



Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 11-Jan-2019 | Report No: PIDISDSC19587

**BASIC INFORMATION****A. Basic Project Data**

Country Bosnia and Herzegovina	Project ID P160775	Parent Project ID (if any)	Project Name BiH Business Environment Strengthening Project (BESP) (P160775)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date Apr 22, 2019	Estimated Board Date Jul 15, 2019	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) BiH Ministry of Finance and Treasury	Implementing Agency Federation BiH Ministry of Finance, RS Ministry of Finance, Ministry of Science and Technology of Republika Srpska, Ministry of Development, Entrepreneurship and Crafts of Federation BiH	

Proposed Development Objective(s)

The Project Development Objective is to enhance competitiveness and strengthen the environment in which enterprises operate.

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	60.00
Total Financing	60.00
of which IBRD/IDA	60.00
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	60.00
--	-------



Environmental and Social Risk Classification

Low

Concept Review Decision

Track II-The review did authorize the preparation to continue

Other Decision (as needed)

B. Introduction and Context

Country Context

The economy of Bosnia and Herzegovina (BiH) has maintained growth at around 3 percent over the last three years. However, it has yet to create well paid jobs for its youth and fully complete its transition to a market-led economy. Despite the steady growth and improvements in labor market outcomes in the Western Balkans¹, job creation in BiH remains a challenge, employment remaining at the pre-crisis levels². Unemployment in BiH remains high at 20.5 percent estimated for 2017, compared to 25.4 percent in 2016, particularly among youth (54.5 percent in 2016)³. BiH made full recovery following the floods of May 2014 maintaining the fiscal deficits and public debt levels moderate - averaging 0.5 percent and 40.5 percent of gross domestic product (GDP) between 2013 and 2017 respectively. However, inefficiencies remain high in how public finances are managed and general government expenditures account for 41.4 percent of GDP in 2017. State owned enterprises (SOEs) add to the overall government footprint in the economy, further stifling the private sector growth⁴. SOEs control significant assets and generate large cash flows. In general, SOEs are characterized by high labor costs and low productivity and are performing poorly and making losses⁵. Public spending is not only structurally high, but more importantly its quality is poor, and the control of spending is weak. This leads to an inefficient use of public resources and the crowding out of the private sector. Complex governance structures and lack of integrated approach to managing government services further hinder development of the private sector and creation of a well-functioning and uniform market economy.

The country is still finding a path to rebalancing its economic development model to a private sector-led growth. The share of the private sector to GDP is 65 percent, the lowest in the region. Labor productivity and total factor productivity

¹ According to the World Bank Report, Western Balkans Labour Market Trends, 2018, labour market outcomes in the Western Balkans have improved between mid-2016 to mid-2017. The regional labour markets recorded improvements in activity rates (up 1.2 percentage points to 62 percent), employment rates (up 2.5 percentage points to 51.9 percent), unemployment rates (down 2.4 percentage points to 16.2 percent), and youth unemployment rates (down 5.3 percentage points to 37.6 percent), and for BiH, along with FYR Macedonia and Serbia – unemployment reached historical lows. Available here:

<http://documents.worldbank.org/curated/en/565231521435487923/pdf/124354-WP-P158508-PUBLIC-16-3-2018-10-13-39-WBLabormarkettrends.pdf>

² Regular Economic Report. World Bank. 2018. <http://pubdocs.worldbank.org/en/701051523374120261/WBRER13-10Apr2018.pdf>

³ *ibid.*

⁴ In total, approximately 440 SOEs are operating in FBiH, employing about 64,000 workers, or 14 percent of the overall employment in FBiH. Of the total number of workers about two thirds are in SOEs at the federal level and one third at sub-entity level (cantonal and municipal SOEs).

⁵ State Owned Enterprises in Federation of BiH: Diagnostic Note. World Bank. July 2016.



growth, estimated at 5.5 percent and 0.2 percent in 2016 respectively, remain low compared to peers.⁶ The country's innovation system is nascent and characterized by weak ranking on innovation performance and outputs compared to regional and structural peers, low public and private R&D spending, and severe brain drain. The private sector, mainly dominated by small and micro firms⁷, has limited capacity to innovate due to inherent problems within the operating environment which often burdens businesses and entrepreneurs with complex, time-consuming, and expensive administrative procedures creating barriers to market entry, exit, and growth. Despite these apparent constraints, the private sector-related reform process is slow and stifled by a maze of regulations comprising at different levels adding to the lack of transparency in government policies and procedures and not addressing the regulatory implementation gap⁸.

The pressures of a shrinking working-age population, emigration, and lack of incentives aimed at work flexibility, child and elderly care, and part-time employment continue to hinder the employment of women and youth. Continued emigration reduces the availability of skilled labor. Moreover, discrepancies between skills acquired in the education system and those demanded by the labor market continue to affect businesses. Students do not receive practical training or skills needed for professional life due to the lack of linkages between schools and the private sector. Larger employers in BiH report that they must invest in in-house training ranging from 3 to 6 months for new recruits. The training is often unconnected to skills provided by the school. To inform the policy dialogue and ensure review and consideration of private sector demands for skills, it is important to address sectoral differences in skills provision with special focus on high exporting industries within MSMEs. Initiating dialogue with the private sector on the current and forecasted skill demand and mismatches is a necessity, particularly in identifying demand for specific skills, such as HR management practices, hiring processes, but also collaborating between firms and third parties, business associations, NGOs, education institutions, and other parties on skills-related issues.

Addressing business environment challenges is necessary to achieving efficiency and productivity gains within the private sector. BiH ranked 86 out of 190 countries on the Boing Business report 2018 behind Croatia (ranked 51) and Montenegro (ranked 42).⁹ The country rating has been declining in the last few years (81 in 2017 and 79 in 2016). Additionally, BiH ranks 103 out of 137 economies in the Global Competitiveness report where insufficient capacity to innovate is listed among most problematic factors for doing business.¹⁰ The BiH private sector lags in terms of adopting existing technologies to enhance the productivity of its industries. It lacks capacity to leverage ICT in businesses and production processes and underperforms in terms of entrepreneurial activities. Improvement to the cumbersome business environment would help increase efficiency in the private sector through allowing local businesses to invest and grow, attract domestic and foreign investment, and encourage entrepreneurs to take the risk of starting new ventures.

The double challenge of improving the business environment at the horizontal level and addressing bottlenecks to efficiency and productivity improvements at the vertical levels require an orchestrated policy effort that could alleviate some of the immediate impediments and set the stage for additional structural improvements on the medium to long term. For BiH to achieve sustainable and private sector led economic growth, substantial reforms are needed in the medium term to realign incentives and policies towards improving the business environment, addressing private sector competitiveness, fostering innovation and entrepreneurship, and progressing towards regional and international

⁶ CEIC data: www.ceicdata.com

⁷ 68 percent of the MSMEs in BiH employ less than 9 employees. Almost three-quarters are sole proprietorships followed by 26 percent which are owned by multiple individuals, companies, or organizations (partnerships including limited liability companies). Source: Access to Finance for Micro, Small, and Medium-Sized Enterprises in Bosnia and Herzegovina with a Focus on Gender, World Bank, 2018

⁸ Regulatory implementation gap refers to weak link between municipalities and higher levels of authority regarding regulation-making process, and lack of uniform application of national/entity regulation across municipalities (and cantons in FBiH)

⁹ World Bank Doing Business report 2018: <http://www.doingbusiness.org/data/exploreconomies/bosnia-and-herzegovina>

¹⁰ The Global Competitiveness Report 2017-2018; <https://www.weforum.org/reports/the-global-competitiveness-report-2017-2018>



integration. Accelerated growth is necessary to create and sustain more and better jobs. At the heart of the growth and job creation agenda is addressing key constraints within the innovation and entrepreneurial ecosystem to allow for the entry of new innovative ventures into the market and the upgrade of existing firms through the adoption of technologies, international quality standards, and managerial capabilities¹¹. The innovation and entrepreneurship agenda, as it relates to developing a dynamic innovation ecosystem centered around innovative enterprises and startups that can operate in a welcoming business environment, represent a key priority for the BiH private sector growth and job creation. *BiH private sector needs to upgrade its production and innovative capacity to grow, create jobs, internationalize and compete regionally and globally through innovative and quality products and services.*

Supporting the modest momentum on advancing long-delayed structural reform bears significant risks, both domestic and external. Slower growth in the EU and rising inflation in both developed countries and in interest rates represent an external risk to BiH's economic outlook. Moreover, the continuous challenge of political fragmentation and stalemate is undermining the reform process and worsen the risks to the economic outlook in general. As general elections approach in October 2018, reforms may slow, deterring the governments' commitment to medium term.

The pressures of a shrinking working-age population, emigration, and lack of incentives aimed at work flexibility, child and elderly care, and part-time employment continue to hinder the employment of women and youth. Continued emigration reduces the availability of skilled labor. Moreover, discrepancies between skills acquired in the education system and those demanded by the labor market continue to affect businesses. Students do not receive practical training or skills needed for professional life due to the lack of linkages between schools and the private sector. Larger employers in BiH report that they must invest in in-house training ranging from 3 to 6 months for new recruits. The training is often unconnected to skills provided by the school. To inform the policy dialogue and ensure review and consideration of private sector demands for skills, it is important to address sectoral differences in skills provision with special focus on high exporting industries within MSMEs. Initiating dialogue with the private sector on the current and forecasted skill demand and mismatches is a necessity, particularly in identifying demand for specific skills, such as HR management practices, hiring processes, but also collaborating between firms and third parties, business associations, NGOs, education institutions, and other parties on skills-related issues.

B. Sectoral and Institutional Context

i. The state of business environment and competitiveness

Robust medium-term growth is inhibited by the business environment. BiH remains unattractive for domestic and foreign investors¹² and requires substantial reforms to address lack of predictability, uneven and inconsistent application of regulation. The regulatory environment is complex, time-consuming, and expensive for businesses. The main cause of low private investment, weak innovative activities, and entrepreneurship is the low return on the invested capital,¹³ as investors mainly engage in investments with quick payoffs, such as construction and services. Even though the country has been implementing business environment reforms to boost competitiveness and create a conducive environment for the private sector to grow, BiH continues to lag peers. Basic business needs like registration, building facilities, land

¹¹ There is ample evidence that innovation is a driver of economic growth. The WB's recent flagship report "The Innovation Paradox" analyzed key factors in spurring growth in developing countries. It finds that despite the immense potential gains from adopting existing technologies, developing economies' firms and governments do surprisingly little to adopt advanced innovations and upgrade their products, technologies and business processes. It argues that management skills and organizational practices, known as firm capabilities, are the building blocks for innovative practices that can drive growth and job creation.

¹² Net FDI inflows went up by an estimated 0.2 pp of GDP, financing about 30 percent of the current account deficit (CAD). <http://pubdocs.worldbank.org/en/701051523374120261/WBRER13-10Apr2018.pdf>

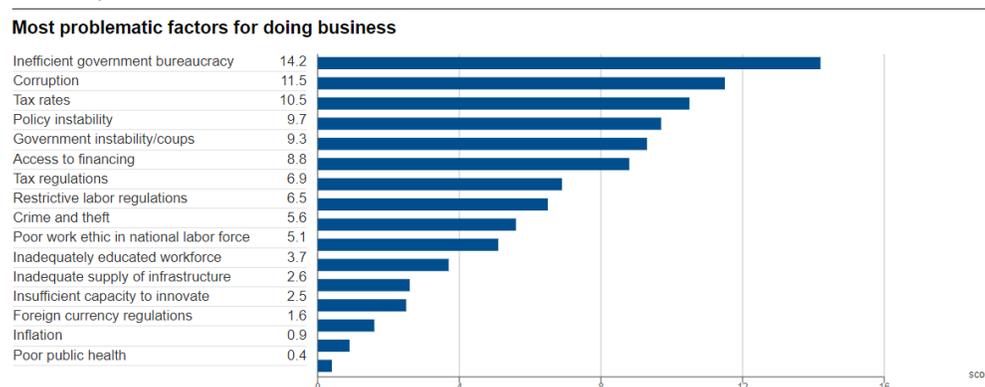
¹³ BiH Economic Reform Programme. 2016-2018.



ownership, importing, exporting, and paying taxes remain challenging, and modern ICT technologies are yet to be harnessed by the authorities to facilitate interaction with businesses.

Inefficient government bureaucracy (the burden of government regulation index) is the most problematic factor for doing business.¹⁴ Certain simplifications of the permitting and licensing processes took place in the past resulting in establishment of several municipal and entity-level information portals detailing steps to obtain various permits and their costs. This is not enough. BiH needs a more systematic mechanism that would provide for continuous improvement and updating of regulation for the businesses. This is particularly important hurdle for businesses—Federation BiH (FBiH) still has 355 separate business-related licenses, permits, approvals, and consents, and Republika Srpska (RS) has 319. Added to those, there are another 102 at the BiH level.¹⁵ Regulatory information available is often unsynchronized, making the overall understanding difficult for businesses, but also compromising the compliance. Individual ministries and agencies perform paper-based licensing without automated back-office processing or integration with business registries and online services. This expands to other areas – such as inspections. Despite the success of the comprehensive inspection reform establishing central inspectorates, new inspection laws and implementing ICT inspection automation, businesses still face unneeded inspections.¹⁶ The absences of consolidated business and licenses’ registries prevents a complete implementation of the risk-based and targeted approach. Such an approach would help to avoid unneeded and long inspections, freeing up scarce resources of both businesses and inspectorates.

Figure 1: BiH Global Competitiveness Index 2017-2018



Current reform of business registration in BiH, as well as recently completed reforms introducing Integrated Information systems across the authorities, illustrate the complexities of country’s institutional framework. At the same time, it demonstrates why investment in online government-to-business (G2B) services is a priority. Registration of companies in BiH is under auspices of the courts, with involvement of the BiH and entity-level government agencies.¹⁷ The majority of companies in BiH are limited liability companies (approx. 60 percent), and even though the number of

¹⁴ WEF Global Competitiveness Index 2017-2018, available at: <http://reports.weforum.org/global-competitiveness-index-2017-2018/countryeconomy-profiles/#economy=BIH>

¹⁵ World Bank Group. 2017. The Western Balkans: Revving Up the Engines of Growth and Prosperity. World Bank, Washington, DC. ©World Bank. <https://openknowledge.worldbank.org/handle/10986/28894> License: CC BY 3.0 IGO

¹⁶ World Bank Group. 2013. Implementing a shared inspection management system: insights from recent international experience (English). Nuts & Bolts. Washington, DC; World Bank Group.

<http://documents.worldbank.org/curated/en/190851468152706158/Implementing-a-shared-inspection-management-system-insights-from-recent-international-experience>

¹⁷ e.g. Tax Administration, Health and Pension Insurance Institutes, Indirect Taxation Authority



newly registered Limited Liability Company (LLC)s in average increases over the years, the new businesses density¹⁸ is the lowest in the region (1.13 compared to 1.76 in Serbia and 1.35 in Albania).¹⁹ Integrated online services between government and businesses would level the playing field, automatize and de-personalize procedures and facilitate inter-authority interaction.

Ideally, the improvement of the governance and service delivery would be a subject of a country wide or harmonized e-Government strategy and action plan. In several attempts, authorities at various levels adopted e-Government strategies and action plans. However, insufficient political commitment and resources prevented fully implementing most of them. Finally, in May 2017, the Council of Ministers of BiH formally adopted the Policy of Electronic Communications of Bosnia and Herzegovina 2017-2021, which aligns with the Europe's Digital Agenda. This policy is a milestone in defining a coherent vision for the country's ICT ecosystem: it clearly identifies support for the ICT sector and innovation as a central element in driving the country's economy forward on a range of fronts – enhancing competitiveness within Europe, increasing productivity and efficiency in business, and improving public and e-government services.²⁰

The government infrastructures require additional improvements to enable online G2B online services. Although the government took certain steps toward introduction of digital signature, the application in practice remains limited. RS adopted the legislation on digital signature, using the entity government certification authority for internal purposes only, keeping the paper-based correspondence and archiving. FBiH is in the process of adopting the Law on Digital Signature and has limited resources to support its implementation. Businesses and public authorities dealing with businesses still use paper documents and the stamp for official correspondence. The recently introduced Interoperability Information System (IIS) established a service-bus²¹ data exchange platform at the BiH, entity and level of Brčko District, which is an important enabler of digitalization. Nonetheless, other important enablers for G2B online services, such as digital signature, client authentication, government cloud and e-Payment, are still missing. The IFC LIFE Advisory Services (AS) project has created an initiative and momentum for a more comprehensive approach to digitalization. However, insufficient resources and the lack of a common platform around this issue prevents faster deployment.

ii. Current State of the Innovation and Entrepreneurship Environment

BiH faces important structural problems in the areas of research and innovation aggravated by a weak private sector, low public and private R&D spending, and severe brain drain. Key public and private stakeholders and recent research documents the country's challenges in science, technology and innovation (STI), especially as it relates to the institutional fragmentation, ineffective support instruments, and lack of vision.²² Nevertheless, BiH has implemented few (if any) associated reforms and support strategies. BiH ranked the lowest in the region (103 out of 137) on the Global Competitiveness Index (GCI). BiH has made no improvements on the overall institutional and regulatory framework conditions unlike most of its regional peers. In particular, worsening conditions are indicated for innovation, institution and business sophistication pillars of the index; factors considered key drivers of enterprise productivity and competitiveness growth. Challenges on the supply side include ineffective public funding for R&D (estimated at below

¹⁸ New business density represents new registrations of limited liability companies per 1,000 people ages 15-64.

¹⁹ World Bank Group, Doing Business, Entrepreneurship data, available at:

<http://www.doingbusiness.org/data/exploretopics/entrepreneurship>

²⁰ International Telecommunication Union, Digital Innovation Profile: Bosnia and Herzegovina — ICT centric innovation ecosystem snapshot. Geneva 2018, available at: [https://www.itu.int/en/ITU-](https://www.itu.int/en/ITU-D/Innovation/Documents/Publications/eBAT_Brochure%E2%80%9393DIP%20BosniaH_431106_.pdf)

[D/Innovation/Documents/Publications/eBAT_Brochure%E2%80%9393DIP%20BosniaH_431106_.pdf](https://www.itu.int/en/ITU-D/Innovation/Documents/Publications/eBAT_Brochure%E2%80%9393DIP%20BosniaH_431106_.pdf)

²¹ A communication system between mutually interacting software applications. It is a message brokering service allowing implementation of the process-level interoperability to deliver integrated services to clients.

²² For a detailed discussion on the BiH STI challenges see: Policy Mix Peer Review Report on Bosnia and Herzegovina (2016).

Danube-INCO.net. Available here: [\[inco.net/object/document/18798/attach/D4_32_Policy_Mix_Peer_Review_BiH_final.pdf\]\(https://danube-inco.net/object/document/18798/attach/D4_32_Policy_Mix_Peer_Review_BiH_final.pdf\)](https://danube-</p></div><div data-bbox=)

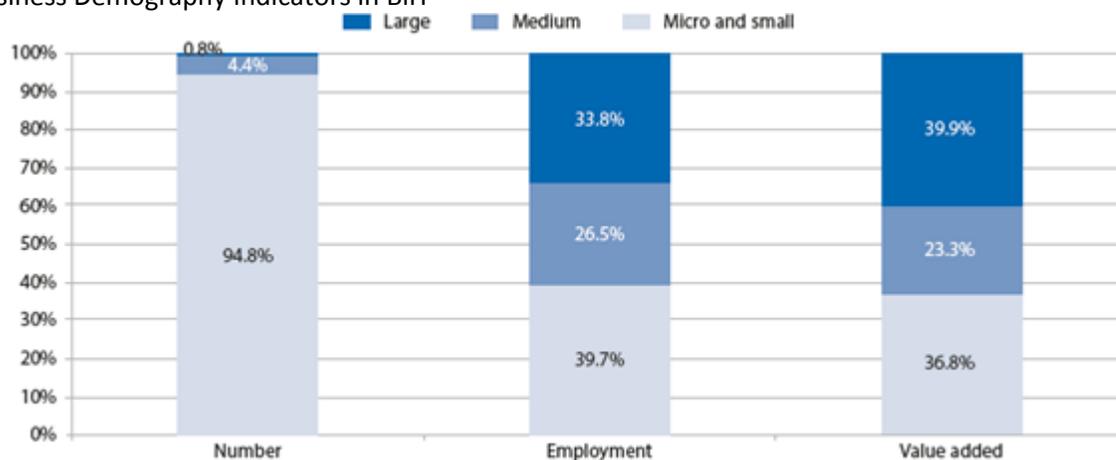


0.04 percent of GDP), decaying research infrastructure, reduction in the number of research personnel, decline in research output (publications, patents), and inherently weak links to domestic enterprises, especially small and medium enterprises (SMEs) and startups.

On the demand side, innovation input and outcome indicators are low, and the few innovative activities are incremental; mostly related to technology adoption and accumulation of imitative and absorptive capabilities. Total Business Expenditures on Research and Development (BERD) in BiH amounted to only 0.16 percent of GDP in 2013, well below the average business R&D spending in the South-East Europe (SEE). BiH is the lowest recipient of FDI in the region and lags its structural peers in terms of FDI stock per capita (UNCTAD, 2017). In contrast to frontier innovative activities, investment in new equipment, improvements in production processes, and adoption of international standards and certificates is more of a priority for local BiH enterprises to increase production efficiency and productivity growth (Silajdzic, 2011:2014). Thus, in the context of this project, *innovation* is defined as the introduction of technologies and practices that are new to the firm or the country not limited to breakthrough, inventive, or frontier innovation. Most importantly, BiH’s innovation ecosystem and policy suffer from (i) institutional fragmentation that translates into a lack of a clear and unified vision for the design and implementation of innovation policy, and (ii) low-impact and inefficient state support for R&D, enterprise innovation, and entrepreneurship.

BiH private sector is dominated by small and micro firms which are constrained by limited access to finance and weak internal capabilities to innovate. SMEs constitute more than 99 percent of the total business population while small and micro firms are over 94 percent. Small firms generate about 40 percent of the employment (see graph below). Business growth has been negligible, and the size structure of SMEs has not changed between 2000 and 2017. The overwhelming dominance of small and micro firms and the limited industrial and export diversification base constitute structural barriers to innovative activities within the economy. Access to finance still constitutes one of the main constraints to firms’ growth and technological upgrading in BiH (OECD, 2016). While most of the Western Balkan countries have made improvements related to ‘access to finance’ dimension over the 2012-2016 period, BiH has been recording slow progress. Bank financing to SMEs have improved in 2015 but credit conditions have not eased, and SMEs continue to face risk averse financing, especially compared to large businesses. Innovative SMEs seeking access to or adoption of existing technology or international quality standards and certifications received limited and fragmented public support. The few existing enterprise innovation support programs in BiH are fragmented (in terms of targeting), unsustainable given their short timeframes (usually one year), and underfunded. (See appendix for existing programs in FBiH and RS.)

Figure 1. Business Demography Indicators in BiH





Source: OECD, 2016 –SBA Assessment Government Questionnaire

BiH entrepreneurial and startup community is nascent, ICT focused, and developing organically without much effective support from the public sector. BiH recorded a low incidence of new business entries and low levels of early stage entrepreneurship activity. New business density is the lowest in the region (1.1 new registrations per 1000 active population).²³ There have been efforts to establish incubators, innovation centers, science and technology parks and promote cluster initiatives at all levels of government (e.g., Innovation Centre Banja Luka (ICBL), Technology parks in number of micro-regions across the country). Nevertheless, lack of institutional competence and expertise and insufficient and unsustainable funding still limit the effectiveness of these intermediaries and initiatives. Risk and early stage investment (angel and venture capital) are almost inexistent. Nevertheless, there have been recent government and donor-supported efforts²⁴ to boost new business formation through support to entrepreneurs and intermediaries in the main cities. *Overall, BiH's underdeveloped policy instruments to support entrepreneurship and innovative SMEs are a major policy concern and an identified priority for intervention.*

The BiH authorities have made few initial efforts to recognize innovation and entrepreneurship as priority areas. Few of these policies and strategies include; “Strategy of Science Development in Bosnia and Herzegovina 2010 – 2015 - revised and adopted 2016”; “Strategy for the development of Science and Technology in RS 2016-2020”; “Strategy of Science Development in the Federation of BiH (FBiH)” – (*drafted not adopted yet*); “Law on Incentives for SMEs in FBiH – draft”. BiH has also adopted a Regional Strategy for R&D. The complex constitutional structure of BiH, reflects policy and funding responsibilities dispersed across the entities - the RS, FBiH, and the Brčko District (BD), as well as across the cantonal structure of policy implementation bodies in FBiH. Few of the existing set of public support instruments across different institutions and ministries seem to be functioning and well targeted.

There is a clear need for an integrated and coordinated innovation policy on the design and implementation levels to reduce fragmentation, inefficiency and maximize the impact of the few existing programs and initiatives. The fragmented mix of support programs targeting entrepreneurship and enterprise innovation in BiH falls short of addressing the immediate market failures. Both the FBiH and the RS lack a coherent and coordinated strategy that defines clear objectives and governs the design, delivery, and monitoring of targeted support programs. Given the budget and fiscal constraints, the authorities in BiH need to identify efficient and effective interventions that can improve the innovation ecosystem, as well as signal to local entrepreneurs and foreign investors the commitment to the innovation agenda as a priority reform area at the highest levels. The absence of a clear and consistent innovation strategy coupled with unwelcoming investment climate does not encourage local businesses and enterprises to invest in innovative activities²⁵ and multi-nationals to invest in production activities in BiH.²⁶

Despite the critical need for innovation policy overhaul to address the structural issues within the BiH innovation ecosystem, the scope of this project extends only to addressing impediments that a subset of existing firms and entrepreneurs with innovative capacity face. Despite the relevance, the project will not address critical innovation constraints on the supply side related to R&D public investment and improvement of research infrastructure at universities and public research organizations. The scope of this project extends only to strengthening the institutional

²³ World Bank Enterprise Survey, 2016.

²⁴ Several of the enterprise and entrepreneurship support programs are implemented directly by the donors not through government bodies (UNDP, GIZ, JICA, and others).

²⁵ Business expenditure on R&D (BERD) amounts to 0.16 percent of GDP, way below the average business spending in the SEE region

²⁶ Volume of FDI significantly dropped between 2014 and 2016 with a low share of high-tech industries at 2.4 percent, which is firmly below its regional peers except for Albania



support structure needed for increasing innovative activities within existing firms and nurturing entrepreneurial endeavors. The ultimate objective is *to create an enabling environment for businesses to grow and create jobs through easing the operational environment, improving their managerial capabilities, innovation potentials, and their quality standards*. Additionally, it aims to start a policy dialogue with the authorities to anchor the innovation policy reform process and build analytical and implementation capacity within the relevant ministries and institutions.

C. Relationship to CPF

The proposed project is consistent with the 2016-2020 Country Partnership Framework (CPF) which calls for the improvement of competitiveness, entrepreneurship as well as the investment climate. The CPF states that focusing on these issues is a fundamental condition for creating opportunities for rebalancing the economy and accelerating growth; further emphasizing the issue of weak entrepreneurship (including in the services) and IT industries where BiH could shine. The CPF is based on findings of previous interventions in the sector and extensive analytical work and findings of the Systematic Country Diagnostic (SCD). The SCD argues that the way forward in enabling environment for businesses, creating wealth generation, innovation and employment is to improve the business environment and the investment climate and boosting entrepreneurship and firm innovation - making these the heart of the competitiveness, growth, and jobs creation agenda.

C. Proposed Development Objective(s)

The Project Development Objective is to enhance competitiveness and strengthen the environment in which enterprises operate.

Key Results

The project consists of two components addressing horizontal and vertical barriers to competitiveness and private sector growth:

Component 1 focuses on improving the business environment by reducing the administrative burden and implementing integrated service delivery for the businesses. Moreover, this component will review current skills demand and skill mismatches and the private sector's workforce development approaches. The expected results will be an upgraded institutional and regulatory framework that provides a predictable increasingly transparent, efficient and accountable government to businesses services. Furthermore, findings of the diagnostic, focusing on specific sectors within MSMEs and entrepreneurship, will inform the policy dialogue on possible future support for the development of well-functioning skills ecosystem.

Component 2 focuses on fostering innovation and entrepreneurship within the private sector. The component will address the needs of existing firms, especially SMEs, for technological upgrading and adoption of international quality standards and certifications with the objective of improving productivity, enhancing innovation, and creating jobs (monitored through firm growth and new products/services introduced). Additionally, it will improve firm formation through building a pipeline of new entrepreneurial ventures supported by existing intermediaries (monitored through number of startups formed or supported and jobs created).

The team will seek further technical assistance funds to ensure medium-term engagement. The breadth and depth of reforms warrant continuous and expert engagement throughout preparation and implementation of the project. The



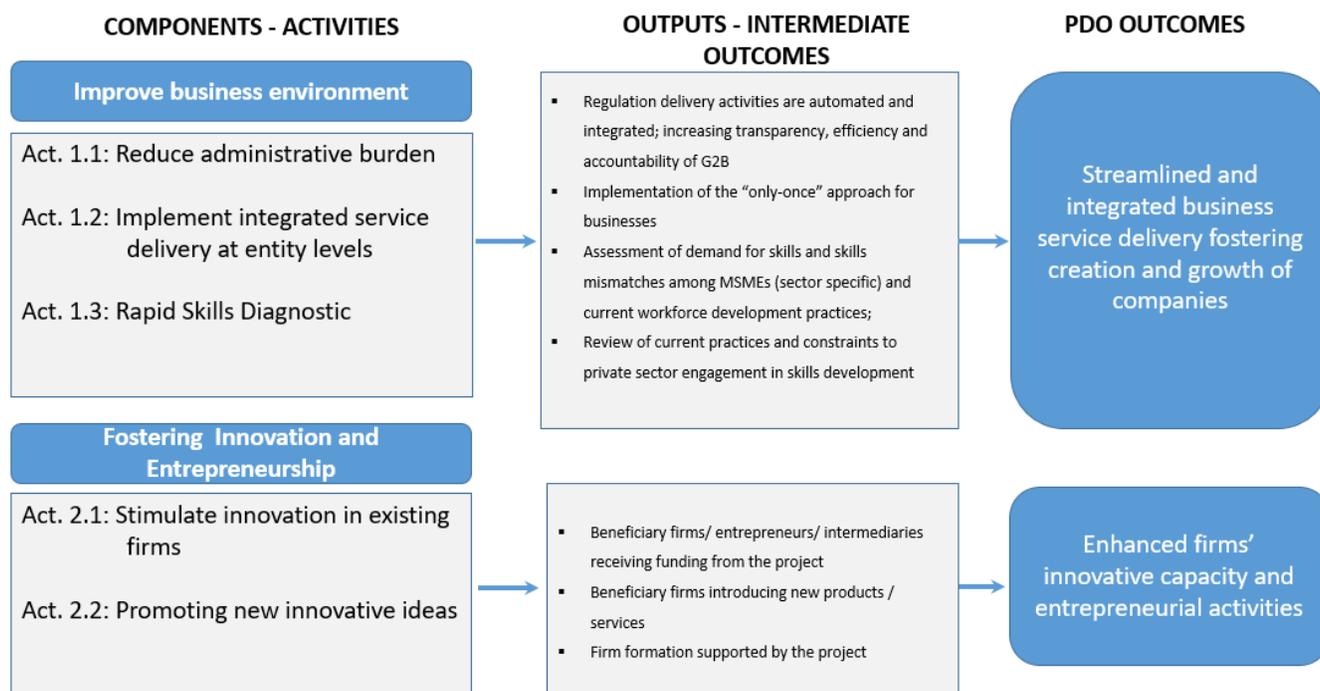
WB has already secured seed funding through the Umbrella Facility for Trade MDTF for the design of support instruments targeting firms to adopt international quality standards (ISO) that could improve their export capabilities. The WB team is also leading wider consultations with the donors on the overall business environment reforms and the innovation and entrepreneurship agenda for wider support programs

D. Concept Description

The environment in which they operate remains central challenge for enterprises in BiH. Sheer volume of reforms needed to make the necessary improvements can be overwhelming despite improvements made over the last few years. Key challenges remain, such as the size and role of the SOEs, government inefficiencies, lack of support for nascent innovative activities, labor market rigidities, aging transport and trade infrastructure. All those require strategic direction by the authorities that is currently insufficient or lacking, as well as clear champions of change. The project therefore focuses on two specific areas – the automation of government to business interaction and entrepreneurship and innovation support. The first builds on previous engagement and clear commitment of the authorities to ease the operation and services of government towards businesses and the second focuses on two segments that can bring about growth and employment, particularly among the youth – the entrepreneurship and innovation. To address this, the project will have two interconnected components. The first focuses on improving the business environment for enterprises to operate through reducing the administrative barriers, implementing an integrated service delivery at the entity level, and conducting a rapid skill diagnosis to better understand demand for skills and skills mismatches among MSMEs. The second focuses on stimulating innovative activities in existing firms and promoting new innovative startups through a mix of support instruments targeting SMEs, startups, and entrepreneurs.

The project will be designed as a results-based hybrid IPF with two components. This means the focus of the project will be on reaching sustainable results and this instrument is deemed best suited to support the authorities implement the identified set of reforms. The proposed instrument will help meet client's need to strengthen the institutional capacity of partner entity ministries and the entity secretariats. Moreover, the project financing will be disbursed to the Entities' Treasury accounts based on the achievement of entity-specific sets of Disbursement Linked Indicators (DLIs).

Figure 2. Overview of project components, activities, outputs and outcomes



Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

Since the scope of the project and the sectors supported remains very wide at this stage, the screening required through and Environmental and Social Management Framework will need to be very broad and flexible at this stage, so that all potential environmental impacts and issues can be identified properly, and other issues that could potentially raise the risk level of the project are flagged on time. The ESMF will need to rely on the environmental permitting procedure in country as the first tier screening, but will also need to include aspects of ESS2 and ESS3 as relevant for a given activity. It might be wise to recommend revisions of the ESMF for subsequent cycles of the financial support given.

Note To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document.



CONTACT POINT

World Bank

Rujejda Aliefendic, Anwar Aridi
Senior Private Sector Specialist

Borrower/Client/Recipient

BiH Ministry of Finance and Treasury
Vjekoslav Bevanda
Minister
vbevanda@mft.gov.ba

Implementing Agencies

Federation BiH Ministry of Finance
Jelka Milicevic
Minister
fmf.kab@bih.net.ba

RS Ministry of Finance
Zoran Tegeltija
Minister
mf@mf.vladars.net

Ministry of Science and Technology of Republika Srpska
Alen Seranic
Minister
a.seranic@mnk.vladars.net

Ministry of Development, Entrepreneurship and Crafts of Federation BiH
Amir Zukic
Minister
amir.zukic@fmrpo.gov.ba



FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Ruvejda Aliefendic, Anwar Aridi	
Approved By		
Practice Manager/Manager:		
Country Director:		