

Terms of Reference: A systems analysis of the financial market in Bosnia and Herzegovina and its potential to contribute to Sida strategy goals

Sida is collaborating with the International Labour Organization (ILO) in overseeing the implementation of the consultancy. As part of this collaboration, the ILO will be the contracting party and, jointly with Sida, supervise the consultant's work.

1. Background

To implement any new country/ regional strategy, Sida should conduct analyses and design strategy plans for the development of portfolios, including identification of possible interventions and partners. The analysis helps operationalize each strategy and (re-)develop portfolios in a systematic and coordinated manner.

As financial markets are vital to economic development in any context, an analysis is warranted as to whether, how and where financial markets and their support systems, might be deployed in pursuit of Sida's strategy. The analysis should consider the financial needs and constraints of the target groups identified in Sida's strategies and Multidimensional Poverty Analysis (MDPA) and how the financial sector is responding or not responding to these.

It should consider ways in which Sida can facilitate and support addressing (part of) identified constraints and gaps through strengthening of institutional functions that enable finance to flow and thereby leverage existing and planned activities of the government, donors, development finance institutions, development actors, financial sector industry networks and/or through the use of guarantees to reduce risks, create demonstration effects etc.

The Strategy for Sweden's reform cooperation with the Western Balkans and Turkey for 2021-2027, which also constitutes the bilateral strategy for Bosnia-Herzegovina (BiH), consists of four main areas of support (see Strategy [here](#)). Sida has carried out an MDPA and have specified the development challenges and its rationale for poverty reduction as well as target group¹. Accordingly, the starting points for the consultancy study are the following:

Strategy Results:

This consultancy will focus on the following strategy themes:

¹ As per Sida country strategy and the BiH MDPA, BiH is a middle-income country and the absolute poverty hence is low. With that said, poverty is expected to increase due to the economic crisis the world is facing.

1. Inclusive economic development

And more specifically, improved opportunities for productive employment with decent working conditions.

2. Reduced environmental and climate impact, and sustainable management and use of natural resources:

This includes activities which support a broader green transition through measures in the areas of renewable energy, emissions reductions, conservation of biodiversity and transitioning to a circular resource-efficient economy.

Sectoral focus of the study:

The study primarily focuses on sectors and activities that contribute to reduced environmental and climate impact, and sustainable management and use of natural resources. The consultant needs to explore how private sector through increasing its efficiency and competitiveness can contribute to generating more employment opportunities. There is a direct link between two above mentioned strategy goals implying that efforts towards reducing environmental and climate impact can serve as an opportunity for generation of new employment both on the demand and supply side.

Ultimate target groups of the study:

The focus of the analysis will be on how financial markets can reach the ultimate beneficiaries of the interventions (as defined below) as well as on Micro, Small, and Medium Enterprises (MSMEs) operating in sectors that contribute to reducing environmental and climate impact, and sustainable management and use of natural resources.² It is important to note that companies, particularly MSMEs, hold the potential to grow and therefore offer employment opportunities for the ultimate beneficiaries.

The ultimate beneficiaries of the interventions shall be:

- Youth (for this study defined as ages 18-30)
- Unemployed women
- Women living in rural areas,
- People with disabilities
- The Roma community

Ultimate beneficiaries may be both **indirectly** and **directly** affected by interventions which seek to support the **green** transition and innovation (for example energy efficiency, renewable energy, circular economy) in the operation of business sector actors (large companies, MSMEs).

² In addition to the typical MSME-categories, this study also understands MSMEs as smallholder farmers, cooperatives and other relevant entities in the agriculture sector.

For instance, women living in rural areas may run their own small-scale businesses which would benefit from undertaking operations in the area of green transition. Here, they would be a target group which could directly benefit from Sida support. Women in rural areas may also be the ones who get employment by those companies that introduced respective measures resulting in better business operation (increased cost savings, better efficiency, increased competitiveness) allowing for expansion and new employment opportunities. In this case, women in rural areas or other above-mentioned category are more indirectly benefiting from Sida support to private sector development.

Whereas it might not always be possible to identify linkages to all ultimate beneficiaries in the analysis of the financial sector, the consultant is expected to highlight when such linkages exist as well as propose innovative approaches to identify those.

Simplified description of Theory of Change

In the attempt to introduce transition as stipulated in strategic documents such as the Green Agenda for Western Balkans, Framework for Implementation of SDGs in Bosnia and Herzegovina and overall EU requirements towards the country in the area of green transition there are number of financial instruments available to respective actors (governments, public companies, private sector actors). However, there is a potential to create better and more accessible sources of financing to the private sector actors towards green development.

If:

- If private sector actors (MSMEs) get more inclusive access to finance for green transition such as applying or providing energy efficiency measures and renewable energy set-ups, circular economy;

...Then:

- MSMEs can improve their business operation through green transition leading towards cost reductions, development of new products, creation of better working conditions, improved efficiency etc.
- The green transition of businesses by MSMEs will increase the competitiveness and sustainability of the companies in the long run particularly of those who are export oriented as the regulatory and market demands increase particularly in the area of decarbonization.

...Resulting in:

- Increased energy efficiency in MSMEs and increased number of businesses using renewable energy
- Increased number of MSMEs using renewable energy and energy efficiency products/services for their business activities/production processes
- Increased number of products and services by applying circular economy measures and innovative approaches

- Increased employment (including for youth, women, women in rural areas and disadvantaged people) and improved opportunities for productive jobs with decent working conditions
- MSMEs (including those run by youth and women) becoming more competitive and aligning to EU-market standards through e.g. circular business models, digitalisation and sustainable production and creating opportunities for productive jobs (including for youth, women and women in rural areas) with decent working conditions

The consultant's system analysis shall stem from the above. In its analysis the consultant shall develop and expand the theory of change to identify crucial binding constraints to be addressed within the system, especially with the target groups as a focus point.

2. Objective of the analysis

The main objective of the analysis is to identify entry points for interventions and possible partners for Sida to achieve impact on results/goals stated in section 1, "Strategy Results", through a particular focus on supporting private sector in green transition (such as but not limited to energy efficiency and the use of renewable energy), ultimately benefiting (directly and indirectly) youth, unemployed women and women living in rural areas as well as people with disabilities and the Roma community. As such, it will provide Sida with an understanding of binding constraints, potential entry points and partners for interventions related to the financial sector, including partners for e.g. grants³ and guarantees as well as partners for strengthening of institutional functions.

To achieve that, the analysis covers the regulatory framework, supply and demand of capital, support infrastructure, constraints faced by the target groups in accessing financial services and, more specifically, financing-, as well as related non-financial services.

3. Structure of analysis

The analysis will be divided in four parts.

Part 1: Demand for finance and related non-financial services for target groups as defined in MDPA and/or country/regional strategy as specified above

This section of the analysis will explore the demand for capital and related services by target groups. The target groups may use and need a variety of financial services, both for productive and protective purposes. Such may include investment in income generating activities, investments to start or grow a business, MSME financing, project financing

³ Sida has two main instruments, those are grants and guarantees. However, the implementation modalities of grants might differ as it might be through pure grants, challenge funds, Public-Private Development Partnerships etc.

saving for specific purposes, borrow money to cover bigger or unforeseen expenses, and transfer money to family or friends. An analysis of the economic activities of the target groups and of their use of financial services (both formal and informal) provides an insight into the suitability of these services and thus the room/need for improvement. The target groups may need a different type of financial service (e.g. saving services or insurance in addition to only credit) or financial services with different characteristics (e.g. smaller/larger loan size, long- or short term loans, sector-specific repayment schedule). The assessment should also try to identify the capacity of the target groups to handle debt. Savings and insurance might in some cases be more important than credit.

Therefore, the analysis in this section looks at the target group's current use of financial services (with a focus on credit), the sources and effectiveness of financial services used, the barriers to financial services and additional financial and related non-financial services needed. Particular attention will be paid to inequalities within the target groups, based on factors such as gender, age, location (urban or rural), and others.

Research questions to be answered

- What is the extent of the financing constraint for different purposes for the target groups and MSMEs?
- Demand side
 - Is the market providing finance efficiently? If not, why?
 - What are the principal sources of finance for our target groups?
 - For what purposes are the target groups and MSMEs seeking finance?
 - Are target groups and MSMEs applying for loans and being denied? And if they are being denied, why are they being denied?
 - Are other types of financing (like equity) more needed?
 - What is the size of the unmet demand for credit?
 - If credit is needed, what is the required/average loan size and tenure of target groups and MSMEs in the focus regions?
 - If our target groups are not seeking finance, why not?
 - Do the responses to the research questions vary according to size, sector, gender, age, type of finance requested or other relevant characteristics?

Part 2: Financial sector regulation and support infrastructure

The starting point for the analysis is the regulatory framework affecting financial services providers of relevance for the identified target groups, with a particular focus on how such framework influences the provision of capital to the target groups. As such, the analysis will look at the sources of regulation (e.g. Central Bank, Ministry of Finance, Capital Markets Authority), which are typically originating from the country itself but could also come from regional or global sources, that are of relevance to the target groups.

Specific regulation affecting provision of capital to typically underserved sectors of the economy relevant to the target groups are to be reviewed, which could include those related to ESG, Green Finance, Microfinance, SSE finance, Sustainable Banking, specific groups and other areas as per Sida's country priorities.

One area of particular attention, , is the regulatory framework on financial inclusion. Such regulatory framework might include requirements for financial service providers on transparency, financial education, collateral requirements, responsible lending practices, nonfinancial services and others, as well as regulation related to digital/mobile banking. The analysis of the regulation should focus on how it creates incentives or barriers to financial service providers serving the target groups.

In addition to regulation, the sector's support infrastructure also plays a key role in the way actors operate. As an example, credit bureaus aggregate information relating to the credit ratings of individuals and perform an important function in the prevention of over indebtedness, a relevant risk to be taken into account in the analysis. Another aspect is digital banking and the regulation and infrastructure linked to that.

Moreover, financial service providers are typically organized in industry associations (e.g. Bankers' Associations, Associations of Microfinance Institutions). Such associations are not only a relevant source of data but can also have an active role in driving members to improve their practices on social performance or sustainability management, as well as financial inclusion and literacy. Other supporting services could be related to capacity building initiatives of both private and public sector and is likely to require an extensive analysis. Although such measures are typically voluntary in nature, they are usually good indicators of trends in the local market which can contribute to the effectiveness of Sida's interventions.

The mapping of financial sector regulation and support infrastructure will have as objective to identify institutions which are likely to be eligible partners for Sida for institutional strengthening contributions, even if at this point no detailed assessment of individual institutions/organizations are expected.

Part 3: Mapping of financial service providers

The analysis will then move to understanding the landscape of the financial service providers in the country. A typology of such is suggested in the outline in the next section, considering the different formal and informal organizations providing capital, including domestic and international, public and private actors.

For each group, the analysis will include at least: (i) number of actors, (ii) size of portfolios / market share, (iii) sources of funds, (iv) target client(s), (v) geographical presence, (vi) service (financial and nonfinancial) offering, (vii) lending to the target groups (if any).

The mapping of financial service providers will have as objective to identify institutions which are likely to be eligible partners for Sida, mainly Sida's guarantee and challenge fund instruments, even if at this point no detailed assessment of individual financial service providers are expected. Although a full inventory of all financial service providers is likely not feasible, a focus on groups or institutions whose missions and/or target

clients are generally aligned with Sida's goals can provide a starting point for a preliminary identification of eligible partners.

Understanding the current use of guarantee and challenge fund instruments by financial service providers in the country is of particular interest to Sida. This includes information on which actors are currently providing the instruments and to whom, as well as information on results of such interventions, if available.

Research questions to be answered

- Supply side
 - What are the levels and trends in financing products relevant to the target groups? How do these vary by key criteria such as firm size and type, geography, age, gender etc.
 - Who is and who is not providing finance, for these products, including formal and informal financial institutions?
 - What are the features of relevant products on offer including rates, collateral, term lengths, marketing strategies, etc?
- Support market nature and performance
 - What are the key reasons given for level of relevant financing? For example, history of non-performance, lack of interest, lack of experience and understanding, lack of profitability, shortage of input finance, and many others?
 - Which key supporting functions relevant in better performing market systems are present and how are they performing? For example, risk assessment, product research and development, financial education, etc?
 - Are there any legal or regulatory push or pull factors which facilitate or constrain the provision of relevant financial and non-financial products? For example, financial inclusion rules as a driver or non-performing loan ratios as a barrier?
 - What is the current external support landscape in this area including donor programmes and government support?

The answers to the research questions in Part 1-3 above should lead to conclusions on areas:

a) Where guarantees or grants may be of relevance. The criteria should include:

- An area where formal finance can improve the performance of the market (when compared with informal alternatives it could reduce the price or increase the flow of credit)
- An area where risk is a key barrier to formal financial institutions providing relevant finance.
- Perhaps a more specific area – such as a sector of the economy, subset of the target groups etc – for which these conditions are true.
- Areas where there is not already a significantly donor addressed market

- Areas for possible grant interventions that could include collaboration with the private sector for example through challenge funds, Public-private development partnerships etc.

b) where contribution for institutional strengthening may be of relevance:

- Are regulatory functions, e.g. business register, human rights including labour and environmental protection, well established and effective?
- Institutions and organizations that provide support functions to companies (e.g. project prep facilities, aggregators, business incubators, start-up support functions), which are the most binding constraints or important enablers for a well-functioning market and supply of capital?
- Institutions and organizations that affect the development of an enabling environment (e.g. Anti-Money Laundering laws), which are the most binding constraints or important enablers for a well-functioning market and supply of capital?
- Institutional functions that are not yet supported through a significant donor engagement
- Feasibility of providing Sida support.

Part 4: Gap analysis and recommendations

Building on the information from previous sections, the analysis will conclude with a gap analysis and recommendations, with the aim to describe:

- The extent and nature of the gap between the demand and supply of financial services among the target groups.
- The reason for this gap, or, in other words, why existing financial service providers are not meeting the demand of the target groups. These can include issues related to lack of capital, capacities, adequate products, collateral requirements, regulatory constraints and others.
- The need of and possible ways for institution strengthening.
- How this gap could be narrowed, i.e. under which conditions and with which incentives (financial and non-financial) would existing financial institutions be able to extend financial and related non-financial services to the target groups.
- How Sida interventions can address the gaps discussed in the previous section, including, if possible, identification of potential guarantee or grant partners (i.e. financial service providers likely to be aligned with Sida's priorities and with the capacity to reach the target groups, as well as partners for institutional strengthening of actors important for a well-functioning financial market. The identification of entry points for Sida should include aspects related to engagement with financial service providers as well as to broader engagement with groups of actors or the whole sector.

A suggested outline for the analysis is proposed as an Annex to this document.

4. Data collection and methodology

The analysis is limited to areas⁴ of interest to reaching the specific strategy goals as described in the Background section. The limitation of scope is also based on previous experiences and MDPA conclusions.

The assignment will adopt a systems approach to the analysis of the financial market in the given context. As such, the consultant will use key research tools and frameworks embedded in the approach.

In general, data could be obtained mostly through secondary databases, key informant interviews, and primary data collection through surveys or focus groups with the target groups.

5. Implementation and activities

To achieve the objectives of the study, the consultant will carry out the following activities:

- 1) Review existing literature and data related to the objectives of this ToR
- 2) Identify key informants and design data collection strategy / instruments
- 3) Submit an inception report, including methodology and data collection, as well as how the proposed approach will lead to achieving the objectives of this ToR.
- 4) Collect data, ensure quality of data collected (both qualitative and quantitative) including verification, cleaning and revision where needed/appropriate
- 5) Submit final clean data set
- 6) Analyse data and interpret results
- 7) Draft a preliminary draft report, to be shared with Sida and the ILO
- 8) Implement comments received from Sida and the ILO to produce a second draft report
- 9) Present the second draft report during validation workshop with key stakeholders
- 10) Finalize report, inclusive of set of recommendations based on the findings no longer than 30 pages, based on feedback received from Sida, the ILO, and key stakeholders

6. Deliverables and timeline

The deliverables to be submitted by the consultant are:

Deliverable	Deadline
Inception report, including methodology and data collection	<i>1 week</i>
Clean data set and first draft report	<i>+3 weeks</i>
Second draft, based on feedback from Sida and the ILO	<i>+2 weeks</i>
Final report (max 30 pages)	<i>+2 weeks</i>

⁴ That is the parts of the financial system including its policy framework of relevance to target groups.

7. Qualifications of the consultant

Suitable individuals or firms for the assignment will need to have:

- Proven track record and expertise in the financial sector in the country, including networks, financial service providers, regulators and other key actors;
- Expertise in inclusive economic development, as well as financial inclusion, gender, youth, just transition
- Familiarity and knowledge of data collection techniques and methods (e.g. interviews, survey, focus groups);
- Experience in developing and managing data collection in the context of the target groups (including specific locations);
- Experience in analysing quantitative and qualitative datasets;
- Advanced degree(s) or equivalent in economics, development studies, finance, or related field; PhD is an advantage;
- Proven expertise and experience of applying system analysis methods
- Full proficiency in local language(s) and English, with solid writing and presentation/facilitation skills.

The technical assessment criteria for the consultant selection will consider the relevance of the above skills for performing the overall tasks, in addition to the adequacy of the proposed concept, methodology and understanding of the project's objectives.

8. Selection process

Proposals must be submitted via email to omoto@ilo.org mentioning as subject line "Sida tender Bosnia and Herzegovina" latest by 23 October 2023 (23:59 CEST)

The proposal should contain:

- i) Critical analysis of project objectives and Terms of Reference
- ii) Proposed concept and methodology, including:
 - a) Methodological framework, including sampling procedures
 - b) Data sources, including key informants
 - c) Training of staff and enumerators, if needed
 - d) Field work organisation and logistics
 - e) Data processing procedures
 - f) Workplan, clearly showing project phases and their duration
 - g) Expected support needed from Sida embassy
- iii) CV of consultant(s), with description of activities of each team member and details on the experience of consultant(s) in similar tasks or projects.
- iv) Financial proposal, with a breakdown including workdays, transport. No other cost items will be accepted in the Financial Proposal and considered for payment. The total amount of the financial proposal shall not exceed US\$15'000 USD

Annex 1 - Suggested Outline for Financial Sector analysis

An outline for the systems analysis is proposed below, which can be adapted by the consultant, ILO and Sida according to specificities of the analysis for Bosnia and Herzegovina and guidance provided in this document.

DEMAND for financial services

1. Demand and usage of financial and related non-financial services of the target groups
 - a. Main economic activities pursued by the target groups.
 - b. Identification of:
 - i. financial services currently used by the target groups to finance their economic activities, protect against shocks and mitigate unstable income flows.
 - ii. sources of financial services mostly used by the target groups and effectiveness of the financial services provided to meet their needs.
 - iii. Barriers to and enablers for financial services for the target groups, including institutions and organizations providing support functions to companies or which can create an enabling environment
 - iv. additional financial and related non-financial services needed by the target groups, and for which purposes. Mention characteristics that such services should have to ensure they are effective, sustainable and affordable for the target groups.

SUPPLY of financial services

2. Financial sector regulatory and policy framework as well as support infrastructure linked to the target groups and strategy goal(s)
 - a. Regulatory bodies – what their current financial support mechanisms and policies are for the target groups and where they are lacking. Their capacity to implement regulations.
 - b. Financial inclusion policies – what the current policies are for the target groups and where they are lacking
 - c. Relevant ESG policies and capacity to implement such policies.
 - d. Specific regulation (e.g. from Central Bank, Capital Markets Authority and other regulatory bodies) related to: Green Finance, Microfinance, Sustainable Banking, specific groups and other areas as per Sida's country/regional priorities and target groups, capacity building among financial service providers
 - e. Digitalisation, mobile money and other emerging trends
3. Mapping of financial service providers linked to the target groups and strategy goal(s)

- a. Description of how the following actors are currently supporting the target groups, through financial and related non-financial services, and what their constraints are:
 - i. Public Banks
 - ii. Private Banks
 - iii. International Actors directly or indirectly (i.e. through other financial service providers) providing services to the target groups
 - iv. Microfinance institutions
 - v. Financial cooperatives
 - vi. Non-banking financial service providers (including funds, value-chain finance actors)
 - vii. Informal financial services providers
- b. Overview of organizations currently providing guarantees or challenge funds to the financial sector (public, private, national, international).), including scope and extent of guarantees in the country.

SOLUTIONS to supply and demand deficiencies

4. Gap analysis and recommendations
 - a. Extent and nature of the supply and demand gap for the identified target groups
 - b. How the gap can be narrowed
 - c. How other actors, including development partners are engaged, and how Sida can contribute with complementing interventions.
4. Clear and concise suggestions for possible Sida interventions (e.g. grants and guarantees) that can address the gaps discussed in the previous section, including, in possible, identification of potential partners

Annex 2 - MDPA and ultimate target groups of the study

As per Sida country strategy and the BiH MDPA, BiH is a middle-income country and the absolute poverty hence is low. With that said, it is expected to increase due to the economic crisis the world is facing.

- **Women and Girls**

As many other countries in the world, BiH is a patriarchal country where women and girls are disadvantaged in most sectors of the society. Many women are trapped at home doing care-work, taking care of children, elderly people and their homes. This leads to a higher unemployment among women and also a poorer economic situation since they became independent of their husbands or other male providers. Furthermore, women are at a higher risk of being exposed to violence and sexual harassment.

- **People with disabilities**

People with disabilities belong to one of the most exposed groups in the country. They are often excluded from the rest of the society. For example, their accessibility is poor, the school education is bad if even existing, the health care system is uninformed. But above all, the social security safety net is insufficient, making them dependent on their families and relatives and enhances the dependency; leading to many being trapped in their homes.

- **People living in rural areas**

The people living in the rural areas have a lower disposable income compared to the ones living in urban areas. The rural parts of the country are often hard to access due to bad infrastructure. Furthermore, these people are mainly dependent on agriculture which often is an inefficient economic sector. The poor infrastructure isolates these people, making them dependent on cars. Due to this, their situation will probably become worse due to the energy crisis and the increased fuel prices. The majority of the land's mines are placed on the countryside which makes the people living there not only more exposed to mines but also more affected if there is a woodfire since the firefighters have a harder time getting there because of the mines.

- **The Roma community**

The Roma community is the biggest minority in the country but at the same time one of the most marginalised groups in BiH. Many Roma are ostracised from society, both in terms of social services, employment etc., but also in terms of discrimination and political representation.

- **People who are unemployed**

People who are unemployed do not only lack a job and a sufficient income, but their situation affects the whole family. For example, children to unemployed are more prone to drop out of school.

The focus of the analysis will be on the ultimate beneficiaries of the interventions (as defined below) as well as on Micro, Small, and Medium Enterprises (MSMEs) operating in the sectors contributing to reduced environmental and climate impact, and sustainable management and use of natural resources.⁵ It is important to note that companies, particularly MSMEs, hold the potential to grow and therefore offer employment opportunities for the ultimate beneficiaries.

⁵ In addition to the typical MSME-categories, this study also understands MSMEs as smallholder farmers, cooperatives and other relevant entities in the agriculture sector.