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# USAID & SIDA FIRMA PROJECT

QUARTERLY REPORT: QUARTER #6 –DECEMBER 2010 – FEBRUARY 2011

**March 31, 2011**

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**Submitted by:**

Cardno Emerging Markets USA, Ltd.

**Submitted to:**

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# Quarterly Report

## FIRMA Project USAID-Sida Bosnia & Herzegovina

Implemented by Cardno Emerging Markets USA, Ltd.



<b>To:</b>	Vlado Milin COTR, USAID Sarajevo
<b>From:</b>	David King Chief of Party, FIRMA
<b>RE:</b>	<b>Quarterly Project Progress Report: #6 – Dec 2010 - Feb 2011</b> Contract # 168-C-00-09-00103-00
<b>Date:</b>	31-Mar-11

This report is submitted pursuant to contractual requirements under USAID-Sida’s *Fostering Interventions for Rapid Market Advancement* Project for Bosnia & Herzegovina (“FIRMA” or “the Project”), implemented by Cardno Emerging Markets USA, Ltd. In keeping with contractual guidelines for report content, it is organized as follows:

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## 1. Project Overview

FIRMA is a five-year, \$20 million project that began in September 2009 and is funded by USAID and Sida. The purpose of the project is to support enterprise competitiveness in selected value chains of the tourism, wood, and light manufacturing sectors of BiH, in the process advancing the country's ability to meet the Copenhagen Economic Criteria for accession to the European Union. To support sustainability, the project works primarily through a group of key local implementing partners, known as the "FIRMA Consortium", who cover all regions of the country.

The goals of USAID and Sida for FIRMA are ambitious and transformational, and therefore require wide impact – in product design and quality, in ways of connecting to markets, in expertise of workforce, and in investment attractiveness. FIRMA's strategy is directed toward these systemic objectives.

The FIRMA workplan is defined at the private sector value chain level. Implementing partners (called "Value Chain Facilitators" (VCFs)) organize stakeholders first to identify and prioritize competitiveness obstacles through value chain analysis, and then to originate and manage discrete activities to address these obstacles. FIRMA supervises and supports these activities, providing strategic and operational guidance, expert technical assistance, and grants from its \$3 million Small Grants Fund. In order to maximize scale and impact, FIRMA works closely with other donors and local government agencies that provide development assistance programs consistent with FIRMA's objectives – so-called "collaborating implementers".

FIRMA is implemented by Cardno Emerging Markets USA, Ltd. (Arlington, VA), with consortium subcontractors SIPU International (Stockholm, Sweden), JE Austin Associates (Arlington, VA), Making Cents International (Washington, DC), Orgut Consulting AB (Stockholm, Sweden), Pi Consulting (Sarajevo, BiH), and 12 regional and local economic development agencies in BiH.

## 2. Highlights During the Reporting Period

This report covers the sixth quarter of FIRMA's operation – December 2010-February 2011. Noteworthy accomplishments for the period were as follows:

### SECTORS

#### a. Wood Sector

- **FSC Sustainable Forestry Management Certification Pre-Audits:** Working closely with Forestry PIU and cantonal FMCs, FIRMA facilitated substantial co-funding from the World Bank of €30,000 for official (pre)audits of three FMCs (USK, Tuzla, and Canton 10). All three FMCs successfully passed the pre-audit, and main audits commenced in February.
- **FSC CoC Auditors Training and Certification:** This initiative was launched in collaboration with the EBRD BAS program. BiH wood processors struggle to implement the FSC Chain of Custody standard due to the high cost of engaging certified auditors and lead auditors, virtually all of whom are foreign. This activity is training and certifying a cadre of local auditors and lead auditors. Training institution is being provided in Banja Luka and Sarajevo.
- **Wood Sector Producer Sales Agency in USA:** The US PSA for wood initiated orders, following its establishment during the FIRMA-supported visit of wood processors to the High Point furniture trade show last November. By the end of the report quarter, in less than 4 months from establishment, approximately KM 500,000 had been shipped through this PSA – a 20x return so far on the FIRMA investment in US market penetration.
- **Wood Sector Producer Sales Agency in UK:** Through FIRMA-supported attendance of wood sector beneficiaries at the **INTERIORS '11 Fair in Birmingham, England** in January, a PSA was established for the UK market. The PSA is operational and has already achieved approximately KM 124,000 in sales from two BiH furniture companies. FIRMA is collaborating

with the BiH FTC/BHEPA in this activity. The producers and PSA decided to collaborate in opening a showroom in London for BiH furniture products.

- **Performance Improvement Plans (PIPs):** PIPs were completed for the six value chain-leading firms: Standard Prnjavor, Scontoprom, Nova Forma, Krivaja, FIS, and Vrbas Banja Luka. In addition to improvements in their own business results that will come from these firm-level technical assistance programs that will be partly supported by FIRMA, these companies together have supplier networks of over 150 SMEs with over 1000 employees. Their performance improvement will have substantial multiplier effects through the BiH economy.
- **Financial Control & Enterprise Resource Planning (ERP):** Training programs in financial control and ERP were completed in Banja Luka, Tuzla, and Sarajevo with 43 stakeholders.
- **Wood Cluster Prijedor Promotional Program:** FIRMA supported a DRVO Klaster Prijedor program to develop and implement a joint promotional program for 24 of its member companies, to intensify sales and export. The program consists of joint booth for trade fairs, joint catalogues, and a visit to the Klagenfurt trade fair.
- **BH National Pavilion - IMM Cologne:** In collaboration with SIPPO of Switzerland and FTC/BHEPA, FIRMA supported the exhibition of six important BiH furniture producers at the IMM 2011 Fair in Cologne, Europe's largest annual furniture industry event. BiH participants received "Design Innovation Winner 2011" awards, with their pieces displayed at a special exhibit. (BiH was the only non-West European country at the show to receive such an award for furniture.) Companies recorded over 400 new contacts, and based on post-fair participant evaluation reports, they expect some € 2.5 million in sales as a direct result of the fair, which, if realized, will be a 39x return on the FIRMA investment. FIRMA also helped support the BiH stand in a special hall at IMM for the **Student Designers Talent Competition**, as a result of which one young BiH designer's prototype was picked up for manufacture by a German furniture company.

b. Tourism

- **Cooperation Agreement with the City of Sarajevo:** FIRMA and its implementing partners Sarajevo Navigator and ZUP Bascarsija furthered collaboration with the City of Sarajevo in developing the city as a travel destination. The Agreement confirms the commitment to joint goals and shared effort on developing Sarajevo as a tourism destination. The City subsequently opened a new line item for tourism promotion in its 2011 budget.
- **Sommelier Training and Certification:** Through implementing partner REDAH, further to FIRMA's support for the gastronomic pillar of the general BiH tourism package, 19 candidates from all parts of BiH were trained by the Sommelier Association of Croatia and certified.
- **RCI Tourism Strategy Group:** FIRMA has a leadership role in the regional tourism strategy group organized by the USAID Regional Competitiveness Initiative (RCI), for which there were itinerary and promotional planning meetings in February. The group finalized a proposal for the establishment of regional Western Balkans Geo Tourism web presence (through National Geographic magazine). UNWTO was represented at the meetings, as well as other USAID projects supporting tourism in the Balkan region.
- **Training in Catering and Tourism Management Practices:** With implementing partner Green Tour of Banja Luka, FIRMA supported catering and tourism management practices training for small hotels and rural/private accommodation providers from the Pliva-Vrbas region. The training is based on the model previously implemented in Prijedor where it proved very beneficial to the participants. The training consisted of 9 workshops, all together covering such topics as are eco tourism, hotel services and categorization, and catering. 28 candidates successfully completed the full training.

- **Tourism Meeting with RS Minister of Trade and Tourism:** FIRMA representatives took part in a meeting (16 Feb 2011) with this newly-appointed minister, which was attended by all RS organization and agencies responsible for tourism development, and aimed to inform the newly appointed Minister of the current situation and key issues in development of tourism in BiH and RS. FIRMA was the only donor project invited to the meeting.
- **Sarajevo City Break Workshops:** Implementing partners Sarajevo Navigator and ZUP (Bascarsija) organized workshops for a wide range of tourism stakeholders in the Sarajevo area on specific actions planned for Sarajevo City Break. Over 20 stakeholders confirmed readiness to immediately join efforts to improve the Sarajevo City Break product.
- **Vakantiebeurs, Utrecht:** FIRMA supported EKO-PLIVA of Jajce in attending the Vakantiebeurs Fair in Utrecht, Holland. This was the first ever participating of EKO PLIVA in the trade fair in Holland and has proven to be very successful – 25 business contacts were established. Based on follow up commitments, EKO-PLIVA expects a 30% increase in arrivals from Holland in summer 2011.
- **Outdoor Journalists FAM Trip:** In collaboration with the USAID EI project-supported Exploring Bosnia agency, FIRMA supported a study trip for a group of 5 journalists and photographers of Montages Magazine group from France, focused on winter and overall outdoor tourism.
- **Fiets and Wandel Beurs Amsterdam:** With implementing partner the BiH Outdoor Association, a cluster organization established with CCA and FIRMA support, BiH stakeholders exhibited at this at this specialized adventure fair in Amsterdam, Holland in February. The presentation was delivered under the identity of *Brave Enough – Bosnia and Herzegovina*. The response at the fair was extremely positive, and the upcoming period and follow up communication will confirm the development of defined groups and packages.
- **Donor Coordination:** FIRMA organized tourism donor group meetings in December attended by the EU Delegation, UNDP, SNV Netherlands, Oxfam Italy, Mozaik, and FIRMA. Current programs were discussed and agreement made to develop a matrix of donor interventions.

c. Metal Processing

FIRMA's work in metal processing receives primary support from subcontractor SIPU International of Stockholm.

- **Solid Works CAD-CAM Training:** In cooperation with USAID EI Project and its supported MTTC Center in Gracanica, a series of six extended trainings on Solid Works CAD-CAM Applications were completed, in Gracanica, Mostar, and Banja Luka. A total of 30 engineers were trained and certified.
- **Automechanika Fair and Autoinvest Conference in St.Petersburg, Russia:** Four BiH automotive supplier companies and automotive cluster representatives organized by FIRMA implementing partner FTC BiH/BHEPA participated in the largest annual Russian auto show and automotive investment conference. 10 contacts with various partners were established.
- **Welder Operators and Engineers Training:** Training of welder engineers at Welding Institute in Tuzla was successfully completed. Twelve engineers from 9 companies were trained and during March they will have several exams. Official certification award is planned in April.
- **Workshop on Environmental Permits:** An awareness workshop together with a two-day specific training on requirements for mandatory environmental permits was held in Tesanj. Presenters were authorized consultants of the Federal Ministry for Environment and Tourism. In total 18 participants from 11 companies were present. The workshop will be repeated in Bugojno and Zenica.

- **Purchasing of Cutting Machine:** Inox Trade of Maglaj, as leader of a six-company consortium, installed and initiated work with new metal cutting machine to be jointly operated. After only few days of working multiple companies from the area are asking for services from the machine.

### CROSS-CUTTING

#### d. Access to Finance

- **QBFC Program:** The Qualified Business Finance Consultant program was created and established by FIRMA to address a key obstacle in SME access to finance – the need for trusted and competent consulting assistance to help SMEs approach financial institutions, while providing financial institutions with greater confidence in SME creditworthiness.

In November 2010 FIRMA launched its training program for 29 QBFC candidates selected from approximately 100 responses to our public request for applications to the project. All 29 candidates were certified after the training. Eleven consultants are employed with FIRMA Consortium implementing partners, and the rest are freelance consultants or employed by private sector consulting firms.

Shortly following the training, in December 2010, FIRMA approved the first company requests for accessing QBFC the program, and in January 2011 the first loan was granted (by to a QBFC-assisted company (Guideline doo, of Banja Luka, a tourism sector beneficiary). Since then, by the end of the report quarter, FIRMA approved 31 company requests for receiving support from our consultants, for a total potential loan value of KM 18.6 million. Of these, nine companies had received loans by quarter-end, with a total value of approximately KM 3.1 million.

Sector	Total Engagements		Loans Approved	
	# Cos	Amount KM	# Cos	Amount KM
Metal	19	5,399,500	3	720,000
Wood	9	3,230,000	4	2,100,000
Tourism	6	7,585,000	2	260,000
<b>Total</b>	<b>34</b>	<b>KM 16,214,500</b>	<b>9</b>	<b>KM 3,080,000</b>

During the review quarter, FIRMA organized workshops (“mingling events”) in Sarajevo, Banja Luka, and Mostar to introduce the QBFC program, to bring together the qualified consultants, loan officers from financial institutions, and private companies interested in obtaining loans. The workshops consisted of a presentation of the program by FIRMA, presentations on loan programs (DCA, , World Bank lines of credit, Entity Development Bank programs, the Entity and Cantonal SME grant support programs, and the EBRD TAM BAS program), and an extended B2B session to allow companies to meet representatives of financial institutions. A total of over 100 people attended and the workshops attracted significant media attention.

- **DCA Program Support:** In addition to the loans facilitated by FIRMA’s QBFC program, FIRMA consultants separately assisted in placing one loan for KM 800,000 under the USAID-Sida DCA facility, for a **total of KM 3.9 million in business finance directly supported by FIRMA** during the review quarter.

e. Workforce Development

- **Adult Vocational Training Program for Wood and Metal Industry:** The first phase of this activity was completed – the development of a training program and curricula, and its adoption by the cantonal ministry. On January 21 the Ministry of Education and Science of Canton Sarajevo approved the developed program for five new vocations. The second stage planned for the coming quarter will be to support 60 individuals, employed and unemployed, to attend trainings in their respective areas.
- **Federation Employment Bureau Collaboration:** FIRMA signed a cooperation agreement with the Federation Bureau of Employment, outlining the intent to collaborate on workforce development activities in the FIRMA-targeted sectors. The Bureau is mandated to undertake workforce training activities, and is eager to collaborate with FIRMA. FIRMA can assist in supporting assessments to help define training programs to which the Bureau can allocate its resources for greater impact, and to identify training providers and participating companies.
- **Vocational-Educational Councils:** A key FIRMA strategy for WfD is supporting the establishment of formal public-private dialog mechanisms at the local level to bring together educational institutions, education ministries, and private employers. Following the first VET council established through FIRMA's facilitation in Tešanj previously, a second local VET council was established in Prijedor. This PPD is being run by PREDA, and includes all the technical high schools in Prijedor and the leading companies. This will help ensure that curriculum and enrolment policies are adapted to actual skills needed by business in the area.
- **Upholstery Training:** 20 employees of beneficiary stakeholder Scontoprom were trained in upholstery skills, to improve product quality and workforce knowledge, in connection with the Wood Team's performance improvement plan for that value chain lead company.

f. EU Alignment

- **EU Standards Pre-Assessments:** Pre-assessment action plans, the first phase to obtaining certifications, were completed for 66 companies. The action plans outline all steps and investments required to introduce a standard. The companies that were assessed came from all three FIRMA-targeted sectors and included ISO standards, CE marking, FSC CoC, and HACCP.
- **EU EXPRO Project:** FIRMA continued to assist the EU-supported project tasked with assisting the development of a formal BiH Export Strategy, a condition for the country's integration into the EU. FIRMA consultants are serving as mentors and participants in six working groups organized by the EU EXPRO project: wood sector exporting, metal sector exporting, tourism, country branding, and export finance. The Export Strategy is expected to be completed by June, then adopted at the state level.

g. Gender / Youth / Inclusion

- **BH Crafts Value Chain:** With the support of FIRMA consortium partner Making Cents International, an interim action plan was completed for the development, expansion, and marketing of this value chain. The focus of this initiative, which connects to both the tourism and wood sectors, is economic mainstreaming of economically excluded groups, including rural women, persons with disabilities, and Roma youth. The action plan came out of onsite assessments and interviews of 27 such businesses and organizations across BiH. Next steps have been identified. The program has the potential to support the employment of several hundred individuals.

h. Other Cross-Cutting Initiatives

- **FIRMA Innovation Initiative:** This initiative seeks to identify priority projects that FIRMA could support for selected business innovation centers, broadly defined, in BiH, and to establish a BiH Innovation Support Network to connect all stakeholders supporting innovation in the country.

During the quarter an initial evaluation was completed, which provided a list of 10 innovation centers for which in-depth gap analysis will be carried out next. FIRMA receives primary support in this activity from subcontractor J.E. Austin and Associates.

**3. Review of Project Progress**

a. Progress versus Workplan

The following table shows cumulative FIRMA activities in process as of the end of each quarter. An "Activity" is defined as a discrete approved program in direct pursuit of FIRMA's contractual objectives that requires an investment of FIRMA resources.

<i>Table 2: FIRMA Activities</i>		
Status	During Review Quarter	Cumulative Since Project Start
Completed	21	73
In Implementation	39	69
In Draft	13	18
<b>Total Activities</b>	<b>73</b>	<b>160</b>

FIRMA has a \$3.0 million grants fund to support activities – approximately KM 4.2 million at prevailing BAM/\$ exchange rate levels.\* The following table summarizes grant approvals from TEC meetings convened through the report quarter. 45 grants for a total of KM 1.5 million were approved during the quarter, bringing the totals for the project to date to 96 grants and KM 2.9 million. KM 658,000 had been disbursed from project start through quarter-end, approximately one-fourth of the approved total and 16% of the grant fund. Actual disbursements were approximately at budget to date.

<i>Table 3: FIRMA Grants</i>		
TEC Meeting Date	# Grants Approved	Amount Approved KM
Prior to Report Quarter	51	1,414,806
15-Dec-2010	26	812,519
17-Feb-2011	19	655,685
<b>Total</b>	<b>96</b>	<b>KM 2,883,010</b>

In Attachment 4, Progress vs. Workplan, we report the status of all of the tasks and activities contained in the submitted Year 2 Workplan that were due to be completed or initiated during the review period, as well as activities due to be completed earlier but carried over.

Most activities due to be completed during the period were completed, and almost all due to be initiated are in process. All exceptions and updates are reported in the Status column of the Attachment 4 table.

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\* Over the past several weeks the rate has been around BAM/\$ 1.4. Note that when the original budget for FIRMA was prepared in March 2009, the RCO instructed bidders to use an exchange rate of BAM/\$ 1.55, which would have translated the \$3.0 million grant fund into KM 4.65 million. Thus approximately KM 450,000 in FIRMA grant capacity has been lost due to depreciation of the US\$ since the original project budget was prepared.

b. Progress versus PMP

The FIRMA PMP consists of the following primary elements:

- **Business Results:** FIRMA's key contractual objectives are expressed in terms of business results: substantial growth over the period of the project (broken into base period and extension period) in the sales, employment, and business finance of beneficiaries, who must in turn represent at least 40% of the sales of their sectors.

We have now completed our Baseline Survey 2011, to track business results performance following the first year of the project. The Baseline Survey was distributed to the approximately 400 companies in FIRMA's stakeholders database. The following table summarizes respondents by size:

<i>Table 4: Baseline Indicators – All Companies</i>					
Sector	#Cos	Sales	Exports	Finance	Jobs
Wood	61	348.5	184.1	165.6	3765
Metal	65	404.8	264.2	230.4	3755
Tourism	58	126.1		42.1	4070
<b>Total</b>	<b>184</b>	<b>879.4</b>	<b>448.2</b>	<b>438.1</b>	<b>11590</b>

<i>Table 5: Baseline Indicators – Designated Beneficiaries</i>					
Sector	#Cos	Sales	Exports	Finance	Jobs
Wood	28	211.4	125.8	102.0	2115
Metal	33	126.9	95.4	73.5	2223
Tourism	28	63.4		12.0	2268
<b>Total</b>	<b>89</b>	<b>401.6</b>	<b>221.1</b>	<b>187.5</b>	<b>6605</b>

184 companies responded, spread evenly over the three sectors. Their sales totaled an estimated KM 880 million, they exported about KM 450 million (not counting foreign tourist receipts), they had KM 440 million in business finance, and they employed an estimated 11,600 people.

About half of the respondents, accounting for about half of these results, identified themselves as having "significantly benefitted from the FIRMA project". We refer to these companies as "designated beneficiaries".

Overall major business results from the survey were as follows:

<i>Table 6: Business Results – All Companies</i>								
Sector	Sales		Exports		Finance		Jobs	
	2010	2011e	2010	2011e	2010	2011e	2010	2011e
Wood	5.5%	15.6%	6.4%	20.2%	5.1%	1.7%	0.9%	4.1%
Metal	15.2%	12.5%	17.9%	15.5%	2.1%	3.4%	6.3%	10.1%
Tourism	7.0%	12.7%	0.0%	0.0%	6.3%	5.8%	6.0%	5.5%
<b>Total</b>	<b>10.5%</b>	<b>13.7%</b>	<b>13.0%</b>	<b>17.4%</b>	<b>3.6%</b>	<b>3.0%</b>	<b>4.4%</b>	<b>6.5%</b>

<i>Table 7: Business Results – Designated Beneficiaries</i>								
Sector	Sales		Exports		Finance		Jobs	
	2010	2011e	2010	2011e	2010	2011e	2010	2011e
Wood	4.8%	15.6%	3.9%	16.2%	1.7%	1.0%	0.6%	3.6%
Metal	15.2%	17.7%	21.6%	21.3%	2.5%	0.5%	6.2%	11.0%
Tourism	7.5%	17.9%	0.0%	0.0%	5.8%	11.8%	4.4%	6.3%
<b>Total</b>	<b>8.9%</b>	<b>16.6%</b>	<b>9.9%</b>	<b>18.4%</b>	<b>2.3%</b>	<b>1.5%</b>	<b>3.8%</b>	<b>7.0%</b>

In all sectors, stakeholders experienced good-to-very-good growth in sales, exports, and employment in 2010, and expect stronger growth in 2011. FIRMA Designated Beneficiaries expect growth in 2011 to be even stronger, in all three of these categories.

Overall, these results suggest that FIRMA is well ahead of its contractual objectives in terms of key business results indicators for sales, exports, and jobs. The business finance indicator, however, is still below target.

The following table provides an estimate of the economic shares of FIRMA beneficiaries. Respondents to the Baseline Survey accounted for an estimated 29% and 27%, respectively, of value-added wood and metal sectors total sales, and substantially larger shares of their exports – 46% and 38%. Foreign tourist arrivals handled by tourism sector beneficiaries accounted for 17% of the total.

<i>Table 8: Baseline Survey – Sector Shares</i>			
Sector	Total Sector	FIRMA Stakeholders	
		KM MM	Share
<b>Sales</b> <i>KM MM</i>			
Wood	1200	348.5	29%
Metal	1500	404.8	27%
<b>Exports</b> <i>KM MM</i>			
Wood	400	184.1	46%
Metal	700	264.2	38%
<b>Tourism</b> <i>Arrivals 000</i>			
	250	43	17%

These shares are underestimates of total FIRMA beneficiaries, because they are based on only the results of the companies that responded to the survey. It is likely, therefore, that FIRMA is already meeting the targeted 40% of the economic share for each of its three sectors.

- **PMIs:** Performance Management Indicators are reported in Attachment 1 below. Indicators are based on activity evaluation reports from 442 participants and grant monitoring reports covering 121 activities either completed or in progress. Through the report quarter, the second quarter of Project Year 2, targets for all indicators are on track if not significantly exceeded, except for business finance, including DCA loans facilitated. However, we expect our access to finance program, in particular the Qualified Business Finance Consultant program, which has already shown good results, to help address this area going forward.

Our inclusion indicators are somewhat unclear, because the Year 1 baseline survey did not provide reliable information. We will probably need to do a separate targeted survey to establish these results.

- **Return on Investment:** FIRMA tracks ROI at the sector level and at the activity level.
  - *Sector level ROI* is the ratio of cumulative growth in sales of designated project beneficiaries to cumulative FIRMA investment, which is measured on an annual basis. Annual business results for the first year of the FIRMA project were obtained from the Baseline Survey of 184 companies who responded to FIRMA’s request for information from 450 stakeholders – companies in the FIRMA Project Activities Database who have taken part in any FIRMA activity. The following results were obtained relative to FIRMA project business results objectives:

<i>Table 9: Sector ROI – All Companies</i>			
Sector	Sales Growth KM	Investment KM	ROI
Wood	27.4	2.5	11.0
Metal	72.5	3.1	23.6
Tourism	9.9	1.8	5.4
<b>Overall</b>	<b>109.8</b>	<b>7.4</b>	<b>14.8</b>

<i>Table 10: Sector ROI – Designated Beneficiaries</i>			
Sector	Sales Growth	Investment	ROI
Wood	15.5	2.5	6.2
Metal	26.2	3.1	8.5
Tourism	6.0	1.8	3.2
<b>Overall</b>	<b>47.7</b>	<b>7.4</b>	<b>6.4</b>

Sales growth in these tables is calculated as the growth in companies’ sales in 2010 plus their estimated 2011 sales through February, the end of the report quarter. Investment of project resources is total FIRMA expenses through the report quarter (\$5.3 million, or KM 7.4 million), allocated by estimate to the sectors.

Looking at all respondent stakeholders, their total sales have grown by KM 110 million over this period, for an overall sector ROI for FIRMA so far is 14.8, versus 14.2 submitted for FIRMA’s Performance Management Plan. Looking at Designated Beneficiaries only, their sales have grown by KM 67 million, for an ROI of 6.4.

These are strongly positive results for the beginning 1 ½ years of the project. They are based only on the 184 companies which responded to the Baseline Survey questionnaire, so if all 450 stakeholders had responded, ROIs would have been significantly higher. Furthermore, performance improvement for beneficiaries should improve at an increasing pace over the life of the project, as activity effects cumulate.

- *Activity Level ROI* is measured using FIRMA’s Activity ROI model, which rates each activity based on its expected contribution to a range of FIRMA business-related objectives for beneficiaries, including (i) growth in sales, employment, and finance, (ii) obtaining formal standards and certifications required for exporting to EU and other global markets, (iii) certification of workforce skills, and (iv) obtaining finance. Contribution to cross-cutting gender and social inclusion objectives also adds points to an activity’s ROI. An activity that produced maximum results in all of these categories would score 100 points in the Activity ROI model. The following table reports Activity ROI status at the end of the report quarter.

<i>Table 11: Average Activity ROI</i>			
Item	Ex Ante 1 (FIRMA)	Ex Ante 2 (Participants)	Ex Post 1 (Participants)
ROI Score	31.2	37.5	38.1
# Reports	150	36	12
Minimum / Maximum	11 / 59	16 / 76	22 / 56

It is notable that based on their completed evaluation forms at the start of activities, participants expect better results on average than FIRMA staff projected at the activity approval stage. Furthermore, based on a limited number of ex post reports reported by participants, actual return is even slightly better. Activity ROIs ranged from a low of 11 to a high of 76.

- Business environment: FIRMA has a general objective for business environment improvement. Notable efforts in this category during the quarter were:
  - *Sawlog market report*. This report, prepared by FIRMA subcontractor Orgut, contained a comprehensive outline of business environment improvement for the forestry sector and was distributed widely within the industry.
  - *EU EXPRO*. As noted above, FIRMA is contributing actively to the preparation of the formal BiH Export Policy, supported by this EU project.

c. Progress vs. Budget

Expenditure for the report quarter rose significantly, above the straight-line budgeted burn rate. This was largely as expected, given the significant underspending relative to budget in the first year. Cumulative to date, spending was still considerably under budget.

If the current above-budget running rate continues, the project will have consumed its current underspending to date by around the middle of Year 3. However, there is a concern that the pace of grant approvals will exhaust uncommitted grant funds (though not necessarily disbursements) too early in the project. Most of the grant programs that FIRMA has put in motion are directly relevant to business results. They meet with commercial success and creating substantial public awareness for USAID and Sida. FIRMA's larger, thematic initiatives (in access to finance, gender/inclusion, innovation, producer sales agencies, lead firms in value chains, EU certification, and workforce), while all relevant to contractual objectives, are broader, more innovative, and more ambitious than anticipated in the original contract. Consideration should be given for additional grant funds to the project to maintain momentum.

Staffing: Total project employment was unchanged from the previous quarter: 19 full-time and 12 part-time staff. The organization chart is provided in Attachment 3 below.

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*This concludes the narrative section of our Quarterly Report. Supporting detail is provided in the following attachment exhibits and tables.*

Attachment 1: **Performance Management Indicators**

From FIRMA Performance Management Plan. Yr2 Actuals through Project Q6 – the second quarter of Year 2. Indicators are based on activity evaluation reports from 442 participants and grant monitoring reports covering 121 activities either completed or in progress.

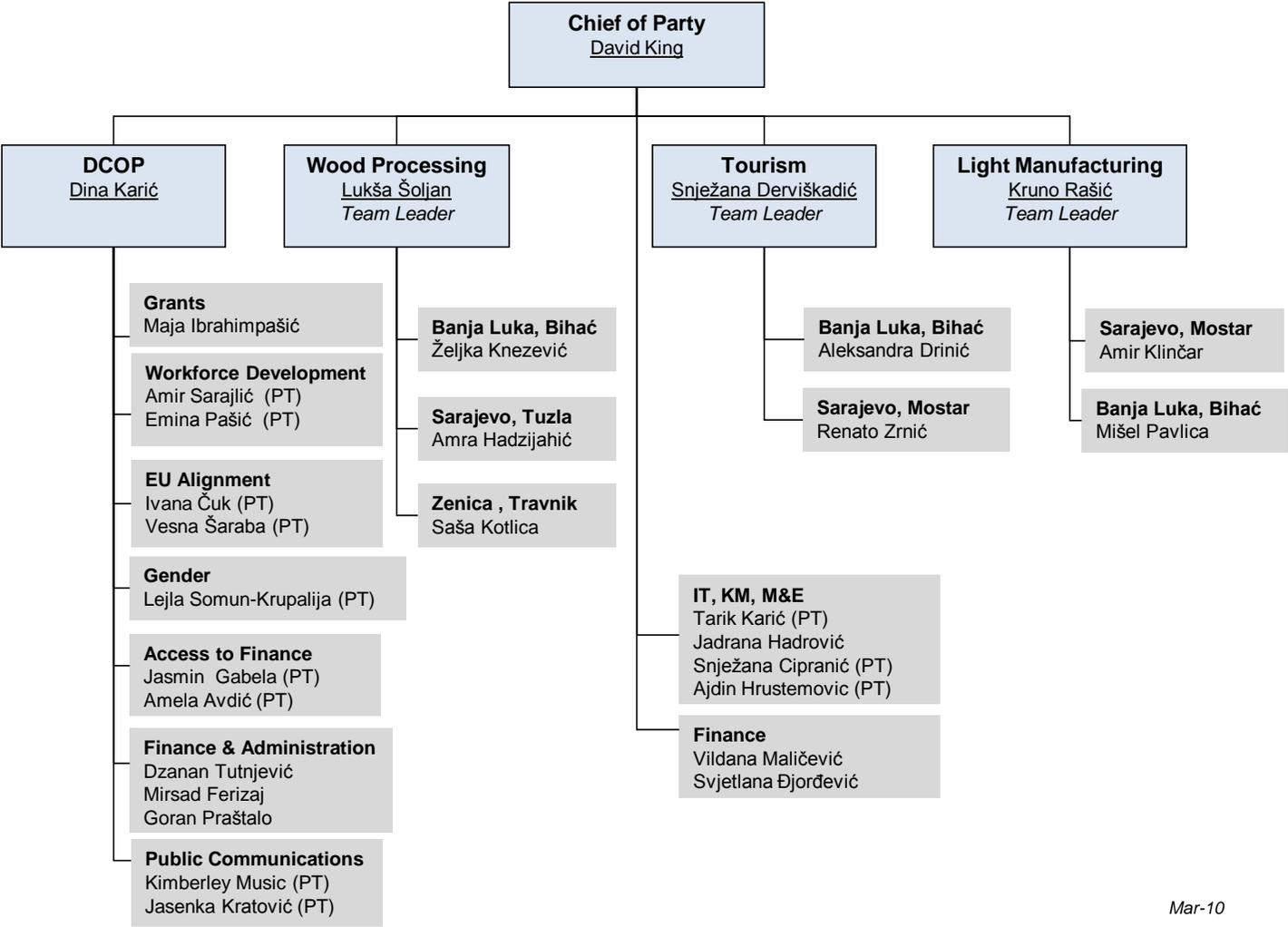
Table 12: Performance Management Indicators													
Work Area	Indicator Type	Indicator Number	Performance Indicator	Contr Req*	Unit**	Target (Cumulative)						Data Source	
						Yr1		Yr2		Yr3	Yr4		Yr5
						Tgt	Act	Tgt	Act				
Competitive-ness	F	101	Firms with improved management practices as a result of USG assistance	X	number	65	11	190	269	315	440	565	Activities
	F	102	Firms receiving USG assistance that obtain certification for international standards			20	22	40	134	60	80	100	Activities
	F	103	Exports of firms receiving USG assistance to increase their exports	X	increase	10%	13%	25%	35%	35%	45%	60%	Baseline Surveys
	Custom	104.1	Private financing mobilized with a DCA guarantee - Number of Loans		number	12	see text	18	1	32	45	60	Activities
	F	104.2	Private financing mobilized with a DCA guarantee - Amount	X	amount MM \$	1.2	see text	1.8	0.57	3.2	4.5	6.0	Activities
	Custom	105	Aggregate economic scale of beneficiaries	X	beneficiaries sales / % total sector sales	20%	B	30%	B	40%	40%	40%	Baseline Surveys
	Custom	106	Sales of project beneficiaries	X		5%	9%	15%	27%	30%	40%	50%	Baseline Surveys
	Custom	107	Employment of project beneficiaries	X	increase	3%	5%	10%	12%	21%	28%	35%	Baseline Surveys
	Custom	108	Business finance to project beneficiaries	X		6%	2.4%	12%	4%	24%	32%	40%	Baseline Surveys
	F	109	Firms receiving USG assistance that obtain EU-aligned standards or certifications		number	10	>	30	134	50	85	100	Activities
Workforce Development	F	201	Persons completing USG-funded workforce development programs			225	359	750	843	1,275	1,800	2,325	Activities
	F	202	Persons gaining employment or better employment as a result of participation in USG-funded workforce development programs	X	number / age	150	125	350	441	550	750	950	

Table 12: Performance Management Indicators

Work Area	Indicatr Type	Indicator Number	Performance Indicator	Contr Req*	Unit**	Target (Cumulative)					Data Source		
						Yr1		Yr2		Yr3		Yr4	Yr5
						Tgt	Act	Tgt	Act				
	Custom	203	Persons participating in FIRMA-supported WfD programs from disadvantaged / excluded groups			50	>	100	235	150	200	250	
Gender / Inclusion	Custom	301	Women-led businesses in the 3 FIRMA focus sectors		# / increase	#/0%	43	#/3%	69/	#/5%	#/7%	#/10%	Activities
	Custom	302	FIRMA beneficiary SMEs employing the socially / economically excluded		#/ share	#/ 3%	B	#/5%	66/	#/8%	#/10%	#/12%	
Business Environ-ment	F	401	Policy, legal, and regulatory changes adopted in connection with USG assistance		number	track	0	>>	2	>>	>>	>>	Activities
Sustainabili-ty	Custom	501	Implementing partners fully capable of taking over FIRMA functions and financially sustainable		number	1	2	2	2	5	6	7	Indepen- dent Assess- ment

\* X = indicator required by contract    \*\* All data disaggregated by gender whenever meaningful    B = baseline report needed to determine results    + = includes expectations by participating firms

Attachment 3: FIRMA Work Organization



Mar-10