

Assessment of the business and financial services and training market in Bosnia and Herzegovina

1. Background and justification

Even though micro, small and medium enterprises (MSMEs) constitute an important backbone of the economy of Bosnia and Herzegovina (2013: 68.4% of employment and 62.4% of added value), they face several challenges preventing them from successfully competing in national and global markets.

The “SME Policy Index” 2016 considers the SME policy framework of the country as rather weak, with relevant strategies being outdated or inactive, or differing considerably between entities and Brcko District. One of the main challenges is the level of cooperation between institutions at state and entity/Brcko District level that could be improved. Consequently, the current report of the World Bank on “Doing Business” (2017) ranks the country considerably low for starting a business (174th position out of 190 countries), dealing with construction permits (170) and in paying taxes (133), despite regulatory improvements (e.g. reducing minimum capital for limited liability companies and eliminating the tourist community fee).

Export constitutes an important part of the economy of the country, particularly for commodities and energy. Yet, further export potential remains untapped, especially for high value-added products. A number of internal and external impediments hinder companies to fully exploit global markets. This refers inter alia to comparably expensive and time-consuming import and export procedures, while the regulatory and institutional framework remains inconsistent and insufficient. At company level, there is a need for further investment in and upgrade of technology, product development, marketing and technical skills as well as quality of raw material input.

The country also lags behind in terms of innovation, as compared to its neighbouring countries. The Global Competitiveness Report (2016-17, World Economic Forum) ranks BiH considerably low in terms of capacity for innovation, company spending on research and development (R&D), and university–enterprise cooperation on R&D. Policy and institutional support is rather fragmented and inconsistent in its implementation, including a lack of financial support instruments. A range of business development services and start-up support exist, but their actual impact on business growth and job creation remains unclear. In terms of entrepreneurial learning, progress seems to be made through a national entrepreneurial learning strategy tackling all levels of education. Activities to improve the situation have been undertaken, but require further efforts to generate substantial results. While SMEs are constantly improving their ICT skills, the digital entrepreneurship in BiH is underdeveloped in terms of access to digital supply chains and e-business networks, interoperability, knowledge sharing, access to ICT standardisation and e-invoicing.

Agriculture is still an important contributor to GDP (2015: 6.3%) and employment (2014: 17%, World Bank) of Bosnia and Herzegovina, even though the share of arable land is comparably small and characterised by small plots and a high share of subsistence farming. The large majority of agricultural producers typically sell their produce unprocessed,

although a number of food processing companies exist. Overall, there is a need for further product development and diversification, coupled with enhanced market access strategies. Moreover, lack of coherent strategic vision, institutional constraints, as well as relatively low and poorly targeted public spending focusing on direct price or output subsidies, instead of investment subsidies, prevent the country's agri-food sector from reaching its full potential.

Tourism plays an increasing role for the economy, but is at its early stages of development compared to neighbouring countries. Its total contribution to GDP remains at a low 2.5% in 2016, with a direct contribution to employment of 22,000 persons or 3% of total employment in 2016. Yet further growth potential exists, based on the country's cultural and natural assets. Outdoor tourism (sport and recreation, eco-tourism, adventure tourism, research and mountain tourism on the water, rural) and cultural tourism (culture, events, history, ethno-tourism, gastronomy) in particular, have been singled out as the key tourism pillars with great development potential, despite inadequate infrastructure, shortage of accommodation capacities and services. Overall, a more diversified touristic offer is needed, requiring skills development and better networking among sector actors. Tourism is by nature a "connecting business", so networks and clusters are key elements for success of SMEs in tourism. Consequently, there has been a considerable interest and dynamism in developing clustering and networking among destinations and tourism related SMEs, aiming to strengthen their competitive advantage. Both agricultural and tourism sector offer additional opportunities for development of the SME sector as well as economic inclusion of under-developed regions.

Information and communication technology (ICT) can play a critical role in improving competitiveness in all sectors, and transformation of the "traditional" business to e-business presents significant growth potential for BIH economy. However, BIH businesses are currently underdeveloped in terms of usage of advanced technologies or the innovative business models offered by the available digitalization and digital tools. By utilizing the digital technologies such as: advanced manufacturing, robotics, 3D printing, blockchain technologies etc. in traditional export sectors, ICT will enable the MSMEs from to capture a share in the export markets for their products and services. At the same time, ICT can enable increased incomes for small-scale producers and other players in the agri-food sector, while providing livelihood opportunities for young people able to develop high-tech solutions. Relevant entry points for ICT in agriculture are: enhancing production, improving markets and building farmer's capacities. Tourism is information intensive sector, highly open to digital delivery and targeted towards customers who are typically not local. ICT tools can be very helpful in bringing closer the tourism products to their international markets, enabling at the same time customer satisfaction and individual treatment.

The ILO plans to develop and promote local delivery of entrepreneurship and MSME management training based on ILO's well tested entrepreneurship training course, Start and Improve Your Business (SIYB).

As a first step the ILO seeks the services of experienced consultants to do a market assessment of the business and financial services and management training market in Bosnia and Herzegovina. The market assessment is done in order to understand the need and demand for business management training and other support services (like finance) in the micro, small and medium enterprise sector of Bosnia and Herzegovina. The information produced will form the basis for the formulation of joint ILO, GIZ and UNDP development cooperation project funded by EU Delegation of Bosnia and Herzegovina in the next 4 years.

Besides a general assessment of the local training market a specific focus should be given to the support services needs of the targeted sectors: export oriented sector, agri-food production and tourism, as these sectors are perceived as a major generator of foreign exchange and local employment in the forthcoming years. A further specific focus should be given on the opportunities and limitations to use the SIYB package for securing the livelihoods of groups like youth (including unskilled youth), women (including semi-literate women), persons with disabilities, Roma population and other vulnerable groups.

Opportunities for further synergies arise from the grant schemes that implementing partners on EU4Business project (ILO, GIZ and UNDP) will deliver over next 4 years for development of existing MSMEs and start-ups in targeted sectors.

2. Assignment: Business Management Training Market Assessment in Bosnia and Herzegovina

The main objective of the market assessment in Bosnia and Herzegovina is to gather the necessary information to tailor the project to the situation on the ground. The assessment should include an estimate of the market size, demand and supply conditions. Furthermore it is expected that the market assessment will produce information about the literacy levels of the ultimate target population and measure capabilities at the enterprise as well as at the level of (public and private) support institutions to work with the SIYB programme.

The consultant is requested to address the current situation of support of institutions for targeted vulnerable groups and the support needs of ILO constituents (employers and workers), laying the groundwork for understanding how the project can support labor-management relations. The assessment should, where possible, disaggregate all data by sex, and it should explicitly identify any significant differences between the situations of female and male entrepreneurs, and their respective needs and access to/use of services.

A section of the market assessment report should be reserved for information specific to the targeted sectors and management capacities within the sector. This will lay the groundwork for a future subsector analysis.

The initial market assessment will be done in consultation with ILO DWTCO Budapest and ILO HQ in Geneva on the core needs of MSMEs on the ground. A core objective of the future project is to create a training delivery system that can reach out to a large number of micro and small enterprises in identified strategic areas. As such it needs to concentrate on areas with high concentrations of these enterprises and understand their demand.

The following areas should be covered:

3.1 General economic situation, growth prospects and information about the MSME sector and donor environment

The consultant should provide an initial overview that contains key information about the current state of the economy in Bosnia and Herzegovina and the specific situation of micro, small and medium sized enterprises. This should rely on secondary information sources and key informant interviews and should cover:

- A short overview of the political situation and possible developments that could influence the project
- An overview of the economic situation and growth prospects of the economy of Bosnia and Herzegovina. This should include macroeconomic data and an outlook, an overview of the estimated size of the informal economy and a general

assessment of the situation on the labour market in terms of unemployment and under-employment.

- An overview of key sectors of the economy with a special emphasis on the targeted sectors.
- An analysis of the role and situation of micro and small enterprises in the economy of Bosnia and Herzegovina, including specific strengths and weaknesses of the sector
- Existing and planned donor and agency/institutional interventions in the field of private sector development and job creation.
- Other ILO interventions and issues that might be of relevance to the project.

3.2 Supply side

The Supply side assessment will produce an in-depth understanding of existing enterprise support services both on the public as well as the private side. It will not only help to understand the functioning of the business service and entrepreneurship training market but also provide crucial information that will help SIYB provider selection by providing information on the existing (public and private) institutional framework for MSE promotion. The assessment should provide insights into the current sustainability of providers, their income sources and payment for services. It will include an initial overview of existing financial support institutions. It will include investigations into:

- **Market Size:** what type of services (non-financial, financial) are currently being provided by public and private institutions? Please include specific information about training services, their outreach quality and prices (or funding mechanisms) as far as possible. This should focus on micro and small enterprises.
- **Target Group:** What Business Size (micro, small, medium, large) and Sector (manufacturing, trade, service/tourism) do existing providers or programs target and where do they need support? What are possible niche markets to be explored further?
- **Product:** Please describe service products that are currently available on the market
- **Prices:** Are fees charged for services and training? If so, how do fees vary? Can anything be said about payment modalities?
- **Promotion:**
 - 1) Percentage of Budget/Costs spent for Promotion
 - 2) Ways of Promotion, e.g. radio/TV; newspaper/magazines; poster/banners; door to door.
 - 3) Place of Promotion, e.g. regional; nationwide
- **Institutional capacity check:**

The success of an SIYB programme largely depends on a rigorous selection of SIYB Service Providers. The following information on selection criteria should be collected as part of the supply analysis.

- **Organizations:** What organizations/providers/programs are providing services? Do they have

- a mandate and experience in micro and small enterprise development?
- credibility and reputation among micro and small enterprises in their geographical area of intervention?
- the necessary means (financial and logistic) to carry out SIYB programmes?
- a sound foundation to enhance the sustainability of their SIYB programme in the future?
- **Trainers:**
 - Number and Qualification, e.g. education level and level of experience.
 - Commitment, motivation and activity

Instruments to obtain the above information shall consist of (but not be restricted to) the following:

- interviews with key government institutions involved in enterprise support measures
- interviews with institutions supplying labor market analysis and support services
- Interviews with private support service providers. These will partly be identified by the demand side study as often private providers operate under the official “radar screen”
- Interviews with government institutions at the national, entity and local level (cantons and municipalities) that provide enterprise support services
- Interviews with business associations, associations of financial service providers, and other umbrella organizations
- Interviews with international agencies and international and national NGOs providing enterprise support services
- Interviews with key target sector actors (e.g. ministries in charge for target sectors on entity level).

3.3 Demand side

In order to better understand the demand side of business services the market assessment will take into account existing secondary data and will conduct primary qualitative research. The aim of the research is to get a clear picture about current demand and payment capacity for enterprise support services by micro and small entrepreneurs as well as potential start-up entrepreneurs in Bosnia and Herzegovina. Research will include investigations into:

- **Awareness** of Business Services in general and Entrepreneurship Training in particular, with a particular focus on:
 - 1) Awareness of the Services: in areas where services are available, how do Enterprises know about Entrepreneurship Training? Is it from family/friends; by other training; business colleagues/friends; business associations; newspaper; radio; TV; telephone directory; posters/banners; internet; etc?

- 2) Awareness of Providers: Do Enterprises know about the providers of business and financial services?
- 3) Awareness of Need: Do Enterprises feel any need for entrepreneurship training?

- **Entrepreneurship Training**

- 1) Previous Attendance/Experience of Entrepreneurship Training: What are reasons for attendance / non-attendance?
- 2) Self-reported Impact/Perception of Entrepreneurship Training: If entrepreneurs had access to training previously, has it had any impact on their enterprise? If yes what type of impact, if no, why not?

- **Service Features** of business services.

- 1) What is of key importance to a business when acquiring a business or financial service? Service Features, such as distance; venue; time; length; payment method; certificate; material; gender of the trainer or gender composition of the group.

- **Services and payments**: What services are being bought by enterprises and at what prices, what is considered to be expensive? What percentage of enterprises buys what kind of service?

Instruments to obtain the above information shall consist of (but not be restricted to) the following:

- interviewing key information providers on the situation of MSEs on the ground like statistics institutions, government agencies (including the labour ministry) and research institutions
- interviewing providers on the demand of their clients
- conducting focus group discussions with selected target enterprises (informal microenterprises, small enterprises, recent start-ups) on their current demand for services
- Interviewing business associations and other representative groups
- Discussing with other agencies supporting MSE development on the existing needs
- Conducting a quantitative assessment by interviewing 25 SMEs directly on specific enterprise needs

An interview guidance note detailing the questions and interview techniques should be provided to the ILO for approval up-front.

3.4 Business Environment

The market assessment will also undertake a basic assessment of the enabling environment for both enterprise start-up related rules and regulations as well as key business environment factors for the operation of enterprises. This assessment will not be exhaustive but provide a first approach to identify core issues linked to enterprise start up and

operation and flag possible problems related to the policy and regulatory environment for the implementation of the SIYB program.

3.5 Assumptions and Risk Analysis

It is recognised that the implementation context presents certain risks, which should be analysed as part of the market assessment. These risks include the possibility of political challenges given the recent general elections in Bosnia and Herzegovina, that will probably cause changes of governments at all levels.

The assessment should draw clear distinctions between risks involving 1) macro/government, 2) business environment/ business service provision and 3) microfinance institutions.

4. Deliverables

The research findings will be finalized in a format that can be published as an ILO document as a first output of the project. The inception phase would furthermore produce a draft of the project document for the project main phase using the findings of the analysis as detailed above.

The ILO is expecting to receive a market assessment report of a maximum length of 50 pages excluding annexes.

The **timeline** for the execution of the contract is as follows:

August 2018	Secondary resources research and mission planning
September-October 2018	Initiation of ground research. Ground research should include 3-4 weeks of data collection and key informant interviews. It will also include a presentation of initial findings and feedback from key institutions/partners to ILO technical team
October 17 th 2018	A draft report presenting the findings of the market assessment. The report should be approximately 50 pages long.
May 2019	A final report integrating comments formulated by the ILO

All documents have to be submitted in English.

5. Staffing, Roles and Reporting

For final validation and budget issues the consultant will report to Daniela Zampini, Employment Specials, DWT/CO Budapest and the ILO National Project Coordinator/Entrepreneurship Experts in ILO office in Sarajevo.

The ILO may disclose the draft or final report and/or any related information to any person and for any purpose the ILO may deem appropriate. The consultant is expected to work in close collaboration with the ILO office in Sarajevo, Bosnia and Herzegovina.

6. Confidentiality Statement

All data and information received from ILO for the purpose of this assignment are to be treated confidentially and are only to be used in connection with the execution of these Terms of Reference (TOR). All intellectual property rights arising from the execution of these ToR are assigned to the ILO. The contents of written materials obtained and used in this assignment may not be disclosed to any third parties without the expressed advance written authorization of the ILO.

7. Timing

Start date: August 1, 2018

Draft submission: October 31, 2018

Final submission: May 15, 2018

Annex 1:

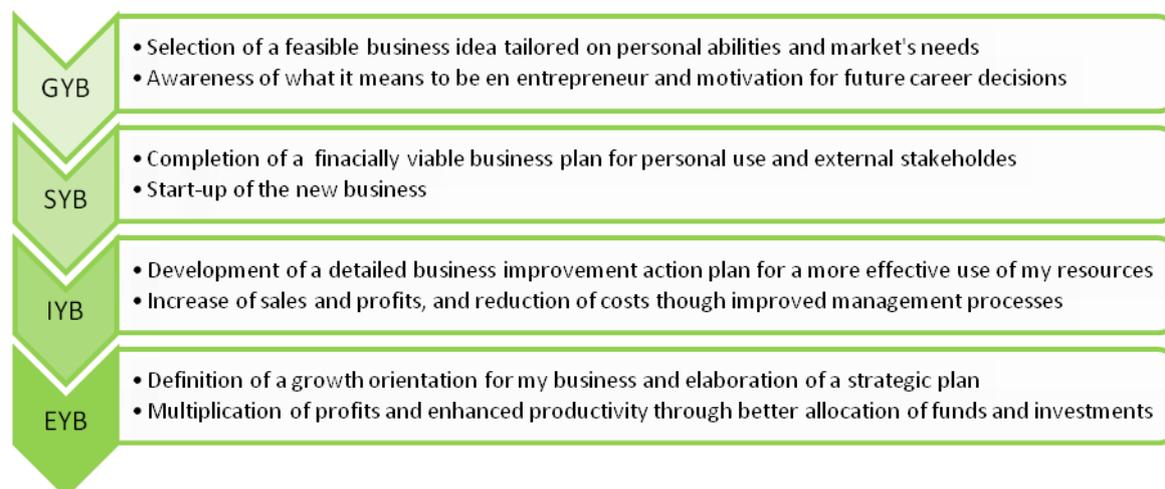
The Start and Improve your Business Project concept note: Building stronger SME support structures for job creation

With the SIYB programme, the Small Enterprise Development Programme of the ILO (EMP/SEED), manages one of the largest entrepreneurship and management training networks globally with more than 300 Master Trainers (trainers of trainers), 65.000 trainers and an estimated outreach to 15 million trainees in the past 30 years. Since its introduction in the early 1980s, SIYB has become one of the most widely distributed and used business training packages for the support of MSMEs globally.

The SIYB Programme is structured into four separate training manuals, Generate Your Business (GYB), Start Your Business (SYB), Improve Your Business (IYB), and Expand Your Business (EYB). Together they form a system of interrelated packages developed to enable potential and existing small entrepreneurs to (i) start viable businesses, (ii) to increase the profitability of their existing enterprises and to (iii) to improve the working conditions of their employees in a way that enhances productivity. Responding to the progressive stages of business development, each training package is conceived to provide the right service at the right time: the generation of a business idea, the preparation of a business plan and the actual start-up, the early growth phase, and the expansion.

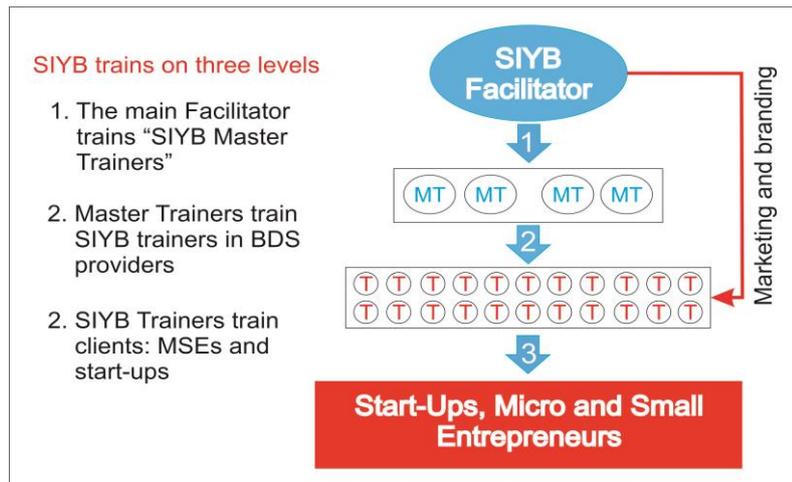


More specifically, each manual has the following expected outputs:



SIYB training delivery relies on a global system of capacity builders and a multiplier strategy. When starting the build up of a SIYB system, the ILO assesses the market for business services in a given country or region and establishes the demand for customized business management training solutions and linkages to financial services. It builds the capacity of local BDS organizations and other training service providers to implement SIYB training and related activities. The impact and sustainability of the SIYB programmes builds on these organizations and people involved in managing the programme.

The ILO also provides international training and certification of SIYB Master Trainers to whom the management of the national SIYB programme and the quality assurance system is handed over. Master Trainers are recruited from the pool of trainers, selecting the best and most strategically placed



ones. They go through a training process and an examination and are then accredited by the ILO. The responsibility for the SIYB programme is handed over to these as an association or in collaboration with a national strategic counterpart institution. Master Trainers become the technical "guardians" of SIYB in a given country. Using this strategy, the ILO creates a sustainable training and quality assurance system. The image above illustrates SIYB training and support interventions.