2015:27 Sida Decentralised Evaluation

Claes Lindahl
Tamara Ivankovic

Evaluation - The Challenge in Bosnia and Herzegovina

Final Report

Sida

Evaluation - The Challenge in Bosnia and Herzegovina

Final Report
July 2015

Claes Lindahl
Tamara Ivankovic

Sida Decentralised Evaluation 2015:27
Sida

Authors: Claes Lindahl and Tamara Ivankovic

The views and interpretations expressed in this report are the authors' and do not necessarily reflect those of the Swedish International Development Cooperation Agency, Sida.

Sida Decentralised Evaluation 2015:27

Commissioned by Sida, Embassy of Sweden, Sarajevo

Date of final report: July 2015

Published by Citat 2015

Art. no. Sida61896en

urn:nbn:se:sida-61896en

This publication can be downloaded from: http://www.sida.se/publications

SWEDISH INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

Address: S-105 25 Stockholm, Sweden. Office: Valhallavägen 199, Stockholm
Telephone: +46 (0)8-698 50 00. Telefax: +46 (0)8-20 88 64
E-mail: info@sida.se. Homepage: http://www.sida.se

Foreword

This report is evaluating the Challenge, a small pilot challenge fund that the Swedish Embassy in Sarajevo implemented 2013-2015. The total budget was SEK 5 million of which SEK 4.5 million were grants awarded to winning companies in three rounds. The challenge fund targeted micro and small enterprises in Bosnia and Herzegovina (BiH), including start-ups. The fund's strength is its focus on young, educated entrepreneurs who describe the fund as a hope for them in a difficult context. As such, the Challenge is as much about good governance as private sector development. We believe that the Challenge is a useful and exciting model for Sida and Swedish embassies to be replicated elsewhere.

Table of contents

Abbreviations and Acronyms

AECF	Africa Enterprise Challenge Fund
B4D	Business for Development
BIH	Bosnia and Herzegovina
CREDO	Competitive Regional Economic Development (project in BiH)
CSR	Corporate Social Responsibility
EUR	Euro
FARMA	Fostering Agricultural Markets Activity
FRIMA	Fostering Interventions for Rapid Market Advancement (project in BiH)
GBL	Global Business Lab
GOLD	Growth-oriented Local Development (project in BiH)
IAP	Innovation Against Poverty
IFAD	International Fund for Agriculture Development
IT	Information technology
NGO	Non-governmental organisation
OP	Observatory Partners
SEK	Swedish Crowns
SME	Small and Medium Enterprises
ToR	Terms of Reference
USAID	United States Agency for International Development

Preface

The Challenge is implemented by the Embassy of Sweden in Bosnia and Herzegovina (BiH) 2013-2015 with a budget of SEK 5 million. This challenge fund was aimed at BiH micro and small businesses and Swedish enterprises wanting to do business in BiH. Grants of up to EUR 30,000 were awarded to specific development projects to be undertaken by these companies based on cost-sharing of at least 50% of the development costs. The purpose of the Challenge was to support projects which deliver both commercial benefits for the private sector and development benefits for the population in BiH, for example in terms of job creation and income improvements. The grants would give the enterprises the opportunity to implement innovative and commercially viable business ventures in BiH. There have been three calls for proposals during the period. The final selection of grantees was made in April 2015 and the project is therefore coming to an end. As the Challenge was designed as a pilot, a review with the purpose of assessing the results and to prepare for a potential new phase was decided by the Embassy to be carried out in the spring of 2015. This report is about the findings and recommendations of this evaluation.

The evaluation of the Challenge was undertaken in May-June 2015. It included work in BiH over two weeks. Interviews with companies that had received grants were undertaken by telephone, Skype or in person. Of 27 companies which have been awarded under the Challenge, interviews were conducted with 22 companies. The team also interviewed 11 companies which did not receive an award, but made it to the final selection of shortlisted companies. In addition to the company surveys, the evaluation has reviewed the documentation of the Challenge, and held interviews with staff and consultants engaged in the project in Sweden and BiH, as well as with other projects and embassies engaged in private sector development in BiH.

The evaluation was carried out by Mr. Claes Lindahl and Ms. Tamara Ivankovic. Both are experienced consultant, the latter from BiH and the former with specific experience working with challenge funds in general, as well as with business development from numerous assignments, including many in the Balkans for clients such as Sida, Danida, NORAD, SECO, ADA, DFID, the UN and the World Bank.

Executive Summary

INTRODUCTION

This report is the result of an evaluation of the *Challenge,* a small pilot challenge fund that the Swedish Embassy in Sarajevo implemented 2013-2015. The total budget for the pilot was SEK 5 million of which SEK 4.5 million were grants awarded to winning companies in three rounds. The challenge fund had micro and small enterprises in Bosnia and Herzegovina (BiH) as a target group, including start-ups. Grants up to EUR 30,000 on a match-making basis could be applied for concerning innovative projects. Also Swedish-based companies wanting to do business with BiH were eligible, and one of the objectives was to promote stronger links and technology transfers between Sweden and BiH. The pilot is now coming to an end and the evaluation aims at assessing the results and performance so far and to provide recommendations concerning a potential follow-up project.

In total 1,148 applications were received under the *Challenge* and the Embassy has provided grants to 27 companies. The average awarded grant was EUR 17,500. Nearly half of the winners were small companies with 3 or less employees, and about 40 percent were start-ups (newly registered without a financial record). Information technology (IT) dominated, but there was a wide spread of sectors. In terms of Swedish-based companies the outcome was disappointing. Only 12 such companies applied, i.e. about 1% of all applications, although two of these won an award. With a ratio of 2.4% winners of the total applicants, the *Challenge* had a lower such ratio than common in challenge funds, and the Embassy, furthermore, reduced the amount awarded as compared to the applications in order to allow a slightly larger number of winners.

The interviewed companies in this evaluation give without exception high marks for the web-based application process (the application form, the web-site with background information and criteria, the submission on-line, question and answer services etc.). The simplicity and business-orientation of the forms, the efficient response to questions by the Project staff in the Embassy were rated generally as excellent and many companies compared this favourable to other support programs in BiH. The application process was in English only, but with help even entrepreneurs with weak English skills participated. Companies which were shortlisted, but failed to win an award, were equally positive to the *Challenge*, but noted as a negative aspect the lack of relevant feed-back regarding reason for their failure to be chosen. There is, nevertheless, a general view that the *Challenge* is transparent and merit-based. The involvement by the Embassy was seen as a guarantee for this. The performance by the Swedish Embassy in implementing the fund is held in high regard by the participants, whether winners or not.

The outcome of the *Challenge* in terms of performance criteria such as employment creation, exports and so on is too early to assess. Almost half of the winners have just received their funds. The six companies which were awarded in the first round (hence are at the end of the implementation), generally have performed the milestones agreed and have created employment as envisaged, while their commercial performance is so far more mixed as compared to the expectations, especially in enhanced profitability. Given the focus on start-ups and micro and small enterprises as well as on innovation, the impact in terms of commercial development, exports and job creation is likely to be limited in the short-term, although there are examples of positive developments. The *Challenge's* strength is rather the focus on young, educated entrepreneurs who describe the fund as a *hope* for them in a difficult context when many of them leave BiH for lack of opportunities and there is not much else in terms of support available. They also see the *Challenge* as a non-corrupt process influenced by Swedish values in a country context where corruption and cronyism is commonly experienced. As such, the *Challenge* is as much about *good governance* as private sector development.

The recommendation of the evaluation is that the Swedish Embassy should finance a full project and initiate this as soon as possible not to lose momentum and the excellent reputation built. We suggest that such a *Challenge 2.0* should be planned for five years with a tentative budget of SEK 30 million. It should be carried out along the same model as the pilot, i.e. with two calls per year for four years and the last year devoted to follow-up. It should use the same application and screening procedures, having the same target group, but with a considerably larger budget per call, allowing a larger number of winners and a higher share of awards per applications. The *Challenge* had as a purpose to create stronger business links between Sweden and BiH and especially mobilise the BiH diaspora in Sweden. This aspect of the *Challenge* was less effective and requires some re-tooling in a future project, should the same objective be maintained.

The *Challenge* was implemented due to special circumstances by the Swedish Embassy in Sarajevo with a support structure of consultants for technical assistance and screening of applications. This turned out to be an efficient management carried out at low cost. If possible, the management of *Challenge 2.0* should use the same system, albeit lifting out the main administration from the Embassy. The evaluation proposes that the management of *Challenge 2.0* is entrusted to the Global Business Lab (GBL) linked to Stockholm School of Economics. There are several reasons for this: 1) persons linked to the GBL have already been engaged in the *Challenge* throughout its duration as Observatory Partners and they have provided valuable technical backstopping; 2) GBL is recognized by Sida as a non-commercial entity entrusted with implementation of a series of incubator projects in Africa and elsewhere; and 3) the GBL connection can provide a better link to the Swedish-BiH diaspora which worked less well in the *Challenge* and overall strengthen the business links between Sweden and BiH. Detailed suggestions based on the experience of the *Challenge* in version 2.0 are given in the full text.

We believe that the *Challenge* is a useful and exciting model for Sida and Swedish embassies to be replicated elsewhere.

1 Introduction

1.1 THE CHALLENGE IN SUMMARY

The *Challenge* is implemented by the Embassy of Sweden in Bosnia and Herzegovina (BiH) 2013-2015 with a budget of SEK 5 million. This challenge fund was aimed at BiH micro and small businesses and Swedish enterprises wanting to do business in BiH. Grants of up to EUR 30,000 were awarded to specific development projects to be undertaken by these companies based on cost-sharing of at least 50% of the development costs. The purpose of the *Challenge* was to support projects which deliver both commercial benefits for the private sector and development benefits for the population in BiH, for example in terms of job creation and income improvements. The grants would give the enterprises the opportunity to implement innovative and commercially viable business ventures in BiH.

There have been three calls for proposals during the period. The final selection of grantees was made in April 2015 and the project is therefore coming to an end. As the *Challenge* was designed as a pilot, a review with the purpose of assessing the results and to prepare for a potential new phase was decided by the Embassy to be carried out in the spring of 2015. This report is about the findings and recommendations of this evaluation.

For details of the Terms of Reference (ToR), see annex 1.

1.2 PURPOSE AND METHOD OF THIS REPORT

The evaluation of the *Challenge* was undertaken in May-June 2015. It included work in BiH over two weeks. Interviews with companies that had received grants were undertaken by telephone, Skype or in person. Of 27 companies which have been awarded under the *Challenge*, interviews were conducted with 22 companies. The team also interviewed 11 companies which did not receive an award, but made it to the final selection of shortlisted companies.[1] In addition to the company surveys, the evaluation has reviewed the documentation of the *Challenge*, and held interviews with staff

[1] In both cases, the team sent out e-mails asking for an interview and interviews were conducted with those companies which responded. In terms of shortlisted, but not awarded companies, only those from round two were approached. A number of awarded companies were visited on site in Sarajevo, Mostar, Vares, Konjic, Rogatica abd Bugojno.

and consultants engaged in the project in Sweden and BiH, as well as with other projects and embassies engaged in private sector development in BiH.

For a list of persons consulted, see annex 2.

2 The Challenge

2.1 THE OBJECTIVES

The objective of the *Challenge* was officially formulated as:

> "to stimulate new enterprise development in Bosnia and Herzegovina and technology transfer to BiH drawing on the linkages between BiH and Sweden. Promotion of innovation would be a key objective. The *Challenge* should also contribute to sustained cooperation between the countries when the Swedish official development assistance eventually is phased out. The challenge fund attempts with fairly small financial incentives to reduce the risk for entrepreneurs in Sweden and BiH to engage in start-ups and expansion of micro and small enterprises in BiH. It should capitalize on the strong ties between the two countries, not least through the significant population in Sweden with a background in BiH."

2.2 PERFORMANCE

The *Challenge* operated in three rounds and at each round in total SEK 1.5 million was awarded. All together1,148 applications were received, with the following breakdown: 570 in the first round with 30 November 2013 as closing date for applications and close to 300 applications in the two following rounds respectively. 27 companies were awarded grants based on their ranking according to explicit selection criteria, with nearly half of the winners coming from the third round. Each selection of the winners was followed by an official award ceremony hosted by the Embassy. For details, see table 1 below.

Table 1. Facts about the three rounds in the *Challenge*

Challenge rounds	**Closing date**	**No of applications**	**Number of awards**	**Awards of total appl. (%)**	**Average award (EUR)**	**Award ceremony (date)**
Round 1	30.11.2013	570	6	1.1	25,400	17.5.2014
Round 2	30.5.2014	293	9	3.1	18,200	11.11.2014
Round 3	30.11.2014	285	12	4.2	13,100	22.4.2015
Total	**--**	***1148***	***27***	***2.4***	***17,500***	**---**

As noted above, the number of applications reduced to about half during round 2 and 3 as compared to round 1. According to the Project management and other persons involved in the screening process, the quality of the applications, on the other hand, kept improving with each consecutive round. This made the competition tighter and the job of the selection committee more difficult. As a result, in some cases the committee resorted to scaling down awarded grants, thus increasing the percentage of winners from the total number of submitted applications from only 1.1 percent in round 1 to 4.2 percent in round 3.

An average share of applications receiving grants of 2.4% is on the low side in challenge funds carried in development cooperation elsewhere. For example, the Sida funded *Innovation Against Poverty* (IAP) operating in the period from 2011 to 2013 had a total of 65 winners in five rounds out of 1,059 applications overall, or nearly 7%. The reason for such low share in the *Challenge* was a combination of an unexpectedly strong interest in the fund, especially in the first round, and a small overall budget for the awards.
Declining number of applications from the first round should neither be seen as reduction of interest by the BiH entrepreneurs, nor as “saturation” in terms of viable businesses that could apply. For example, one of the companies was so persistent and believing in their business idea they continued refining it and applying, only to win in the final round. Declining number of applications is not an uncommon experience in challenge funds. Applicants in later rounds often have a better idea of the process and applied selection criteria, thus being more likely to get discouraged after realizing that challenge funds are not ‘easily got money for nothing’. This tends to enhance quality of projects applying and reduce the number of competitors.
As the maximum award sum per application by project design was kept at the same level for each challenge round, the average award was reduced by almost half as a result of the larger number of winners -from about EUR 25,400 in round 1 to EUR 13,100 in round 3. While in round 1 majority of winners received the sum that they applied for, this was not the case in round 2 and especially in round 3. Such scaling down of grants risks of being detrimental to the success of the business idea outlined in the application, an issue discussed further in this report.

2.3 THE CHALLENGE IN CONTEXT

Given the size of its total budget, the *Challenge* was an unusually small challenge fund as compared to the international experience in development cooperation and also compared to funds which Sida has contributed to such as the *Innovation Against Poverty* (with award sum of SEK 25 million) and the *Africa Enterprise Challenge Fund* (AECF) special window for four post-conflict countries (Funded by Sida with SEK 130 million). In addition, challenge funds focusing on a single country tend to be considerably larger. For example, a review for Sida concerning challenge funds for Somalia implemented by the World Bank and USAID found that grant funds available were in the order of SEK 30-70 million over a couple of years.[2] It is hard to find a challenge fund with such as low budget as the *Challenge.*

Another feature of the *Challenge* is the fact that it was implemented by the Embassy itself and that – unlike other Sida supported challenge funds – project management was not outsourced to an implementing firm or organisation. This point will be discussed further in the document.

[2] C. Lindahl (2014) A *proposed challenge fund for Somalia*

2.4 THE APPLICATION PROCESS

The *Challenge* was fully web-based with all information of the fund available at www.challenge.ba with downloadable application forms based on a template, selection criteria and Questions and Answers section. Submission of applications was only possible online and only applications in English were eligible. The applications were first screened by the Project management staff of the Embassy, eliminating incomplete or formally insufficient applications and short listing some 30-40 project proposals in each round based on the pre-established selection criteria (see below). These shortlisted applications were screened in a second stage by external parties (see below), reducing the short listed applications to 15-20. These candidates were requested to provide additional information such as company financial statements, audit reports, organisational charts and ownership structures. The company representatives were also interviewed by phone. This was followed by final screening carried out by the Project management in the Embassy and the external parties, which decided on the winners of the awards.

2.5 SELECTION CRITERIA

The *Challenge* had explicit criteria for the selection of winners, which were posted on the web-site. In the screening process, a scoring system was used whereby applications were given a summary score which determined the overall ranking of the projects. The criteria are the following (highlighting added):

1. The likelihood that the project will be **commercially successful** and provide a clear added value for the future of the enterprise or business venture. Projects with no or very small such possibilities will not be accepted.
2. The **quality of the proposal** in terms of how the company differentiates itself from the competition, how novel the project is, the sustainability of the revenue model, scalability, the market opportunity and the management team.
3. The **"additionally" and "value added"** of the project to the BiH economy in terms of innovation, technology transfer, etc. if successful.
4. The potential **employment effect** directly or indirectly through sub-contracting, out-grower schemes etc. **Youth employment** and **female employment** will have a premium.
5. The **export potential** (projects aimed entirely for the local market are not excluded, but export-orientation is a premium). Projects adjusted to and aimed at the EU market will have a premium.
6. Projects of a joint venture character and which have a potential of create sustained **links between Sweden and BiH** will have a premium. Note: For companies in BiH there might be 'Swedish or Scandinavian connection' such as an established business relationships, intended marketing towards Scandinavia, a planned joint venture, sourcing of technology from Scandinavia, etc.
7. Projects taking place **outside the main cities** will be given a premium in the selection process to promote a balanced regional development.
8. Projects which have a clear **positive environmental and climate dimension** will be given a premium. Projects which do not fulfil basic environmental standards will not be accepted.
9. The **credibility of the entrepreneur** behind the project. Success of new business ventures depends to a very large extent on the entrepreneur. The background of the entrepreneur will be assessed in the second selection phase.
10. The project team or **entrepreneur's willingness** to commit to demands of follow-up, evaluation and effect analysis of the project, even after the project phase has ended

Overall, the criteria chosen were well designed and the screening process effective in spite of the fact that the number of received applications was much higher than anticipated.

2.6 CONTRACTUAL ARRANGEMENTS

Winning companies were provided with Terms of Reference, which included jointly agreed milestones for the projects to be implemented with received grants. Funds were disbursed normally in two stages, with 25% of the award in the first stage and the balance after six month and contingent of an approved interim report. The companies had to provide short monthly reports, an interim report and a final report. Overall, the period from closing of the call for project applications to the disbursement for the winners was 6-7 months, partly due to a process of agreeing the milestones between the Embassy and the companies. This is one of a very few aspects of the *Challenge* that received any criticism by interviewed companies. This period in some cases proved to be too long for the small companies, especially in competitive settings such as in the IT industry. The Embassy was able to compensate for this to some extent by allowing some of the business models to be modified in the process.

The administrative procedures such as the one outlined above are quite common for challenge funds, albeit the reporting schedule under the *Challenge* which was more frequent with monthly progress reports submitted than in case of some challenge funds with considerably larger grants. On the other hand, the reporting was based on short templates which reduced the administrative burden for the companies. In retrospect, the monthly reporting was overly ambitious and could be replaced by quarterly reporting. Separate templates were used for the interim and final reports which have been effective in monitoring progress and results.

2.7 MANAGEMENT

As noted above, the *Challenge* was managed by the Embassy of Sweden in Sarajevo with some additional consultancy support. The main responsibility was given to a B4D associate expert attached to the Embassy acting as Project officer and using about 35% of her time on the *Challenge*. Against a background of a rather unclear position as a junior person, she has done an outstanding job in developing and managing the *Challenge*. She was also supported by a local staff member who also has performed very well. At times, interns working with the Embassy also supported the work.

The Project management by the Embassy was supported through several external entities:

- The Swedish based ***Observatory Partners*** attached to the Stockholm School of Economics have been providing support to the project throughout 2013-2015, including providing essential technical assistance to the Embassy in the design stage of the *Challenge* project. They were active in the process of screening applications and also prepared monitoring reports with statistical analysis for each round.
- The ***NGO and Business Audit***, a small local audit organisation which had a general five-year framework agreement with the Embassy for auditing purposes, played a key

role in the due diligence process (making sure applicants meet all the formal requirements), as well as in qualitative screening through reviewing financial documentation submitted by applicants and participating in phone interviews conducted with shortlisted candidates.

- The ***Advisory Committee*** provided support in screening of the finally shortlisted applicants. The committee included some prominent business persons from Sweden and Denmark with a background in venture capital and business development financing. The Advisory Committee also included key persons from other business development projects funded by the Embassy in BiH. The Advisory Committee provided support *pro bono* and its composition shifted over the period.
- The *Challenge* used a software programme *Podio* developed by the Swedish-BiH firm ***SEEBA*** to facilitate the application process of the *Challenge*.

2.8 MANAGEMENT COSTS

The budget for administration of the *Challenge* for the period 2013-2015 was SEK 0.5 million (excluding the cost of Embassy staff and office expenses). This budget covered all of the above outlined external support. The *Challenge* managed to operate on such a limited budget mainly due to the fact that Project management was in-house and that the above mentioned support organisations provided services *pro bono* in full or partly motivated to large extent by their personal belief that the project deserved their support. The *Challenge's* ability to mobilise high quality support at a limited cost is one of the major achievements of the pilot. It might, however, not be a viable option in a potential follow-up project. Managing the *Challenge* internally meant naturally a higher share of administrative time and cost for the Embassy, as compared to when implementation of challenge funds is outsourced. However, even when the management is outsourced, the internal Sida administration can be considerable due to Swedish regulations of *Authority responsibility*. There were several advantages with the Embassy implementation. First, the *Challenge* was implemented with an unusually low administrative budget. As a comparison, the Sida financed *Innovation Against Poverty* had an initial management cost of SEK 25 million over a three year pilot period as fee to the implementing organisation, PwC, with a grant fund of an equal amount. Second, the Embassy management gave the *Challenge* a high profile in terms of transparency and promotion of 'Swedish values.' Third, it allowed better learning on business development in general.

2.9 MARKETING

The *Challenge* had no funds for marketing and promotion, neither in BiH nor in Sweden. The marketing that took place in BiH was done using the web, including the social media, and Project management frequently attending various forums to presented the project. Information disseminated via business hubs, such as incubators and regional business centres, was particularly effective to spread the word about *Challenge* to areas outside Sarajevo. Overall, the major part of spreading the information to a large share of the business community was done through word of mouth as companies recommend the project to others. The award ceremonies at which the winning companies had the opportunity to present their business ideas were an effective tool for raising the project profile. The role of the Swedish ambassador as a promoter of the *Challenge* in this and in other contexts was essential. The marketing effort in Sweden was of much more limited scope, but the Project management team also delivered some targeted information sharing sessions in various contexts in Stockholm. With a proper marketing budget, more could have been achieved in the area of project visibility and promotion, especially in Sweden. A lesson for the future is that a potential new *Challenge* needs a marketing budget.

2.10 EFFICIENCY

Interviews by the evaluation with companies participating in the *Challenge* show overall a strong approval of the application process. The companies by large noted that application template was straightforward, business-like and easy to complete. Some of the interviewed representatives of winning companies noted it was excellent that application was such that it forced the companies, especially start-ups, to think through their business ideas thoroughly and present them in deliberate, clear and brief manner. The application also included some marketing concepts such as 'tweetable pitch phrases', and the option to provide a 3 minute video clip to present the company and the business idea. For example, a company in the wood industry said that:

> *The application process was very useful to us. We were forced to explain our business idea in a smart way so it can be easily understood.*

From this perspective the *Challenge* – like most challenge funds - had value beyond providing grants to the winners. One company, from the group of short-listed which did not come out as winners, compared *Challenge* to other projects:

> *I have experience of several other projects in BiH. The forms are very complicated and one gets discouraged filling them in. The Challenge is different, easy to fill in, straightforward. It is very good.*

According to interviewed companies, the Project management was very helpful in the process and responding quickly to questions according to the respondents. For example, an IT entrepreneur said that:

> *The communication with the project team has been amazing. Very professional and effective. They were always ready to help.*

Responding to the question as to how the application process could be improved in a potential new project phase, none of the interviewed companies suggested any substantial changes. Hence, the administration of the *Challenge* was not only carried out at low cost, but also very efficiently in terms of its design and implementation.

The implementation by the Embassy of Sweden was seen by several of the interviewed companies as critical feature for securing the above mentioned outcome. According to a software development company:

> *"I like that the Challenge is done by the embassy directly; it is much better than through a sub-contractor which would be waste of money; local NGOs never do good job, they are biased and often unprofessional."*

2.11 LANGUAGE

The application process was fully done in English with no option for use of the local language(s). Given that the *Challenge* was aimed at micro and small companies in BiH and that English is not widely spoken throughout the country, especially outside the main cities, there was a risk that this would be a constraint in attracting some good companies and projects outside the IT sector. (IT companies without exception tend to be fully fluent in English). Interviews conducted as part of the evaluation have also indicated that companies were often not comfortable because of the language limitation. However, they persevered by finding support to be able to draft applications and later on progress reporting in English. Language is, nevertheless, an issue that should be addressed, especially if a follow-up project would like to reach out to more non-IT companies.

2.12 OTHER SOURCES OF CAPITAL IN BIH

During the interviews with the *Challenge* companies the question was asked to what extent the entrepreneurs had used, had applied or were familiar with other support systems aimed at companies such as theirs. There was a surprisingly low frequency of positive answer to this, and the majority of those with other support were in the agriculture sector in which Swedish funded projects such as FARMA was mentioned. In fact, several of the winning companies had previous support by FARMA and were recommended to participate in the *Challenge* by FARMA staff. There are a number of support systems both by the government and by donors, but few of the interviewed companies had found them relevant for their purposes or worthwhile to apply for. We conclude that so far there is no comparative fund facility aimed at the same segment of business as the *Challenge*. It is also worth to point at the fact that the Swedish Embassy probably has the most comprehensive support system to private sector development in BiH of any donor with projects such as FARMA, FIRMA, CREDO, GOLD and Hub 387.[3] The *Challenge* is an excellent complement in such a portfolio.

---

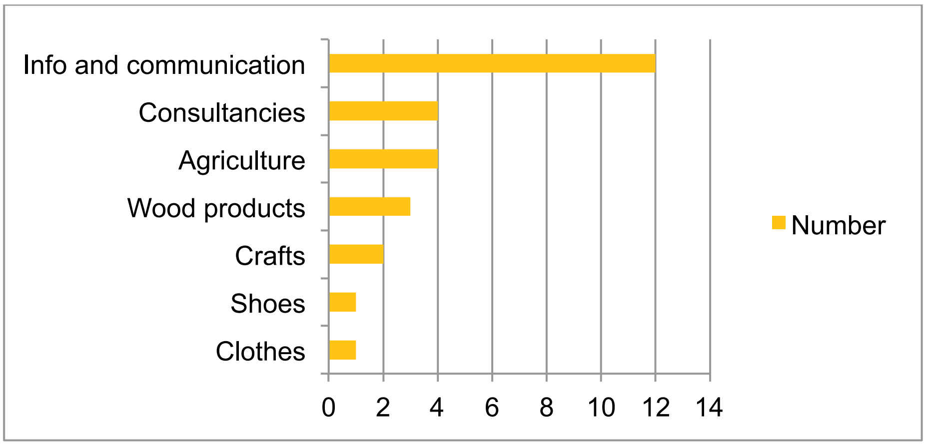
[3] For explanation of the acronyms, see List of Acronyms. Some of these projects are co-financed with USAID, the second donor with an extensive business development support in BiH.

3 Results of the Challenge

3.1 PROFILE OF THE COMPANIES[4]

The *Challenge* had focus on small companies and start-ups which also is reflected in the profile of the applying companies.[5] Thus, about 20% of the applying companies had existed less than a year when first applying for a grant, and about 45% of the companies had less than 3 full-time employees. There was a wide distribution of industrial sectors represented among the applicants with a 'manufacturing' as dominant, followed by agriculture. About 10% of the applying companies were classified as IT companies, including e-commerce. There is a wide-spread distribution of the applying companies in terms of their geographical location covering basically all parts of BiH. Nevertheless, Sarajevo was the domicile for about 30% of the applicants.[6]
The 27 awarded companies are dominated by service industries and in particular companies engaged in information and communication technologies such as software developers, mobile applications, web-shops, call-centres, etc. as indicated in figure 1 below.

Figure 1. Sector distribution of awarded companies



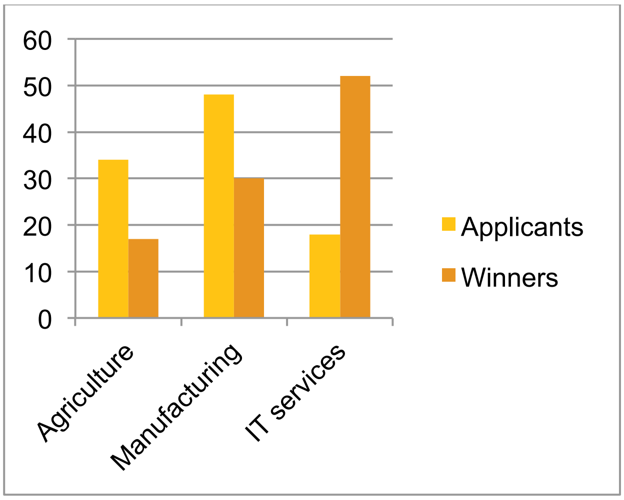
[4] This section is a preliminary analysis waiting for the final report by the Observatory Partners (OP). There is a discrepancy in the data on total number of applications used by the Embassy (1,148) and by the OP in its statistical analysis (1,093). The reason seems to be that the OP has eliminated applications without the most basic data.

[5] These data are preliminary, derived from the reporting by the Observatory Partners' periodic reporting for each of the three rounds.

[6] The figure refers to data from the third round only.

The portfolio of awarded companies had a different profile than the total applicants. For example, the sector profile differed with considerably higher share of IT companies winning as indicated in figure 2 below.

Figure 2.The share of companies classified in main sectors (percent).[7]

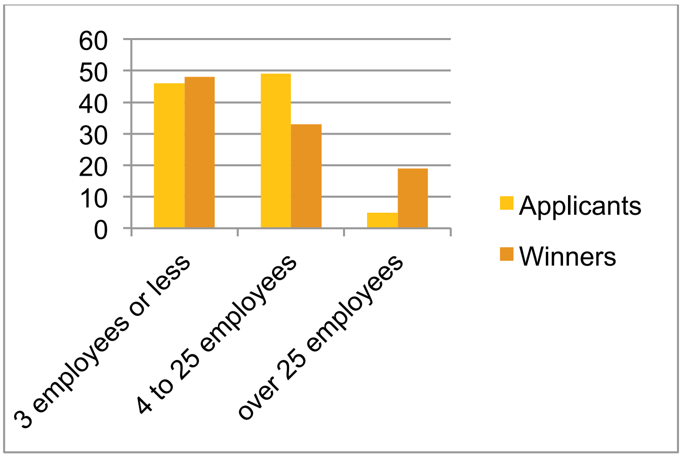


The reason for the differences might to a certain extent reflect that IT companies more easily can present an innovative business model, and are better equipped to formulate applications in English on a web-based platform, thus making them more competitive in a challenge fund perspective. A potential future *Challenge* might compensate for the "IT-bias" by providing training open for all in how to present their business idea in a competitive setting on a web platform. A further reason to create a different balance between IT and non-IT companies is that the former tends to be higher risk. This is further discussed below.

In terms of size, it is noticeable that the share of 'larger' companies applying was considerably less than the share of awards that went to such companies, as indicated in the figure below.

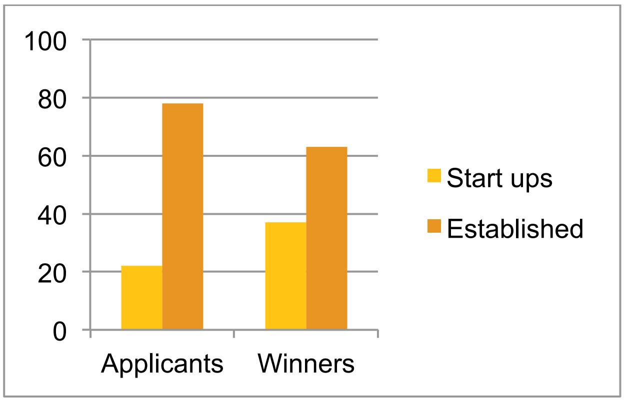
[7] The figure only includes companies classified in these three categories.

Figure 3. Size of companies in the *Challenge* (percent)



The *Challenge* welcomed start-up companies and slightly more than 20% of the applicants could be counted as such as mentioned above. In terms of winners, on the other hand, nearly 40% were defined as start-up companies with less than a year in operation prior to the application. This is a feature of the *Challenge* which is unusual, as compared to most challenge funds. The *Challenge* has been ready to take higher risk than common in challenge funds. A high percentage of companies with limited prior record on performance is bound to imply a greater risk for failures in a longer-term perspective. It should be noted that the *Challenge* compensated for this by granting maximum EUR 10,000 for start-up companies.

Figure 4. Share of start-ups in the *Challenge*



In summary, the *Challenge* has had a strong focus on the smallest companies in the business segment, new companies and start-ups, with a considerable stress placed on information technology. The project sought to tackle a niche often neglected in development assistance and left almost entirely outside the financial systems in terms of available investment capital from banks or venture capital firms. The majority of the awarded companies are not 'bankable' in BiH and would not be so in most countries, including Sweden, due to perceived (and real) high commercial risk.

3.2 MOBILISING THE BIH'S DIASPORA

As indicated earlier, a major objective of the *Challenge* was to stimulate business links between BiH and Sweden, for example by engaging the BiH diaspora in Sweden. (The *Challenge* was open to all Swedish-based companies wanting to engage in BiH, not just those linked to the BiH diaspora). The number of applications by companies based in Sweden was only 12 for all the three rounds, i.e. about 1% of the total number. On the other hand, out of the 27 awarded companies, two are Swedish based, both of these with BiH diaspora links. In one case, an originally BiH national living in Sweden for more than 20 years and there running an IT company, was planning to return to BiH with his Swedish wife and start a new call-centre, servicing mainly Swedish clients. In the other case, a well-established consultancy firm in Gothenburg specialising in services to nuclear companies in Sweden and the US planned to expand its subsidiary in BiH for sub-contracting in order to reduce costs, and also to provide high-tech work opportunities to BiH graduates.[8]

The low ratio of Swedish based companies showing interest in the *Challenge* might be due to several factors. First, the maximum grant, while substantial in BiH especially for start-ups, might have been seen as more limited and less attractive in a Swedish context. Second, the marketing of the *Challenge* in Sweden was limited as the challenge fund had no budget overall for marketing activities in BiH or in Sweden as mentioned above, hence the knowledge of the fund might have been limited in Sweden. Third, the BiH diaspora, which is likely to be most attracted to a fund such as the *Challenge*, is small as compared to the population of BiH, hence not too many applications can be assumed. However, on a per capita basis, the 'Swedish' applications were only half of those from BiH, reflecting that a fund such as the *Challenge* appears to be of considerably greater interest in BiH than in the Swedish diaspora.[9] If targeting the diaspora specifically and the Swedish business sector more generally is intended in a potential new phase of the *Challenge*, it would need some re-tooling. This is further discussed below. It is also noticeable that 17% of the "Swedish" applicants succeeded to win awards as compared to only 2% for the BiH-based applicants, indicating much better quality of the Swedish-based applications.

[8] .

[9] The diaspora is Sweden is estimated to 80,000 as compared to a population of BiH of 3.9 million, i.e. a ratio of about 1:50. The ratio of Swedish-based companies in the total number of applications in the Challenge was 1:95, i.e. the mobilisation of Swedish-based companies was about of that in BiH in per capita terms.

3.3 LINKS BETWEEN SWEDISH AND BIH ENTERPRISES

While Swedish-based companies had a limited interest in the *Challenge,* companies in BiH with a Swedish link such as a Swedish partner or producing for Sweden was somewhat larger. Out of the awarded 27 companies, four had such explicit links. An example of this is a furniture manufacturer who sought support by Scandinavian designers for new lines of furniture through the *Challenge* (see box 3 below). A number of winning companies in the *Challenge* portfolio have expressed interest in establishing business links with Swedish and EU companies, seeing it as an opportunity for technology transfer and market expansion. This feature of the project could be additionally strengthened in the potential new *Challenge* phase, as further discussed below. However, the original purpose of the *Challenge* with its strong focus on creating links between Sweden and BiH was partly misplaced. The *Challenge* has proven its usefulness in the BiH context alone.

3.4 GENDER

Box 1. Emina is a Bosniak woman in her 40s who is running a small sawmill in a village just north of Vares. She had to take over the company when her husband died in an accident two years ago. Through an officer in the municipality, she heard of the *Challenge* and with his help she put together a proposal for improving the saw-mill, building storage for cut timber to improve wood quality and allow expansion as a well as round the year operations. "*I could not believe a person such as I could get such support*", she says. *I am doing this for my teenage son who is already working hard to prepare himself to take over the company*. *I am learning the business fast and the Challenge was such a boost for my confidence*. Her husband build the company with own savings and never took a loan.

The *Challenge* was criticised in a recent report addressing gender issues in Swedish assistance in BiH for not having a clear gender perspective.[10] The evaluation found this criticism to be partly unfounded. For example, female employment is one of the elements among the selection criteria as noted above. The analysis carried out by the Project management after the above mentioned gender report has indicated that female entrepreneurship and employment during the pilot has increased substantially, due to concentrated efforts by the project to promote women to participate. For example, the number of shortlisted projects with a woman entrepreneur increased from 5% in round 1 to 24% in round 3. Also in round 3, about half of the winning applications were either by female entrepreneurs or firms targeting female employment. The figures should be seen in a context of a conservative society where women

[10] Emina Abrahamsdotter: *Gender review of the development portfolio of the Swedish Embassy in Bosnia and Herzegovina*, 2015

in business are rather few. An example of this is how female entrepreneurs are created out of necessity. See box 1.

Among the IT companies, women are a clear minority in the *Challenge* portfolio, reflecting the situation in the sector in BiH and globally. However, several of the start-up companies noted in the interviews that they intend to work on adapting their policies in such a way to facilitate them hiring more women, quoting their new found awareness about how this can improve and complement their business practice.
The focus on gender in the application process and in communication with the applicant companies by the *Challenge* management has clearly had an impact on awareness and attitudes. Nevertheless, a potential future *Challenge* could do even more in terms of transparency of engagement of women as entrepreneurs and managers, as well as promoting the project among women entrepreneurs through specialised associations.

3.5 OUTCOME IN THE FIRST ROUND

As mentioned above, the first round in the *Challenge* produced six winners which at the time of the evaluation largely had implemented their projects; hence some preliminary results in terms of outcome are at hand. These companies comprised of three IT firms, two consultancy companies of which one Swedish-based, and one large agriculture cooperative. The three IT companies, all micro enterprises, applied for support for new business models (for example, Netpro wanted to set up a web-shop for BiH products aimed at the EU market, while Ultimax was creating web-based information of BiH companies' financial performance and records for the benefit of potential business partners). The Swedish consultancy group BerDiz, specializing in technical services to nuclear companies in Sweden and the US, wanted to train graduated in BiH and expand its BiH subsidiary for sub-contracting to Swedish clients, while TBA Pro is a Sarajevo-based company providing services to BiH and other Balkan companies in corporate social responsibility (CSR) and ethical compliance. The Gracanka agriculture cooperative, finally wanted to develop and train farmers in new methods in production of gherkins (pickles) to enhance farmer income.

Overall, the six companies have implemented their projects and fulfilled the agreed milestones largely as planned. They have also by and large increased the employment related to the *Challenge* financed projects as envisaged (in most cases by adding one or two employees). However, the outcome in terms of commercial performance so far is more mixed, especially in terms of profitability. The IT companies have all had to revise their business models to a certain extent. For example, Netpro found that the shipping cost of their products were much higher than expected influencing negatively on the profit, and the company is currently developing a warehouse model to counter this. Ultimax experienced change in BiH legislation making purchase of required in-data much more expensive than expected. Gracanka's production of gherkins was severely hit by the devastating floods in BiH in 2014, wiping out much of the production. On the other hand, BerDiz increased its sales from the BiH subsidiary much above the expectation and expects further rapid growth. Table 2 below, gives a summary of the six projects and their performance.

Table 2. Performance of the first round winners

Company	Company profile	Challenge project	Grant EUR ‘000	Performance
Netpro	IT, micro	Web-shop for BiH products for EU markets	23,8	Employed 2 persons, refining business model due to costs; establishing warehouse;
Ultimax	IT, micro	Business intelligence platform for financial data on BiH firms	12,7	Employed 1 person part-time; business model forced to be changed due to costs to purchase data due to change in BiH legislation;
TBA:Pro	Consultants CSR, micro; (female)	New system for ethic services (CSR) for BiH companies	30	Employed 2 persons; developing own system for training. Performing well On-going with first ‘export order.”
Gracanka	Coop, agriculture, large	New production methods of gherkins	25	Technology implemented but major production problems due to BiH floods in 2014; coop employed 2 persons
SEO	IT, micro	Text optimization for web search engines	30	Problems encountered with current business model.
BerDiz	Consultants in nuclear energy ; SEK 20 mill turnover	Train graduated and develop subsidiary in BiH	30	One person employed in BiH subsidiary; several trained; ‘exports’ to Sweden several fold of expected. Expects to employ 5-6 persons over time.

The high percentage of IT companies in the portfolio, many of which are small start-ups, is a high risk strategy by the *Challenge*, and might in a follow-up project require a more balanced approach as further elaborated below.

4 Assessing impact

The Challenge has operated much too short a time to allow a relevant impact assessment. Nearly half of the grantees have just received their funds, hence have not begun implementing the development projects (winners of the third round). Also for the first round of winners the outcome is yet in an early stage and an impact assessment would require a time lapse of 4-5 years to provide reliable evidence. The discussion below should be seen against this.

4.1 EMPLOYMENT CREATION

If the *Challenge* is judged from its ability to generate employment in the short-term perspective, the results are likely to be disappointing. There are companies in the portfolio that have added staff which can be attributed to the project, in a few cases more than a few, see box 2 as an example. But overall, the employment creation has so far been limited. This should not come as a surprise: first, the time lag is just too short to be manifested in major business growth translated into employment; second, with the focus of the program on small enterprises, start-ups and innovation, the outcome would even under the best circumstances be a limited number of jobs. A conclusion is that a project which is so strongly focused on budding entrepreneurship and innovation should not be judged from the perspective of short-term employment generation.

Box 2. The Rukotvorine company that has been in the business for more than four generations won EUR 23,200 Challenge grant in October 2014. Rukotvorine General manager Adem Niksic said the company was unable to make any serious breakthrough at the international market. However, with the support of the Challenge, Rukotvorine teamed up with Scandinavian designers, including Monica Forster and Gert Wingårdh from Sweden and Harri Koskinen from Finland, for a modern furniture line blending traditional craftsmanship and modern Skandinavian design. This cooperation proved very successful, with products presented at the Imm Cologne furniture fair and Stockholm Design Week in early 2015. The company new line won some of the most prestigious international design awards. The company has plans to start a new factory in Konjic to meet the increasing demand.

4.2 INNOVATION

"*We think the Challenge is an exciting program as it has such a strong focus on innovation*", an interviewed representative for the donor community in BiH told the evaluation team. Innovation should in this context be seen in the BiH context. Most of the awarded companies are engaged in pioneering ventures in BiH, many of them related to IT services and consultancies such as web-shops, ethic consultancies and so on. In the agriculture sector, innovations are related to providing ecological home-delivered products through a web-shop, drop-irrigation for crops such as high-altitude potatoes and raspberries, not an innovation of high technical level, but with potential essential impact on traditional potato farmers in the highlands and on berry producers in BiH. A small factory of traditional furniture using techniques and patterns hundred years old, managed with the *Challenge* to establish links with top Scandinavian designers leading to international success. See box 3. In the IT sector, BiH is becoming a name internationally with mushrooming growth of new IT companies all over the country, also attracting young persons with BiH background who live abroad to return to BiH to explore new ventures, a process the *Challenge* is linked to. While judging the success of innovation cannot be done in the short-term, the *Challenge* has certainly made significant steps forward in terms of promoting this aspect of business in BiH.

Box 3. 'Balkan Star' is a shoe factory in Derventa that produces shoe parts for buyers in the EU. The factory was set up in 2000 as a family business by a husband and wife who have worked in the shoe industry since 1989. The business has grown to currently employing 44 full time workers, with plans to expand to some 200 employees over the next three years. The company won EUR 23,700 Challenge grant in October 2014 that was used for purchase of 6 new machines. 'Balkan Star' owner Biljana Nedic said the Challenge was a very positive experience for them from beginning and initial contacts to the end. "*We were very happy that they won the grant*", added Nedic. *"Everything we achieved was with our own efforts and this support means a lot to us - it the first time we received any support .For us, this is opportunity to train new people and expand capacities*."

4.3 COMMERCIAL DEVELOPMENT

So far, none of the 27 awarded companies have closed down or gone bankrupt in spite of the fact of generally high death-rates among small, start-up companies globally. There is bound to be failures over time in the *Challenge* portfolio as the project is targeting the most financially risky segment of businesses. It is yet too early to assess the commercial performance of the companies that won in the *Challenge*. In the first round the results have been mixed as described above, especially in terms of improved profitability. Some of the companies in the *Challenge* portfolio have a very positive track record with annual growth rates of over 50%, while others are still struggling to get their first profitable orders, hence have has not taken off at this point. In the short-term, the *Challenge* portfolio will not impact on the BiH economy. However, it does not take more than one or two major success stories for the project to pay-off in the long run, similar to high risk venture funds. Whether this will happen in the case of *Challenge* in BiH it is yet too early to decide.

4.4 YOUNG ENTREPRENEURSHIP

Possibly one of the most positive features of the *Challenge* is that it provides opportunities for young entrepreneurs in a context where unemployment among educated youth is very high, a political concern and causing brain-drain through emigration. The *Challenge* has few competitors in BiH in this respect. For this target group, the *Challenge* is seen as a ‘source of hope’, a form of encouragement which can make the difference between success and failure. It is more than a financial boost: The *Challenge* functions as a form of ‘accreditation’ and quality stamp in the sense that for a young company being a winner in the *Challenge* opens doors to new commercial opportunities. Contributing to this is that the competition is tough as well as the fact that the *Challenge* is seen as ‘clean’ from corruption and cronyism, hence awards are based on merit only (see below). Among the interviewed companies, this feature of the *Challenge* was highlighted by many. For example, a short-listed but not winning company said that:

> *The Challenge is an excellent project for BiH. It is not for the money, but for engaging people to be innovative, to think ’outside of the box’. I want to stay in BiH and projects like this make me even more determined to do so. I watch the site to find out when the next round comes.*

A similar point was expressed by an engineering company (also shortlisted but not a winner):

> *The Challenge is the best project I have seen. It gives us a chance to live and work here in BiH. Educated people just want to leave, but this could help us to stay and succeed here.*

An IT company which won an award in the first round stresses the need for a facility as the Challenge in BiH:

> *Sida is like a business angel for Bosnia, prepared to take risk to support young entrepreneurs. There is nothing like it here. I would be very sad if it ended because there are so many young entrepreneurs with great ideas needing some initial support.*

An overall impression after some 30 interviews with companies that have participated in the *Challenge* is that project has made quite an imprint in BiH on young entrepreneurs and small companies, especially taking the small size of the budget into the account.

4.5 EXPORT DEVELOPMENT

The clear majority of the applying companies in the *Challenge* were focussing on the domestic market, reflecting the fact that most of them are quite small and many are start-ups. This is also true for the awarded portfolio. Their business models, however, are often more ambitious. There are, nevertheless, among the winners companies which are entirely focused on external markets, such as providing services as subcontractors to companies in the EU or USA and in some cases market their products or services under own brand names. The ability for BiH companies to successfully compete on international markets and in the EU specifically is critical for BiH eventually entering the EU. As with other dimensions of the impact of the *Challenge* it is yet much too early to determine the track-record of the winners in this respect and to what extent the *Challenge* can be attributed to the success. It is noticeable that the two Swedish-based winners have 100% export focus.

4.6 ENVIRONMENT AND CLIMATE

Negative environmental impact is a disqualifying factor in the *Challenge*, while clear positive environmental and climate dimension is one of the (positive) selection criteria. The portfolio of winners are such that environmental or climate impact does not feature strongly due to the nature of the businesses. In none of the winning companies environment or climate per se is core business.

4.7 GOOD GOVERNANCE: TRANSPARENCY AND ANTI-CORRUPTION

Interviewed companies almost without exception pointed to the fact that the *Challenge* is perceived as a support system which is non-corrupt and that winners are decided on professional merit only. For example, a young IT company said that:

> *Many companies like mine avoid looking for support if we don't have connections because we feel we have no chance however good our projects are. Challenge is different in this respect.*

Another company interviewed said:

> *The Challenge is for people not contaminated by old politics, corruption, and so on. More and more people have heard about it and feel very encouraged that there is such a thing in BiH.*

The *Challenge* can be seen as much as a project promoting ***good governance***, including anti-corruption and transparency, as a private sector development initiative. Such perception has great importance. Many of the entrepreneurs are young, well-educated and active on social media. As such they are opinion makers and potential social change agents. The engagement of the Embassy of Sweden in the implementation was described by many of the interviewed companies as a critical factor in this respect as well as a screening process involving Swedes without vested interest in BiH politics. Also, the explicit selection criteria and a transparent selection process were essential.

Many of the interviewed companies expressed concern regarding possible outsourcing the potential new phase of the *Challenge* to any local organisation, whether an NGO or a public entity. Such views become even more important to consider in view of the fact that several of the winning companies have as their core business promotion of better ethical standards in BiH both in the public and the private sector. Good governance is thus clearly highly featured also among the winning companies.

4.8 THE ETHNIC DIMENSION

It is well-known that ethnic diversity is the major political issue in BiH. Indirectly, the *Challenge* is a countervailing factor against this, albeit of course in small scale. Award winning companies tend to seek employees and clients without regard for ethnicity and religion and there are many cases in the portfolio of close cooperation between different ethnic groups. The openness of the *Challenge* to any part of the country, to any form of entrepreneur and in any sector is contributing to this. The geographical distribution of the 27 winners covers well all three political units: the Federation BiH, the Republika Srpska and even the small Brcko district.

4.9 OPENNESS

The openness of the *Challenge* to all business sectors seems to have been its key success factor. The strength of the *Challenge* is in supporting business ventures which otherwise largely are off the radar in existing support schemes, rather than supplement already well covered sectors. There are, nevertheless, examples in the *Challenge* of support to companies in donor favoured sectors such as agriculture. In a potential new *Challenge* the project management needs to look closely for overlapping support to avoid aid dependency and grant-seeking as a business in itself.[11] Especially in the agriculture sector there appears to be a crowding of donor funding looking for projects.

[11] In the application form, the companies have to include other support they have received.

5 Conclusions and recommendations

5.1 A SUCCESSFUL PILOT

Interviewed companies, whether winners or shortlisted, expressed without any reservations that the *Challenge* is a unique positive example of a program which stands out from other support systems due to its focus on innovation and start-ups and doing so with a very well designed application process. The value of the *Challenge* lies thus in the unique opportunities the fund provides for young entrepreneurs in an early phase of business development, a phase were external funding is extremely hard or impossible to mobilise, not just in BiH but in most countries. The *Challenge* is a pioneer in this respect. The response from the business community to this initiative is very positive, hence, we conclude that the *Challenge* has been a highly relevant and effective pilot.

5.2 FROM PILOT TO A PROJECT

Based on the positive experience of the pilot phase, we believe that a follow up project – a *Challenge.2.0* - should be implemented. This project should as close as possible build on the pilot phase with some minor modification elaborated below. We suggest a 5 year program with a total budget of SEK 30 million, including all administrative and marketing costs. <u>It is essential that such a project is initiated as soon as possible in order for the program not to lose momentum</u>. A new call during 2015 would be preferable.

5.3 DETAILS ON CHALLENGE 2.0

The following structure is recommended for the *Challenge* 2.0:

The process

1. Undertake two calls per year in the same fashion as in the pilot phase for the first 4 years, and thereafter allow the final year for follow-up of results and for learning lessons.
2. Expand the total budget per round to allow a larger number of winners. An annual budget for awards of SEK 5-6 million with some flexibility would allow 25-30 winners per annum if the quality so justifies. Targeting 5% winners of the serious applications might be reasonable.
3. Maintain the upper limit of EUR 30,000 for the grants as well as the upper limit of EUR 10,000 for start-ups.
4. Avoid reducing the grant as was done in round 3 unless clearly warranted. Reduction requires reworking the designed business model.
5. Require at least a 50% own contribution to the development cost as in the pilot.

6. Utilize the existing application forms and procedures, as well as the screening process and its methodology, including web-based application and in English only.
7. Reduce the progress reporting by the grantees to quarterly progress reports.
8. Allow some flexibility in disbursement schedule dependent on the project to be undertaken.
9. Provide a more elaborate feed-back mechanism for short-listed companies and projects, which do not win grants. This is much desired by the companies. For example, the rating of the shortlisted companies on the score-sheet might be made public.

Objectives and focus

10. Modify the selection criteria to some extent by a stronger focus on entrepreneurial development impact and innovation, and tone down other 'classical' indictors such as employment creation and export development.
11. Further enhance as a criterion the potential systemic effects of the project if successful such as spread effects to other sectors in the economy, addressing sector bottlenecks, impact on dis-privileged groups, ethnic integration and so forth.
12. Make female entrepreneurship and female management a bonus in the selection process in addition to female employment.
13. Provide analysis of applications on a gender basis (entrepreneurship, management and employment) with gender disaggregated indicators where applicable.
14. Compensate for disadvantages by non-IT applications in order to create a less risky portfolio, for example by language support.

Marketing and promotion

15. Have a budget for active marketing of the *Challenge 2.0*.
16. Produce a short video for marketing purposes (see below).
17. Continue with the award ceremonies as in the pilot phase and if possible market these through media in BiH more strongly.
18. Undertake yearly one-day information programs in English and Bosnian open to any company which would include how to write applications and more details of the purpose of the fund. See further below.

Strengthen the links to Sweden

19. Create a separate window for the Swedish (diaspora) based companies, more focusing on the exploratory phase with grants for feasibility studies, matchmaking and contact. See further below.
20. Promote linkages between BiH companies and Swedish with a stronger marketing effort in Sweden.

Management

21. Outsource the administration of the *Challenge 2*.0 from the Embassy to an implementing institution engaging both Swedish and BiH specialists, if possible utilise the experts already engaged. See further below.
22. Allow a budget for management not exceeding 25% as fee of the total grant budget, including all related costs, such as audit, marketing, web design and

maintenance, information and communication, award ceremony and travel, administration of applications, screening, technical evaluation costs etc.

23. Consider a potential cooperation with a suggested BiH Global Business Lab project. A number of start-up companies in the *Challenge* thought mentorship and training as useful complements.

Monitoring and ex-post evaluation

24. Maintain a similar monitoring system as in the *Challenge.* It has functioned well and has provided relevant management feed-back.
25. Plan for an in-depth evaluation at the end of the project period, assessing the emerging impact of both the Pilot and the Project phase, with a focus of tracing the dynamic effects on innovation and entrepreneurship in BiH.

5.4 PROPOSED MANAGEMENT

It is clear that the current management set-up of the *Challenge* is not viable as the Embassy of Sweden is not organised to do detailed project implementation. Yet, the strong 'Swedish' profile should be maintained, also engaging Swedish know-how in start-ups and entrepreneurship development. We suggest that the current team engaged in the management of the *Challenge* to the extent this is possible also is engaged in the *Challenge 2.0.* Not only has the team proved itself to be effective, but such a transfer would also reduce learning costs and allow a rapid transition to a new project. An option for this is that the ***Global Business Lab*** (GBL) attached to the Stockholm School of Economics and operating as a non-profit is contracted for the management also engaging staff in BiH. GBL is already undertaking a series of Sida projects and the Observatory Partners are in their personal capacities linked to GBL. We further propose that the current local Project officer at the Embassy, who has done an excellent job, continues her task as focal point for the *Challenge* 2.0 and as much as possible is engaged in the management and the screening.[12]

5.5 A DIASPORA WINDOW

As noted above, the *Challenge* had a limited attraction to Swedish-based entrepreneurs, whether BiH diaspora or not. The *Challenge 2.0* might consider of having an additional window focusing on the exploratory stage in business rather than in ongoing operations. Thus, Swedish based registered companies might also seek support from the *Challenge 2.0* for feasibility studies, exploratory travel or match-making in BiH. Such a window would be a useful complement to the Remittance Capture Guarantee fund USAID is planning and Sida is considering joining. The 'exploratory-match-making' needs not to be on a competitive basis.

[12] A model as applied in the *Fund for Support to Civil Society in Colombia* might be considered.

5.6 AN ANNUAL INFORMATION PROGRAM AND LANGUAGE SUPPORT

We propose that the *Challenge 2.0* organise on yearly basis a one day information program with focus of informing potential applicants on how to access the *Challenge 2*.0. Such training could be carried out in both English and local language(s) in parallel. This event should be open to any registered company in BiH. If needed, the event could be repeated several times a year in line with timing of the calls for project projects. The information program would both function to attract new companies and increase their ability to provide good applications, especially for non IT companies.

6 A replicable model

The *Challenge* is straight-forward, have developed a simple and effective format for application and processing and responds to a global need of risk capital in an early phase of business development. The model could be replicated by Sida and Swedish Embassies in other countries without much need for re-design or adaptation. Forms and procedures could to a large extent be copy-pasted, although the management structures need to be specific. If, along our suggestions, the *Challenge* is outsourced to the Stockholm School of Economics' Global Business Lab, the replicability would be even further enhanced. As a means of stimulating such transfer of knowhow in Sida, it is recommended that a seminar arranged in Sida, preferably at a time when Embassy staff in different countries are available, to promote the model. The Embassy in Sarajevo might also consider undertaking a short video highlighting the *Challenge* to further promote the model. The Challenge is already creating a name not just in BiH, but elsewhere and the promotion of this model is a natural next stage.

7 Annex 1: Terms of Reference

1 Background

1.1 Assignment overview

The Embassy of Sweden in Sarajevo has established, and currently manages, *the Challenge* - a local Challenge Fund (CF). The CF promotes sustainable growth, increased competitiveness and a stronger business sector in Bosnia and Herzegovina, through grant funding (up to 30 000 EUR) to micro and small registered businesses. The Embassy now wishes to evaluate this pilot project and get practical guidelines for the setup of a possible continuation.

Since this phase of *the Challenge* is coming to an end, the project should be assessed in order to see the impact of the project, whether the expected results were achieved and whether they are satisfactory or not.

The objective of the assignment is:

(1) to evaluate the relevance of the purpose of the current CF

(2) to propose adjustments and improvements to the current setup for future reference

(3) to assess in which manner to organise the CF as a tool to achieve the objective with regards to:

a. application process and selection procedure (including assessment criteria)

b. fund and grant size (minimum, maximum level, fund period)

c. monitoring mechanisms and routines

1.2 Project Background

Private Sector Collaboration

Private sector collaboration has during the last years become an increasingly common way to work among international donors. It can be described as business development undertaken by companies, or partnerships of communities, local firms, governments and donors led by such companies, that make use of a company's core business model with the purpose of securing payoffs in terms of profits and local economic development. Ways of collaboration differ between setting up a common programme financed by a donor agency and one or a group of companies that will lead to results for poor people and also benefits for the company/ies involved. In some cases the development agency provides direct support to individual companies based on the understanding that the interests of the agency and the company coincide.

Significant efforts to develop various mechanisms for private sector collaboration are underway in most donor countries.

Challenge Funds

Challenge funds are one important tool of innovative financing for the implementation of private sector collaboration. A challenge fund is a financing mechanism which allocates donor funds for specific purposes using competition among organisations as the lead principle. A challenge fund invites for proposals from companies, organizations or institutions working in a targeted field. Proposals are assessed against predetermined and transparent criteria.

The Challenge

The CF was designed, established and managed by the Embassy of Sweden in Sarajevo. The CF was designed with main aim to promote sustainable growth, increased competitiveness, a stronger business sector in Bosnia and Herzegovina (BiH) and to encourage linkages to the BiH diaspora business community in Sweden, through grant funding (up to 30 000 EUR) to micro and small registered businesses. A total of around 1 200 businesses have applied through the three calls for proposals and 27 companies have received a grant.

The selection criteria and selection procedure were designed in line with best practices relevant to the project and the application process was designed to facilitate a competitive process, see attached enclosure "Information booklet – The Challenge".

There were three stages of the selection process two stages of selection. The initial screening, and scoring of the applications, was made by the project officer at the Embassy. This first stage of selection ensured that applications a) passed discriminatory criteria (i.e. fulfilled the minimum conditions for application) and b) identifying a pool of the highest qualified applications (approximately 50 applications). The second stage of the selection phase included researchers from Stockholm School of Economics, involved through *Observatory Partners*. Observatory Partners, together with the project officer, identified a shortlist (approximately 20 applications). This stage served to filter applications to the final selection round. The final selection involved expert input from the Advisory Committee from other project teams (FIRMA, FARMA), and from the accountants at *NGO & Business Audit*.

2 THE ASSIGNMENT

2.1 Evaluation Purpose and Objective

The overall objective of the assignment is to assess whether the CF was a relevant mechanism in response to the desired objective. The results and the program design (application procedure, selection criteria, overall setup etc.) will be the focus areas of the evaluation. Hence, the purpose of this specific evaluation should be to determine if the CF is relevant for the objective set, and consequently to propose improvements for the next enlarged phase.

Based on the findings in these areas the consultant shall provide recommendations for the setup of a possible future local CF. The Embassy is the main user of the evaluation, and the results of the evaluation will, constitute an important input for Sida's approach to the future course of action for innovative financing mechanisms, in particular the challenge funds.

2.2 Scope and Delimitations

The evaluation shall include an overall assessment of *the Challenge* as an inclusive business facilitation instrument based on

- interviews with selected grantees and possibly unsuccessful applicants if deemed relevant
- interviews with the selection team, i.e. *Observatory Partners* and *NGO & Business Audit*[13]
- assessment of various aspects of the program design
- assessment of performance and the Embassy's role in implementation (including cost effectiveness in relation to the limited management resources; both with regards to funding and time)
- input from other local actors (meetings with a selection of other donors in BiH)
- comparison of other Sida financed challenge funds in relation to a possible continuation with a similar objective (possible meetings with Sida HQ)

The evaluation will cover the period August, 2013 – March, 2015 and will include a field visit to Bosnia and Herzegovina.

2.3 Evaluation Questions and Criteria

The evaluation shall particularly focus on and respond to the questions related to three main areas:

- Results
- Program design and selection
- Future design and setup

A number of questions have been listed under each heading as guiding principles and shall not be regarded as exclusive.

[13] See their respective Terms of Reference enclosed

Results

- Assess the concrete results and the overall effects of the project based on the selected interviews (e.g. increased competitive-ness/turnover/export/collaboration, supported innovation, youth and female entrepreneurship)
- Relevance of the financing mechanism (design of the intended support with focus on achieving the designed objective)
- Effectiveness: Has the project achieved its objectives and its planned results and to what extent? Which are the main reasons identified to have affected the success and the deviations from the project plan?

Program design

- Relevant focus areas
- Grant size in context of selected focus group of small and micro companies
- Grant duration
- Administrative setup (application form, assessment criteria, evaluation pro-cess
- Monitoring mechanisms and mechanisms of control of fund utilisation
- Overall implementation and cost efficiency

Future design and setup

Based on the findings there should be recommendations for the program design and management of a possible new CF.

- How relevant would a new phase be? Is there a need for continued support? Scope and size? Same target group or is there a market fatigue in this segment of economy?
- The implementing partner; which are the crucial requirements? Reasonable ra-tio of administrative and implementation costs versus grant disbursements.

Other issues

- How have the selected companies perceived the setup?
- How have the cross cutting issues gender, human rights and environment been handled?

The evaluator shall provide recommendations for the Embassy’s decision on a feasi-ble continuation of *the Challenge*, and if a continuation has been deemed relevant, what major issues need to be addressed based on the challenges and deficiencies which have been identified.

2.4 Conclusions, Recommendations and Lessons Learnt

The evaluation team is expected to provide the Embassy with its conclusions, recommendations and lessons learnt regarding the project implementation.

2.5 Approach and Methodology

The following approach and methodology should apply for the evaluation:

1. A desk review of the applications, the protocols from the selection process and the details of the awarded grants from both *Challenge* rounds. The desk review should analyse the process to determine its cost-effectiveness as a CF mechanism, as well as establish baselines for projects that would be reviewed in detail. (See 3 below).

2. Interviews with the *Observatory partners* at the Stockholm School of Economics and enlist their views of the quality of the selection process as well as a means of stimulating business development.

3. Follow up of the companies which have received support to determine to what extent the support has contributed to company performance or is likely to do so. Specific dimensions such as regional development, female entrepreneurship and employment, innovation, etc. should be assessed. The review should assess the baseline versus actual performance and assess the likely attribution by the support to the recorded changes (positive and negative). A sample of applying companies which did not receive support should also be reviewed to further determine the attribution by the CF to business development in BiH. This follow-up should take place through a mixture of personal visits to the companies and telephone/skype interviews.

4. Interviews with members of the *Advisory committee* and other parties that have been involved in the selection process and administration of the Challenge in BiH.

5. Interviews with selected persons which can place the *Challenge* in a broader context in the social and economic development of BiH, such as donors, Swedish Embassy staff, government representatives and representatives for small and medium businesses in BiH. Special attention should be given to issues such as the continuous demand for a second phase Swedish challenge fund.

6. A comparative analysis with some other challenge funds which Sida has been engaged as a means of assessing the relative cost-effectiveness of the *Challenge* and especially the administrative procedures of the *Challenge*.

2.6 Work plan and schedule

The Evaluation should be carried out between May 1 and June 15 as indicated below. The desk review, based on documents provided by the Embassy, as well as interviews in Stockholm should be conducted May 1 – May 15. A field visit in BiH should be undertaken May 16-30, and report writing conducted June 1-15 with a draft report delivered latest June 15.

3 TIME SCHEDULE

The analysis shall be made during May 2015. The Consultant shall make the assessment and report in writing. Draft report shall be submitted by consultant not later than 15 June. Comments to the draft report will be provided by 30 June. Based on the comments and requests for adjustments, the consultant shall submit final version of the report and other deliverables latest by 15 July 2015.

4 REPORTING

A written report in English shall be submitted to the Embassy in electronic form (Word format). The structure of the final report shall follow the terms of reference. The length of the report should not exceed 20 pages, excluding annexes. Other deliverables shall be delivered as attachment to the report.

The due date for the final report will be 15 July 2015.

8 Annex 2: Persons consulted

Swedish Embassy, Sarajevo

Fredrik Schiller, Ambassador
Marie Bergström, Councellor
Åsa Trulsson
Nataša Miskin
Nedim Bukvic

Norwegian Embassy, Sarajevo
Ognjen Grujic

UNDP, Sarajevo
Nera Monir Divan
Ismar Ceremida
Alexander Prieto

Austrian Embassy, Sarajevo
Sigmund Nemeti

Observartory Partners, Stockholm
Erik Wetter
Nedim Efendic

NGO&Business Audit, Sarajevo
Ismeta Cardakovic

Challenge companies in Bosnia and Herzegovina
Mirza Muratspahic, TBA:PRO d.o.o.
Zinaida Hadzialic, TBA:PRO d.o.o.
Amela Tanovic, TBA:PRO d.o.o.
Almir Mukaca, Krompir.ba
Jasmin Marić, Kliker.ba
Marin Jozic, COX 4
Haris Hadziahmetovic, Meta Software solutions
Amira Halebić, Rukotvorine
Adem Nikšić, Rukotvorine
Novak Motika, Agromont d.o.o.
Brano Surkic, FAAM d.o.o.
Emina Ahhmedovic, FAAM d.o.o.
Nedim Sabic, SEO d.o.o.
Smail Ibrahimspahic, Tarevci
Sabahudin Avdic Gračanka

Biljana Nedic, Balkan Star
Irhad Becirovic, IMB Komerc
Nedim Badžak, Jaffa Komerc doo
Aida Zubčević, FAVEDA doo
Adin Poprzanovic, Rubicon d.o.o.
Bojan Bajic, Net Consulting Ltd.
Danijel Dedic, Technabit
Danilo Grbic, Antigravity Music
Edhem Ahmetovic, ENI-EM
Gordana Miladinovic, Re:Design
Josip Bilić, Bivis doo
Josip Zrno, Sujica Drvo doo
Emina Kolasinac, Orbicode d.o.o.
Dino Delic, Di&De Delic
Zoran Kiza, Elektro Tim d.o.o.
Hrvoje Bradic, International d.o.o.
Jasmin Mehic, Etrade.ba
Snezana Ilic, S-papier

Challenge companies, Sweden
Samir Dizdar, BerDiz
Adi Rupic, Rupic Group AB

Evaluation - The Challenge in Bosnia and Herzegovina

This report is evaluating the Challenge, a small pilot challenge fund that the Swedish Embassy in Sarajevo implemented 2013-2015. The total budget was SEK 5 million of which SEK 4.5 million were grants awarded to winning companies in three rounds. The challenge fund targeted micro and small enterprises in Bosnia and Herzegovina (BiH), including start-ups. The fund's strength is its focus on young, educated entrepreneurs who describe the fund as a hope for them in a difficult context. As such, the Challenge is as much about good governance as private sector development. We believe that the Challenge is a useful and exciting model for Sida and Swedish embassies to be replicated elsewhere.

SWEDISH INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

Address: S-105 25 Stockholm, Sweden. Office: Valhallavägen 199, Stockholm
Telephone: +46 (0)8-698 50 00. Telefax: +46 (0)8-20 88 64
E-mail: info@sida.se. Homepage: http://www.sida.se