

DCF members active in the sector in 2017	EBRD, EU, Croatia, Germany, Norway, Slovenia, Switzerland, Czech Republic, UN, Sweden /Sida and USA/USAID.
Other key international organizations	Western Balkans Investment Framework; Council of Europe Development Bank; Regional Cooperation Council; Switzerland Global Enterprise; European Fund for Southeast Europe; Central European Free Trade Agreement; Organization for Security and Cooperation in Europe; Regional Center for Development of Entrepreneurial Competencies.
Key government partners	CoM of BiH; Government of FBiH; Government of RS; Government of BD BiH; Ministry of Foreign Trade and Economic Relations of BiH; Ministry of Finance and Treasury of BiH; Ministry of Civil Affairs of BiH; Ministry of Justice of BiH; Ministry of Communications and Transport of BiH; Indirect Taxation Authority of BiH; Ministry of Human Rights and Refugees of BiH; Directorate for Economic Planning of BiH; Directorate for European Integration of BiH; Labour and Employment Agency of BiH; Market Surveillance Agency of BiH; Market Surveillance Agency of BiH; Deposit Insurance Agency of BiH; Central Bank of BiH; Competition Council of BiH; Foreign Trade Chamber of BiH; Export Credit Agency of BiH; State Aid Council of BiH; Institute for Intellectual Property of BiH; Communications Regulatory Agency of BiH; Institute of Metrology of BiH; Mine Action Center in BiH; Federal Ministry of Finance; Federal Ministry of Environment and Tourism; Federal Ministry of Development, Entrepreneurship and Craft, Ministry of Agriculture, Water Management and Forestry; Federal Ministry of Justice; Ministry of Finance of RS; Ministry of Trade and Tourism of RS; Ministry of Justice of RS; Ministry of Economic Relations and Regional Cooperation of RS; Ministry of Industry, Energy and Mining, Ministry of Agriculture, Forestry and Water Management of RS; Agency for Development of Small and Medium Enterprises of RS; Association of cities and municipalities; Finance Directorate of Brcko District; Department of Economic Development, Sports and Culture of Brcko District;
Total allocation / disbursement to the sector in 2017 by DCF members	<p>Total allocated €59.46 million – €41.56 million in a form of grants and €17.90 million in a form of loans.</p> <p>Total disbursed €49.76 million – €33.36 million in a form of grants and €16.40 million in a form of loans</p> <p>Out of total ODA in 2017, 14% was allocated and 12% was disbursed in the sector.</p>
Legal framework and sector strategies adopted in 2017	The Law on Changes and Amendments to the Law on Excise Tax in BiH (BiH Off. Gazzete No. 91/17); The Law on Changes and Amendments to the Law on Value Added Tax (BiH Off. Gazzete No. 33 /17); The Law on Changes and Amendments to the Law on Securities Market (FBiH Off. Gazette No. 25/ 17); The Law on Changes and Amendments to the Law

	<p>on Investment Funds (FBiH Off. Gazette No. 25/17); The Law on Insurance (FBiH Off. Gazette No. 23/17); The Law on the Single Registry of Users of Non-Contributory Cash Benefits (FBiH Off. Gazette No. 25/17); The Law on Banks (FBiH Off. Gazette No. 27/17); The Law on Development Planning and Development Management in the FBiH (FBiH Off. Gazette No. 32/17); The Law on Changes and Amendments to the Law on Internal Trade (FBiH Off. Gazette No. 79/17); The Law on the Tax System of RS (RS Off. Gazette No. 62/17); The Law on Amendments to the Law on Insurance Companies (RS Off. Gazette No. 47/17); The Law on Insurance Intermediation and Insurance and Reinsurance Brokerage (RS Off. Gazette No. 47/17); The Law on Tourism (RS Off. Gazette No. 45 /17); The Law On Hospitality Industry (RS Off. Gazette No. 45 /17); The Law on Changes and Amendments to the Law on Consumer Protection (RS Off. Gazette No. 18/17); The Law on Banks of RS (RS Off. Gazette No. 3/17); The Law on Changes and Amendments to the Law on Securities Market (RS Off. Gazette No. 3/17); The Law on Changes and Amendments to the Law on Income Tax (RS Off. Gazette No. 1/17); The Law on Termination of the Law on Special Contribution for Solidarity (RS Off. Gazette No. 1/17); The Law on Changes and Amendments to the Law on Companies (RS Off. Gazette No. 100/17); The Law on Changes and Amendments to the Law on Geological Surveys (RS Off. Gazette No. 91/17); The Law on Changes and Amendments to the Law on Tax Administration (BD BiH Off. Gazette No. 35/17); The Law on Changes and Amendments to the Law on Investment Funds (BD BiH Off. Gazette No. 18/17).</p> <p>Strategy for the Development of Science in BiH 2017-2022; Action Plan for the Implementation of the Cultural Policy Strategy in BiH with extended deadline, for the period 2017-2018; Strategy for Scientific and Technological Development of RS 2017-2021 - "Knowledge for Development"; Strategy of Trade Development in RS by 2022; Strategy for Local Self-Government Development in RS 2017-2021.</p> <p>Previously adopted legal framework and sector strategies are available on www.donormapping.ba</p>
	<p>Trade and internal market: To some extent, MoFTER is leading the donor coordination, together with self-organizing meetings between donors active in this sub-sector.</p> <p>CEFTA secretariat is organizing donor coordination for free trade.</p> <p>Private sector development: To some extent, MoFTER is leading the donor coordination.</p> <p>Self-organizing regular meetings are held between donors active in this sub-sector, mainly in the context of programming, implementation or launching specific initiatives.</p> <p>In the area of micro, small and medium enterprises there is no formal donor coordination, and coordination is based on informal <i>ad-hoc</i> basis</p>

<p>Coordination among and with donors</p>	<p>Local economic development: Donor coordination meetings, which support local development projects organized by UNDP. Informal <i>ad hoc</i> coordination, project-based and mostly bilateral / multilateral meetings.</p> <p>Research, innovation and technological development: Informal <i>ad-hoc</i> coordination.</p> <p>Information and communication technology (ICT): Informal <i>ad-hoc</i> coordination.</p> <p>Tourism and heritage: MoFTER is leading the donor coordination, within the Work group for tourism, together with self-organizing meetings between donors active in this sub-sector.</p> <p>Donors active in the sector and BiH Institutions from all levels of government regularly attended Donor Coordination Forum meetings (DCF meetings) hosted by BiH Ministry of Finance and Treasury/Sector for Financial Planning of Development and Coordination of International Economic Aid.</p>
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Overview of activities in 2017

Competitiveness and innovation sector presented in this Report is based on the sector-based reporting methodology defined in the IPA II regulation, for period 2014 – 2020.

Competitiveness and innovation sector consists of six sub-sectors:

- Trade and internal market,
- Private sector development,
- Local economic development,
- Research, innovation and technological development,
- Information and communication technology (ICT) and
- Tourism and heritage.

Bosnia and Herzegovina is at an early stage in establishing a functioning market economy, whereby establishing more competitive economy and creating the new jobs remains one of the most difficult challenges for institutions at all levels of government. This implies the capacity building capable of dealing with competitive pressures and market forces at the global level, establishing of a single economic space suitable for foreign investments, harmonization of regulations with the EU as well as the implementation of economic reforms defined in the Reform Agenda in order to improve the competitiveness of BiH.

Policy makers in many countries use the Global Competitiveness Index (GCI) to measure the factors that trigger long-term growth and progress, in order to better design the strategies of economic growth in the decision making process. GCI was defined by the World Economic Forum (WEF), for analysis of competitiveness at the global level, based on the measuring of the macroeconomic competitiveness of countries.

In the Report on Global Competitiveness 2017 - 2018, Bosnia and Herzegovina is at the 103rd place, which represents an improvement for 4 places compared to the previous year, and at the same time indicates to very low level of BiH competitiveness globally. Although most areas within the Competitiveness and innovation sector recorded slight progress in the reporting period through the increased export and improved trade balance, the position of Bosnia and Herzegovina on a global scale has not changed significantly, considering that in the same period other countries have progressed faster than BiH.

In 2017, certain progress has been made in the area of information and communication technology, in the field of cyber space protection and ICT development and implementation of the Law on e-Signature.

The Council of Ministers of BiH, on its 100th session held on May 4, 2017, adopted the BiH Policy for Development of the Information Society for the period 2017-2021. Fundamental goals of this Policy are to define the direction of further and fast-paced development of the ICT sector and the broadband, secure investments in the ICT sector and the broadband, foster competition in the electronic communications market, ensure application of the most contemporary technological solutions as well as to develop the software industry in Bosnia and Herzegovina.

Also, the Council of Ministers of BiH, on its 102nd session held on May 23, 2017, adopted the Policy of the Electronic Communications Sector in BiH for the period 2017-2021, as well as the Action Plan for Implementation of the Policy, which defines the goals for development of the electronic communications sector in BiH, among which, primarily the maintenance of competitiveness at the market, further development of the infrastructure with emphasis on the infrastructure enabling the broadband services, development of electronic communications for the needs of public services, as well as the needs of the state security, defence and emergency services.

The Law on Electronic Communications of Bosnia and Herzegovina was prepared and submitted to the Council of Ministers of BiH for adoption at the end of 2017.

The implementation of the second phase of digitization in Bosnia and Herzegovina was planned in 2017. Considering that the international tender for realization of the II stage of digitalization was cancelled after the procedures were conducted, the decision was made that in 2018 tenders for the second and third phase of the digitization project in BiH should be consolidated, in order to finalize the digitization process in the forthcoming period.

In line with the obligations of BiH under the Stabilization and Association Agreement, in October 2017, the second meeting was held of the Subcommittee on trade, industry, customs and taxation between the European Union and Bosnia and Herzegovina, where topics were discussed in the area of free movement of goods, industrial policy, small and medium-size enterprises, taxation, customs and trade issues.

According to the recommendations of the European Union, it is necessary to continue activities towards creating a single economic space suitable for foreign investment, reducing and facilitating the businesses registration process; continue to harmonize the regulation on the Value Added Tax (VAT) and Excise with the latest amendments to the regulations in the EU as well as the completion of accession negotiations to the World Trade Organization (WTO).

In 2017, the Institute of Metrology of BiH adopted a set of bylaws (rulebooks) in the domain of its work. The enforcement of these bylaws will harmonize the approach to the assessment of compliance of measuring instruments in Bosnia and Herzegovina with the access to the European Union.

As in the previous years, also in this reporting period activities continued on providing support to the private sector development in BiH, through the support projects to small and medium-size enterprises and the improvement of business conditions and creating conditions for the private sector growth, as the initiator of the overall economic development of the country.

During 2017, activities were undertaken on drafting of the Revised Strategy for Development of Science and Technology in BiH for the period 2017-2022, which was adopted by the Council of Ministers of BiH at the 131st session held on January 30, 2018. The aim of the Strategy is to strengthen the role of research and development as the key element of the BiH long-term development and the development of research infrastructure in line with the international standards. The Strategy and its Action Plan are aligned with the Regional Strategy for Research and Development for Innovation in the Western Balkans. BiH is included in the Horizon 2020 program, a full member of the COST program, one of the founders of the COST association as well as it is an associate member of EUREKA.

With the adoption of the Science Development Strategy, further activities are facilitated on implementation of the priorities within the European Research Area (ERA), including Smart

Specialization, Open Access and Open Data, as well as the engaging in regional initiatives related to supporting of the regional mobility of researchers.

At entity levels, in April 2017, the Strategy for Scientific and Technological Development of Republika Srpska 2017-2021 was adopted, while the Strategy for the Development of Science 2016-2026 in the Federation is adopted as a draft. This Strategy is currently being finalized by the Government of the Federation of BiH.

In 2017, positive developments were recorded in the Tourism and heritage sub-sector. However, it is necessary to continue carrying out activities to further align with the *acquis*, as well as to promote Bosnia and Herzegovina on the regional and the global level, so that the existing tourism potential could contribute to the faster sustainable development and preservation of the natural and the cultural heritage of the country.

In November 2017, the Summit on cooperation in tourism between China and the countries of Central and Eastern Europe was held in Sarajevo. The Summit was realized as continuation of the 16 plus 1 platform on cooperation between China and countries of the SE Europe. The aim is to strengthen tourism cooperation through the preparation of a tourist route that will connect the cultural heritage of China, Bosnia and Herzegovina and the countries in the region. It is important to emphasize that the Agreement on visa waiver between BiH and China, signed in Budapest on November 27, 2017, will significantly contribute to the improvement of tourism cooperation. The agreement is in the process of ratification and will be in force from 2018.

Investments of DCF members in 2017

DCF members active in the Competitiveness and innovation sector in 2017 are EBRD, EU, Croatia, Germany, Norway, Slovenia, Switzerland, Czech Republic, UN, Sweden /Sida and USA/USAID.

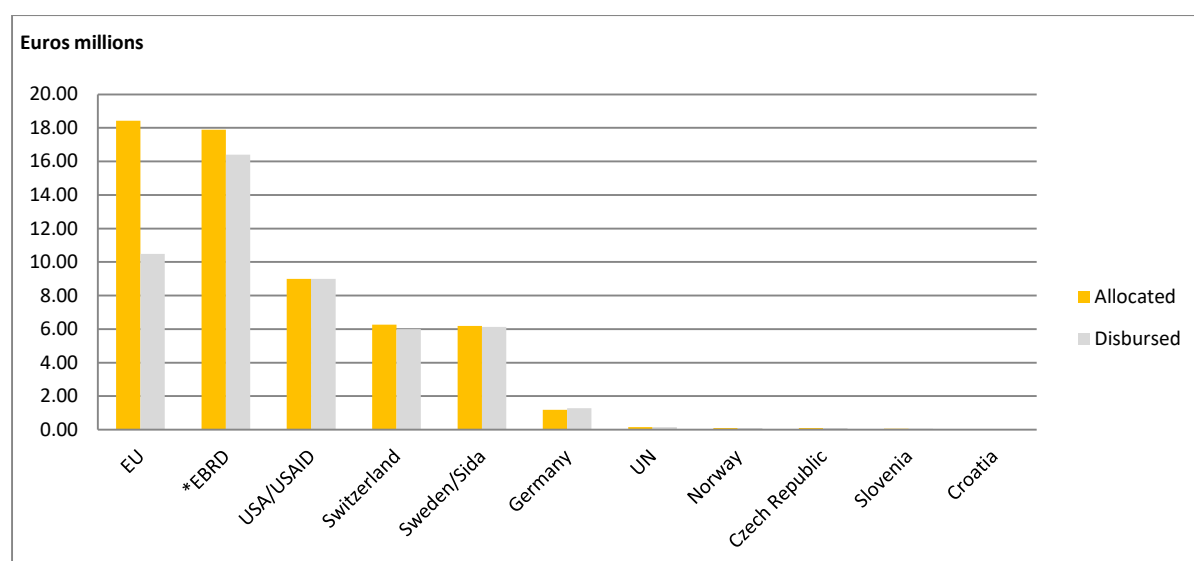
Total allocations of DCF members to the sector in 2017 amounted to €59.46 million, out of which €41.56 million in the form of grants and €17.90 million in the form of loan, from the creditor European Bank for Reconstruction and Development (EBRD).

Total disbursements of DCF members to the sector in 2017 amounted to €49.76 million, out of which €33.36 million in the form of grants and €16.40 million in the form of loan, from the creditor European Bank for Reconstruction and Development (EBRD).

Figure 6.1. compares grants allocated and disbursed per donors, according to the amount of invested funds as well as allocated and disbursed loan funds from the European Bank for Reconstruction and Development (EBRD).

Donors who allocated i.e. disbursed funds in 2017 were the EU, USA/USAID, Switzerland and Sweden /Sida.

Figure 6.1. Allocated and disbursed grant funds per donors in 2017



*Note: EBRD bank loan

Competitiveness and innovation sector consists of 6 sub-sectors. Figure 6.2. presents the structure of total allocated funds per sub-sectors. Out of total allocated funds in 2017, most of them were allocated to the sub-sector Private sector development 83.1%

Figure 6.2. Total allocated funds per subsectors in 2017

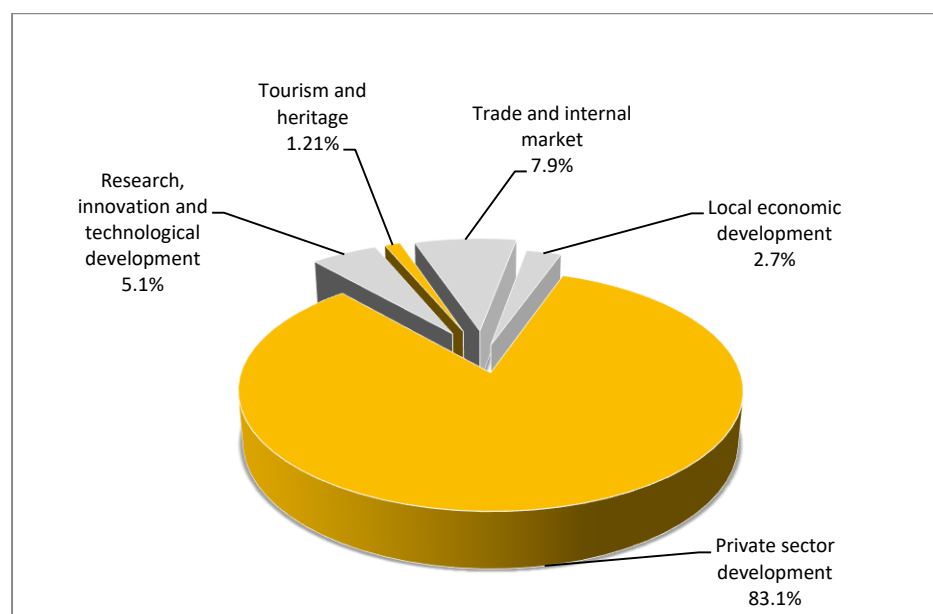
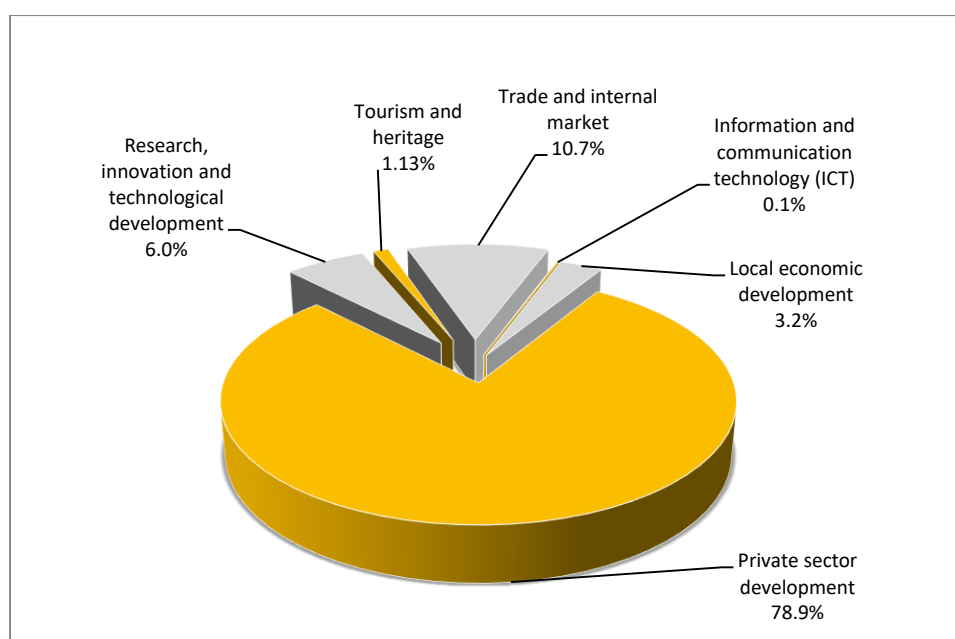


Figure 6.3. presents the structure of total allocated funds in 2017 per sub-sectors. Out of total allocated funds in 2017, most of them were allocated to the sub-sector Private sector development 78.9%.

Figure 6.3. Total disbursed funds per sub-sectors in 2017



Ten major projects in the sector that allocated or disbursed funds in 2017, are listed below:

PROJECT TITLE	Donor/Creditor	Total Project Value (Euros millions)
Fostering Agricultural Markets Activity (FARMA II)	USA/USAID, Sweden/Sida	15.97
Local development strategies	EU	15.00
Municipal Environmental and Economic Governance MEG project	Switzerland, UN	10.72
FLOODS - Recovering SMEs in flood affected areas and strenghtening their competitiveness based on local economic development partnership	EU	9.00
Floods - Programme for Local Self-Government and Economic Development in Bosnia and Herzegovina (EU ProLocal)	Germany	7.44
Bingo Expansion 2	EBRD	5.00
Bingo Expansion 3	EBRD	5.00
Financial Reform Agenda Activity (FINRA) in BiH	USA/USAID	4.93
Mainstreaming the Concept on Migration and Development into Relevant Policies, Plans and Actions in BiH: Diaspora for Development (D4D)	Switzerland, UN	4.66
Diaspora Investment Activity	USA/USAID	4.40

All projects are available in the Donor Coordination Forum Database, via the following link:

<http://dmd.donormapping.ba/dmd/faces/dmdPublicStart>

Future activities

In line with all abovementioned, it is necessary to continue additional efforts in development of the functioning market economy, as a condition for strengthening of economy competitiveness of Bosnia and Herzegovina in the region and worldwide. Particular attention should be paid to the implementation of the structural reforms in order to achieve higher level of competitiveness, as a prerequisite for economic growth and much desired employment growth, through improved cooperation between the public, private sector and civil society. Thereby, the focus should be on the integrated local economic development, particularly in the domain of export-oriented manufacturing sector, tourism and the agro-rural sector. Based on the responses of BiH Institutions from all levels of government and DCF members, which participated in the preparation of this Report, as well as in line with the recommendations of the European Commission, further efforts should be made in the following period:

- enhance the support for strengthening of BiH institutional and legal framework in line with the obligations from the SAA, WTO and CEFTA;
- improve the business environment and eliminate ineffective administrative procedures that discourage new investments and cause high transaction costs for business operations;
- improve business sophistication, through support for access to new markets, appropriate finances, applying innovation, improving product quality and improving technology;
- introduce support mechanisms for existing small and medium-sized enterprises and new entrepreneurs, by providing financial and technical support;
- strengthen the system of business infrastructure, through improving of institutional capacities for designing, monitoring and implementing activities to improve competitiveness;
- provide support to underdeveloped regions in order for them to link with the value added chains of agro-tourism value;
- facilitate access to better information and services for economic operators involved in trade;
- ensure efficient market regulation to enable free movement of goods and services and fair competition;
- improve the link between business and trade consultations and decision-making bodies and support further development of e-Government at all administrative levels;
- sign agreements on mutual recognition of qualifications and education;
- reduce trade costs through implementation of measures to promote trade and achieve implementation of services liberalization within CEFTA;
- adopt the new law regulating the field of electronic communications in Bosnia and Herzegovina, that will be in line with the current EU regulatory framework;
- draft and adopt the BiH Information and Communication Strategy, as well as the Strategy of Development of the Broadband Access in BiH, which will ensure the conditions for achieving the goals from the European Union Digital Agenda;
- draft and adopt the new law on postal services in BiH and the Strategy for Development of Postal Services in BiH, which would harmonize the BiH postal services market with the European Union postal services market, as well as improve the quality of services in this sector;
- establish a mechanism for protection of the cyber space in BiH against criminal activities by establishing the point(s) of CERT contact, for timely response in order to protect critical

infrastructure in the economy and the public sector, as well as the adoption of strategy and laws on protection of the cyber space in BiH;

- adopt the Law on e-Identification and trust services for electronic transactions in BiH;
- carry out the second and third stage of the digitization project in Bosnia and Herzegovina;
- strengthen capacities in the field of science, research and innovation as well as support projects that are applied in the economy;
- adopt the Strategy of Quality Infrastructure in BiH.