The Main Selection Criteria for Interventions of Development Fund for SMEs

5.8.1.1. Pre-conditions for the evaluation of applications

- SME located in the NE economic region BiH
- Type of eligible activities-production and services

- SME is active in chosen industrial sectors (Metal and electro processing industry, Wood processing industry, Food industry, Information technologies, Production/processing of plastic)
- The value of the single application has to be in the frame of 5.000 € to 30.000€.
- Implementation of the project will be performed in the period of 6 months
- Level of secured co-funding (minimum is 50%)
- SME fulfils taxes and other finance obligation regulated by law.

5.8.1.2 Evaluation criteria/selection of applicants (initial proposal)

- Increasing employment or new working places created
 - Value of created new job
 - No of created new jobs

60% value on the mark scale or max 60 points

- The quality of the project
 - Sustainability
 - Application of new technologies and innovations
 - Increase of market share (local /foreign markets)
 - Adoption of standards and certificates
 - Increasing competitiveness in the value chain (e.g. building a local brands,
 - Achieved partnerships and networking

40% value on the mark scale or max 40 points

5.8.2 The Main Selection Criteria for Interventions of Development Fund for Municipalities

5.8.2.1 Pre-conditions for the evaluation of applications

- Municipality is located in the NE economic region BiH
- The value of the single application has to be in the frame of 15.000 € to 75.000€
- Implementation of the project will be performed in the period of 6 months



5.8.2.2 Evaluation criteria/selection of applicants (initial proposal)

- Support of local economic development (improvement of business environment in municipality, support to development of SMEs, attraction of foreign and domestic investments/new investments)
 - 70% value on the mark scale or max 70 points
- Level of secured co-funding (minimum is 50%)
 - 10% value on the mark scale or max 10 points
- Support to the new employments
 - 20% value on the mark scale or max 20 points

5.8.3 The Main Selection Criteria for Selection of Interventions of Development Fund for Actors on the Labor Market

5.8.3.1. Pre-conditions for the evaluation of applications

- Actor on the labor market is an Institution, NGO or other organizations engaged in mediation between supply and demand on the labor market, non-formal trainings, additional qualifications and retraining of population capable to work (which can be justified by references).
- The value of the single intervention (new job created) on the labor market will be up to 3.000 €. Implementation of the project will be performed in the period of 6 months.

5.8.3.2 Evaluation criteria/selection of applicants (initial proposal):

- Increasing employment or new working places created
 - *50% value on the mark scale or max 50 points*
- Level of secured co-financing (minimum is 50%)
 - *30% value on the mark scale or max 30 points*

- The quality of the project, sustainability of created jobs
 - *20% value on the mark scale or max 20 points*

5.9 Monitoring and Evaluation of the Development Fund

- Monitoring of realized interventions of Development Fund will be performed by NERDA.
- Evaluation and auditing of Development Fund will be performed externally.
- Internal evaluation of the project will be performed after the first call (for submission of project ideas). When first internal evaluation is performed, it is possible to make revision of criteria for approval of resources from Fund for the second call.
- External Audit of the project will be done at the end of the project.

5.10 Indicators of Success for the Development Fund interventions

5.10.1 For SME sector

- The number of new jobs created (control of sustainability in the period of 2 years)
- Increased "market ability" (income growth, profit growth, profit growth per employee, turnover etc.)

5.10.2 For municipalities

- Number of issued FDI certificates
- Number of prepared feasibility studies
- Number of SMEs applicants for Guarantee Fund and number of jobs created
- Number of new initiatives regarding improvement of business environment

5.10.3 For actors on the labor market

- Number of persons included in the process of additional qualifications and retraining (mostly connected with the goal to preserve existing working places)
- Number of newly employed persons after the process of additional qualifications and retraining

- Number of new working places created by mediation (harmonization of supply and demand on the labor market, formalization of gray economy “employees” and farmers)

6. PROGRAM “IMPROVE YOUR BUSINESS”

Three out of five modules of the first cycle of Improve Your Business (IYB) Program were completed by the end of Phase 1, and it is expected that the first cycle will be completed by the end of the first quarter of 2009.

NERDA’s evaluation of the work done so far under this Project Component is that the “IYB” Program Methodology and the approach used are rather new and different from what has been offered in the training market so far. The concept of virtual boards was well accepted by the trainees and it is NERDA’s belief that a somewhat modified IYB Program could be delivered by local consultants in cooperation with international consultants during the Phase 2. Based on the feedback from trainees in Phase 1 and NERDA’s observations, it is proposed to reduce the number of modules that the Program consists of. Namely, the Program could include only two modules (marketing and finance), while the module in Sweden should be left as an option to trainees. With such modifications to the Program it could be realistic to expect two more cycles of the IYB Program in Phase 2 of CREDO. However, the final assessment and decision regarding the IYB component of CREDO will be made after the completion of the first cycle (end of March 2009) and based upon the proposal made by the current international Subcontractor for the IYB Program (IFL/SDA). The full description of the Program and the methodology for its potential delivery in Phase 2 will be contained in the new proposal of the Subcontractor. Therefore the continuation of the IYB Program in Phase 2 will be the responsibility of the international Subcontractor and their future local partner, subcontracted by NERDA, while the final decision will be subject to approval by NERDA and Sida.

PROJECT CONTROL, EVALUATION AND REPORTING

In the first quarter of Phase 2 NERDA will develop a detailed Work Plan in the form of a Work Breakdown Structure, which will allow for quality project control and appropriate time allocation for NERDA/CREDO team.

In addition to that NERDA will use professional PM software (i.e. Micro Soft Project Management), which will enable introduction of Integrated Resource Monitoring procedure.

NERDA/CREDO staff will have weekly coordination meeting and upon engagement of external experts NERDA will hold meetings with them accordingly.



Given the fact that NERDA has a functional monthly reporting system, the reports will include CREDO activities too.

In order to ensure quality control process, NERDA will carry out quarterly internal evaluation, which will comply with the dynamics of CREDO Advisory Board sessions that will also be scheduled quarterly.

SUSTAINABILITY

There are two components of sustainability of CREDO activities:

- Sustainability of actions within Integrated Economic Development Methodology of stakeholders (municipalities, SMEs, sectors, etc.)
- Sustainability of NERDA activities

During the Phase 2 of CREDO Project the IED Methodology will be applied to introduce and develop a systemic and holistic local/regional economic development.

Through CREDO activities NERDA will ensure a permanent Territorial Information System within municipalities in the Region, which will present a basis for systemic and strategic planning of economic development at local and regional level. Financing of these activities will come from both municipal budgets and external support programs. NERDA will facilitate the preparation and implementation of such projects especially emphasizing interventions designed by groups of municipalities.

It is expected that during next two years a permanent development board structure for the selected industrial sectors will be formalized as well as regular annual Regional Development Forum. Eventually the IED Methodology will also be applied to other industrial/economic sectors.

NERDA will also provide assistance in stakeholders' development of project proposals for various Funds (e.g. pre-accession and structural EU Funds and bilateral donor funds), which will result in the new project pipeline. The activities in sectors will be structured in such a way that they will ensure partial financial sustainability by participants' obligation to co-finance certain actions. In addition to that, major CREDO events will eventually be fee-based.

During implementation of the Phase 2 of CREDO Project NERDA will develop and test concept and procedures of CREDO Development Fund. Successful implementation of these activities will enable NERDA to approach local stakeholders and financial institutions as well as international donors in order to continue the operations of the Fund.



In the next two years CREDO will represent a major development project of NERDA and it has been identified as a key factor for ensuring long-term sustainability of NERDA. During its implementation NERDA will ensure program and financial sustainability through the following activities:

- Identifying and preparing new project proposals targeting local economic development, competitiveness, growth of sectors, etc.;
- Disseminating best practice of the IED Methodology and initiating projects replication to other bh. regions;
- Productizing specific tools for local/regional economic development (Territorial Information System, SME Barometer, Business Environment Barometer, Regional Competitiveness Index, Annual Regional Development Forum, etc.)
- Developing in-house capacities of NERDA and those of NERDA's strategic partners/local business service providers to implement all of the above listed actions.

Through such an approach NERDA will be increasing its capacities to fulfill its strategic mission of Regional Development Agency i.e. to strengthen the capacities of local and regional stakeholders to implement regional economic development interventions as well as to facilitate and coordinate their activities in the implementation of donor programs, primarily supported through the EU Pre-Accession funds.

During the initial stage of the Phase 2 of CREDO, NERDA will organize its strategic planning session in order to develop a detailed work plan. This will be followed by periodical review sessions to ensure the maintenance of the project focus.

RISKS AND ASSUMPTIONS

Stable **political and macro-economic environment** within BiH, close cooperation and good will among CREDO stakeholders and stakeholders' interest in and support of CREDO project are the main preconditions for achievement of the CREDO Phase 2 objectives. NERDA will continuously work with key regional stakeholders to secure such cooperation.

Another risk assumption that could affect the project's success is insufficient **public and private support** to withstand political and other challenges. The active involvement of the business community, academia and mayors in a large number of municipalities as key stakeholders in early phase of project in the Phase 2 would be one of the measures to mitigate **politically motivated obstacles**. A high degree of transparency, especially in selection processes, and frequent meetings with representatives of the local media will be additional risk management measure.

While the countries with more developed economies are already in **recession**, other economies might also be dragged in through reduced FDI, lower remittances, exchange rates, etc. Hardly any country can escape certain economic and social consequences. Such **struggling economies** could also affect the investing capacities of companies, which could result in their loss of interest to co-fund interventions of the Development Fund.

Being aware of these risks, NERDA will make sure that the benefits of the Development Fund interventions are strongly promoted and understood among the potential beneficiaries and will ensure a flow of information with stakeholders to establish early warning indicators.

CREDO Project will not be immune to the **global financial crisis**, which could be largely felt in terms of variable currency exchange rate (between SEK and EURO). This should not present an obstacle in the implementation of activities but could have effect on the budget. Therefore NERDA will closely monitor financial management of the project and will ensure that there is room for budgetary reserves. An additional measure will be immediate conversion of the transferred funds in SEK to EUROS so as to ensure maximum use of funds.

Based on lessons learned in Phase 1, some of the activities in Phase 2 could be affected by the problem of **inconsistent socio-economic data** and inability of municipalities to easily access the data needed for proper functioning of the Territorial Information System.

This risk will be mitigated by NERDA's intensive campaign to raise awareness of municipalities and other sources of data that this issue is a priority for successful implementation of other activities. Lobbying for free of the charge provision of statistical data to municipalities will be done in cooperation with GAP project.

