

## Development of Small and Medium Enterprises: B&H Compared to Other Western Balkans Countries

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***ABSTRACT** - Experiences of many countries that were very successful in transition process like Slovenia, Czech Republic, Hungary and Poland show that special attention has been given to the development of a powerful SMEs sector in order to change the economic structure and initiate economic development. Small and medium enterprises make 99,8% of the total number of enterprises and they create 60% of the GDP and 50% of all investments in EU. SMEs were the main source for increasing employment in last ten years. The EU has a goal that it will be the most competitive region in the world before the end of 2010, and for achieving that goal it will count on the development of small and medium enterprises. If we look at SMEs and their development in that regard, in light of making the whole region of the western Balkans closer to the European Union, it is clear that SMEs in this part of Europe must develop faster and become a dominant form of income for the region. SMEs contribute significantly to decreasing unemployment, but only with the presence of a powerful government and a consistent industrial policy in which a business environment for entrepreneurs can develop. The significance of this research is in the need of selection of decisions on: essential elements of entrepreneurial environment in Western Balkans; identification of main obstacles for the development of SMEs in these countries, and analysis of institutional support to the development of SMEs and entrepreneurship in these countries*

### **Small and Medium Enterprises (SMEs) and Entrepreneurship in Bosnia and Herzegovina**

Bosnia and Herzegovina is one of the countries in the region that experienced such extensive war destruction in the least decade of the 20<sup>th</sup> century that has been seen in the area since the Second World War. Before the war conflict in former Yugoslavia started, Bosnia and Herzegovina was more developed by its economic performances than some transition countries that are now full EU members. Presently, BH GDPp/c is only 60% of the pre-war level.

The starting economic position of Bosnia and Herzegovina in the environment shifted a few decades back consequent to the war, and the forthcoming processes and phenomenon characterizing the present time – transition, liberalization, globalization, trans-nationalization – have taken on a special dimension in such an environment. This is the reality that cannot be ignored. Nevertheless, one thing is certain: the new priority mission in Bosnia and Herzegovina is full membership in European Union.

Development of SMEs and entrepreneurship in B&H is in its initial stage, even though this sector of economy could become the initial force of development of the country. The government still has no strategy of the development of entrepreneurship and SMEs, and furthermore, there are even government-imposed barriers for the development of SMEs and entrepreneurship.

There is no policy and there are no specific objectives of the development of SMEs in B&H. There is also lack of specific legislation, which leads to a lack of measures, instruments, and harmonized organization for the support of SMEs development.

The structure of B&H economy by the number of employees is given in the following table:

*Table 1 Structure of B&H economy by the number of employees*

Federation B&H (FB&H)		Republic of Srpska (RS)	
Up to 10 employees	84%	Up to 50 employees	85.5%
11-50 employees	11%	51-250 employees	12.8%
51 - 250 employees	4%		
SMEs sector	99%	SMEs sector	98.3%
Large companies	1%	Large companies	1.7%

Source: Dafić, Z., *Preduzetnička ekonomija*, Denfas, Tuzla, str. 45.

B&H devoted itself to strategic development of SME sector in order to reduce the rate of unemployment. There is over half a million people without jobs, and 90,000 young people have already left B&H because of lack of perspective. High unemployment rate stresses the need to encourage, activate and direct the population to business start ups and the development of entrepreneurship as a means of employing family members and other people. An entrepreneurship continually finds himself between the goal to maximize profits and minimize losses, which requires innovativeness and rationality in decision making. Looking at entrepreneurship from the human resources perspective, it is crucial to approach it in an organized fashion, i.e. to encourage and redirect entrepreneurial practices, increase the efficacy and effectiveness of managers and entrepreneurs. Finally, the results should be implemented, which would then lead to economical revitalization and strengthening of entrepreneurial and SME sectors in post-war B&H.

Research on the given topic is in accordance with mid-term development strategy of B&H (PRSP), 2004-2007. In this strategy, clear-cut goals have been defined, and they are: to encourage the development and growth of micro and small business, to encourage companies to move from the gray economy into the formal sector and to create new jobs in the private sector.

The economy of Bosnia and Herzegovina, as well as that of other developed countries and those in transition, has turned to strategic development of the small and medium enterprises (SMEs) sector in order to decrease the rate of unemployment, which is the highest in Europe (43%). An increased number of the unemployed imposes the need for encouragement, activation and guiding people to start their own businesses and entrepreneurships in order to stimulate self-employment and employment of family members and others.

Economy of the 20<sup>th</sup> and 21<sup>st</sup> century has different rules than Smith's economy of the 19<sup>th</sup> century. The new ideology of neoliberalism apostrophes the role of SMEs as promoters of a "healthy" business climate, economic efficiency and power for economic growth, especially in small, developed countries, and even more so for countries in transition.

These statements and theories contribute to increasing the awareness of governments and businessmen that SMEs are crucial for economic development in the region. Large interest for SMEs was aroused in countries of the Western Balkans in the last decade when it was realized that SMEs could play a key role in the process of transition.

## Western Balkans – Key Economic Indicators

The term Western Balkans is a political one. It expresses the strategy (ie. a clearly set external policy) of the EU towards the region of ex-Yugoslavia minus Slovenia plus Albania<sup>1</sup>. Even in the document *The Process of Stabilization and Accession of South-East European countries* (Brussels, 26 May 1999) in the context of issues of regional accession, there is a mentioning of „joint strategy“ for Western Balkans. In the joint report of the EU titled *The role of the Union in the World*, in the 7th section, countries of Western Balkans are precisely determined: „Croatia, Bosnia and Herzegovina, Albania, FYR Macedonia and Serbia and Montenegro“.

The region of Western Balkans consists of relatively small economies. While the biggest country, population-wise, is FRY (now Serbia and Montenegro) with 8,6 million people, Croatia is the biggest, economy-wise, with over 22 billion euros. The total population of the region is 25 million people, which is equal to 6,5% of the EU population, or a third of the ten countries which joined the EU in may 2004. The total GNI of the region is 50 billion euros, which is about 0,6% of GNI of EU or 40% of GNI of Portugal. GNI per capita, according to current nominal rates of exchange in the region is about 1800 euros, with significant difference between GNI in Croatia (5100 euros) and other countries of Western Balkans, which is below 1,900 euros. According to criteria of the World Bank, B&H, together with Serbia and Montenegro, Macedonia and Albania, is in the group of 54 countries with lower-medium income per capita (\$736-\$2,935). Of all the analyzed countries, only Croatia belongs to those in the higher-medium income (\$2,936-\$9,075). The following table represents the comparison of economies of Western Balkans:

Table 2. Compare economies by income p/c, informal sector, and population.

Countries:	B&H	ALBANIA	CROATIA	MACEDONIA	SERBIA AND MONTENEGRO
Income category:	Lower middle income	Lower middle income	Upper middle income	Lower middle income	Lower middle income
Population:	4,1 million	3,2 million	4,4 million	2.1 million	8.1 million
GNI per capita (US\$):	2,040	2,080	6,590	2,350	2,620
Informal econ. estimate (% GNP):	34,1	33.4	33.4	not available	29.1

Source: <http://doingbusiness-org/> 2006

The Directorate for Western Balkans is set up by the European Commission for the negotiations for accession of Western Balkans countries<sup>2</sup>. Even though the EU has started the negotiations on stabilization and accession with other countries much earlier, the negotiations with B&H have started just recently, on 25/01/2006.

The main challenges of transition facing the countries of Western Balkans in the following period are<sup>3</sup>:

- o privatization and restructuring of companies and removing of barriers for businesses, in order to strengthen the flows of private capital and decrease the donation support,

<sup>1</sup> Milardović, A., *Zapadni Balkan – pojam, ideje i dokumenti o rekonstrukciji Balkana u procesu globalizacije*, Pan Liber, Osijek – Zagreb – Split, 2000., pg.26

<sup>2</sup> The Agreement of Stabilization and Accession, [www.dei.gov.ba](http://www.dei.gov.ba)

<sup>3</sup> EBRD Document, *Strategy for Bosnia and Herzegovina*, 2005., pg. 2

- decrease the size of public sector, bureaucracy and administration
- structural and institutional reforms in key infrastructural sectors, such as: transport, energy, telecommunications and communal infrastructure, as well as financial sector,
- strengthening of state institutions and creation of unifies economic territory in B&H.

The following table (*Transition Report, 2004*) shows the realized transitional indicators in the mentioned segments of economy. This index is between 1 (showing little or no progress) and 4+ (4.33 – showing the standards which are similar to advanced economies of the industrial market)

Table 3. Indicators of transition for Western Balkans countries

	Albania	Bosnia and Herzegovina	FYR of Macedonia	Serbia and Montenegro
Liberalization of prices	4,33	4,00	4,00	4,00
Liberalization of trade and currency	4,33	3,67	4,33	3,33
Small-scale privatization	4,00	3,00	4,00	3,33
Large-scale privatization	2,33	2,33	3,33	2,33
Company reforms	2,00	2,00	2,33	2,00
Competition policy	2,00	1,00	2,00	1,00
Infrastructure	2,00	2,33	2,00	2,00
Banking sector	2,33	2,67	2,67	2,33
Non-banking financial institutions	1,67	1,67	2,00	2,00

Source: EBRD Transition Report, 2004.god.

### Defining SMEs in EU and countries of Western Balkans<sup>4</sup>

The European Commission has adopted a *Recommendation* (Commission Recommendation of 3 April 1996 concerning the definition of Small and Medium-sized enterprises (SMEs), OJ L 107 of 30.4.1996, p. 4.) concerning the definition of SMEs which now provides a clear global framework for all the measures directed towards micro-, small and medium-sized enterprises. It will be applied to all new Community programmes, whereas existing programmes which use different criteria will continue to be implemented to the benefit of the enterprises which were considered SMEs when these programmes were adopted.

Table 4. Newly adopted EU definition of SMEs

Criteria	Micro enterprises	Small-sized enterprises	Medium-sized enterprises
Max. number of employees	< 10	< 50	< 250
Max. turnover in million ECUs	-	7	40
Max. balance sheet total in million Euro	-	5	27

To be classed as an SME or a micro-enterprise, an enterprise has to satisfy the criteria for the number of employees and one of the two financial criteria, i.e. either the turnover total or the balance sheet total. In addition, it must be independent, which means less than 25% owned by one

<sup>4</sup> According to: United Nations Economic Commission for Europe, SMALL AND MEDIUM-SIZED ENTERPRISES IN COUNTRIES IN TRANSITION, UNITED NATIONS, New York and Geneva, 2003

enterprise (or jointly by several enterprises) falling outside the definition of an SME or a micro-enterprise, whichever may apply. The thresholds for the turnover and the balance sheet total will be adjusted regularly, to take account of changing economic circumstances in Europe (normally every four years).

### Comparative analysis of level of development of SMEs in countries of Western Balkans

In all transition countries, among which we certainly include countries of Western Balkans, the process of political and economic transformation is based on the development of the private sector and entrepreneurship, as well as the creation of favourable business environment for the development of SMEs. Some countries have gained a significant progress in these activities, while others are less successful. As a result, in almost all economic analyses, all transition countries are divided into two groups.

Picture 1. Index of development of SMEs in transition countries

Country	SHARE OF PRIVATE SECTOR IN TOTAL ECONOMY [%]	SHARE OF SME-SECTOR IN GDP [%]	SHARE OF EMPLOYEES IN SMEs IN TOTAL EMPLOYMENT [%]	GDP PER CAPITA	Index of SME development
Albania	75.0	40.0	58.4	1,565	274.2
Armenia	70.0	30.0	30.5	789	50.5
Azerbaijan*	60.0	41.3	20.0	743	5.0
Belarus	25.0	6.0	15.8	1,437	3.4
Bosnia and Herzegovina*	45.0	36.0	53.0	1,376	118.2
Bulgaria	75.0	30.0	42.2	1,984	188.4
Croatia	99.0	56.0	65.0	5,053	1820.9
Czech Republic	80.0	32.7	56.7	6,742	1000.0
Estonia	80.0	73.7	55.6	4,795	1571.9
Georgia	65.0	29.4	79.0	736	111.1
Hungary	80.0	36.9	56.8	6,581	1103.5
Kazakhstan	65.0	n.a.	n.a.	1,688	n.a.
Kyrgyzstan	65.0	11.8	26.5	333.6	6.8
Latvia*	70.0	63.2	69.9	3,605	1114.8
Lithuania	77.0	58.2	69.3	3,988	1238.5
Poland	75.0	48.6	68.1	4,924	1222.3
Republic of Moldova	50.0	27.1	21.6	381	11.2
Romania*	65.0	55.0	20.8	2,091	155.5
Russian Federation	70.0	45.1	39.3	2,400	297.8
Serbia Montenegro	55.0	46.6	32.4	1,879	156.0
Slovakia	80.0	45.3	66.0	4,403	1053.1
Slovenia	65.0	56.5	62.6	11,026	2534.9
Tajikistan	50.0	n.a.	n.a.	187.4	n.a.
The former Yugoslav Republic of Macedonia	60.0	42.0	65.1	1,866	306.1
Turkmenistan	25.0	65.0	48.0	648	50.5
Ukraine*	65.0	6.8	10.8	851	4.1
Uzbekistan	35.5	61.2	51.2	308.4	34.3

Source: UNECE, *Small and medium size enterprises in countries in transition*, New York and Geneva, 2005.

The first group consists of the advance transition countries, and the second group includes the less advanced transition countries. All the countries that belonged to the first group, except Croatia, became members of EU in 2004. Other countries of Western Balkans belong to the second group. The data that follows relates to the period before this EU expansion. The following picture

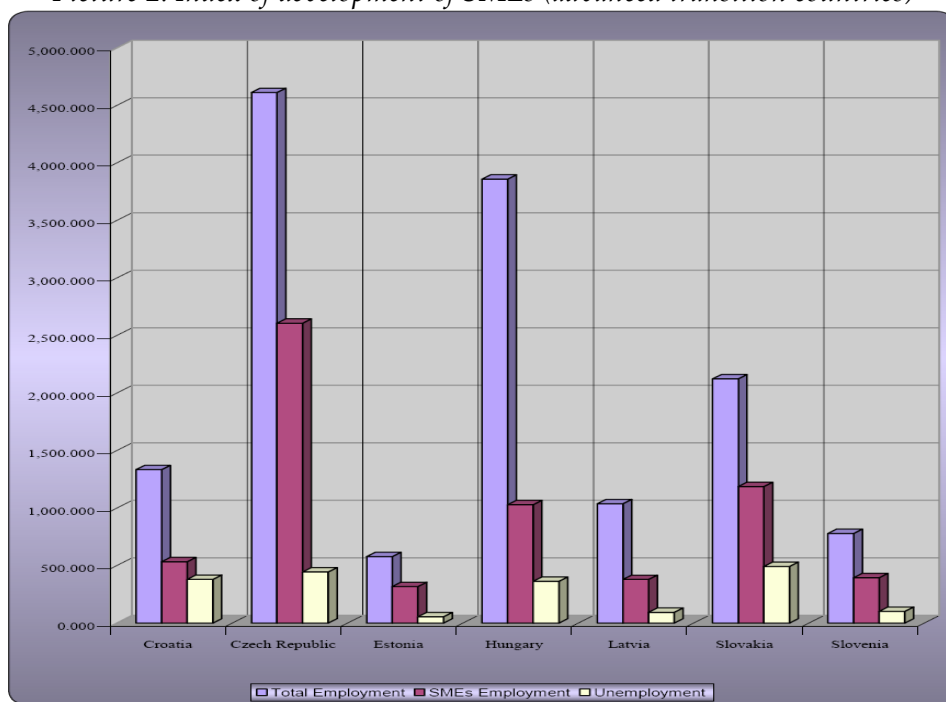
shows the share of private sector in the economy, the share of SME sector in GDP and employment, the amount of GDP, and finally, the index of SMEs development in the analyzed countries.

The previous picture shows that B&H has a very low share of private sector in the overall economy, which is only 45% of GDP. The share of private sector in overall economy which is lower than this one is characteristic only for the following countries: Belarus 25%, Turkmenistan 25%, Uzbekistan 35%.

### Index of development of SME sector

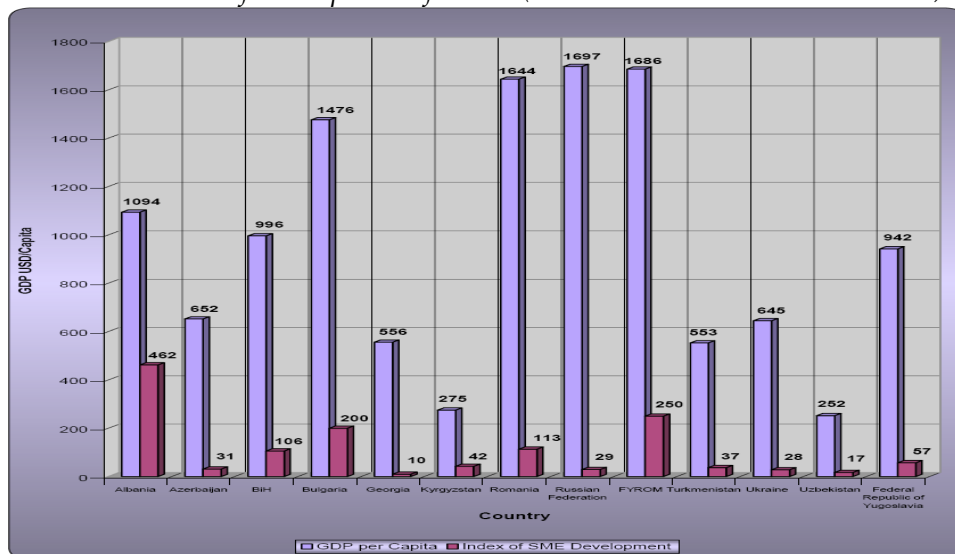
Index of development of SME sector in advanced and less advanced transition countries is shown in the two following pictures. All the countries of Western Balkans belong to the latter group.

Picture 2. Index of development of SMEs (advanced transition countries)



Source: UNECE, *Small and medium size enterprises in countries in transition*, New York and Geneva, 2003.

Picture.3. Index of development of SMEs (less advanced transition countries)



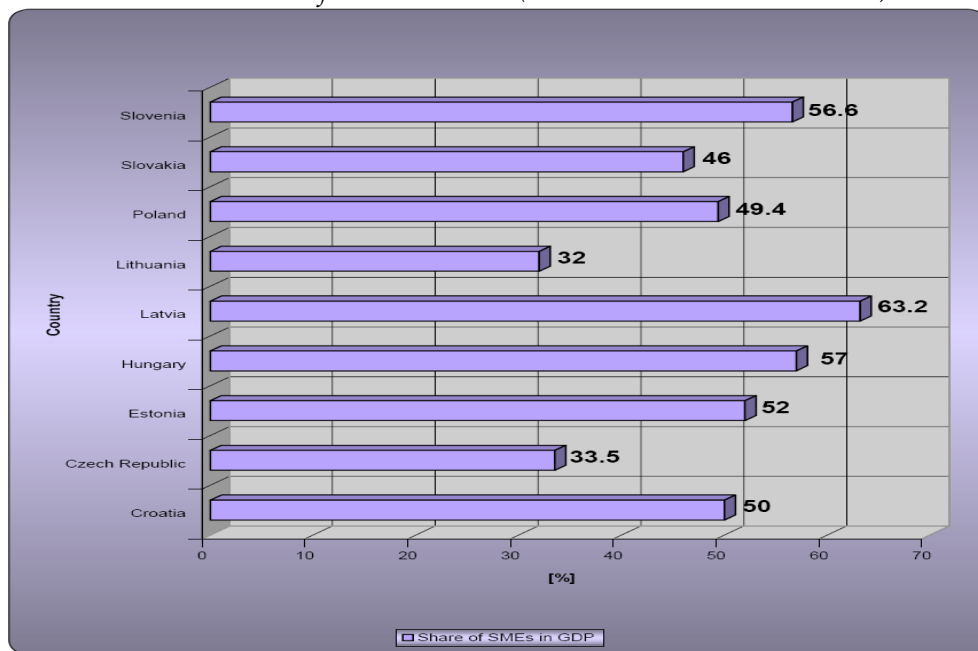
Source: UNECE, *Small and medium size enterprises in countries in transition*, New York and Geneva, 2003

In B&H, index of development of SMEs is very low – only 118,2, while in Slovenia, which has the greatest index of all the former and current transition countries it is amazing 2534,9. Index of development of SMEs, lower than the one of B&H, have only the former members of USSR and Serbia and Montenegro. It is indicative that Albania has a significantly higher index of development of SMEs than the most of less advanced transition countries.

### SME sector share in GDP

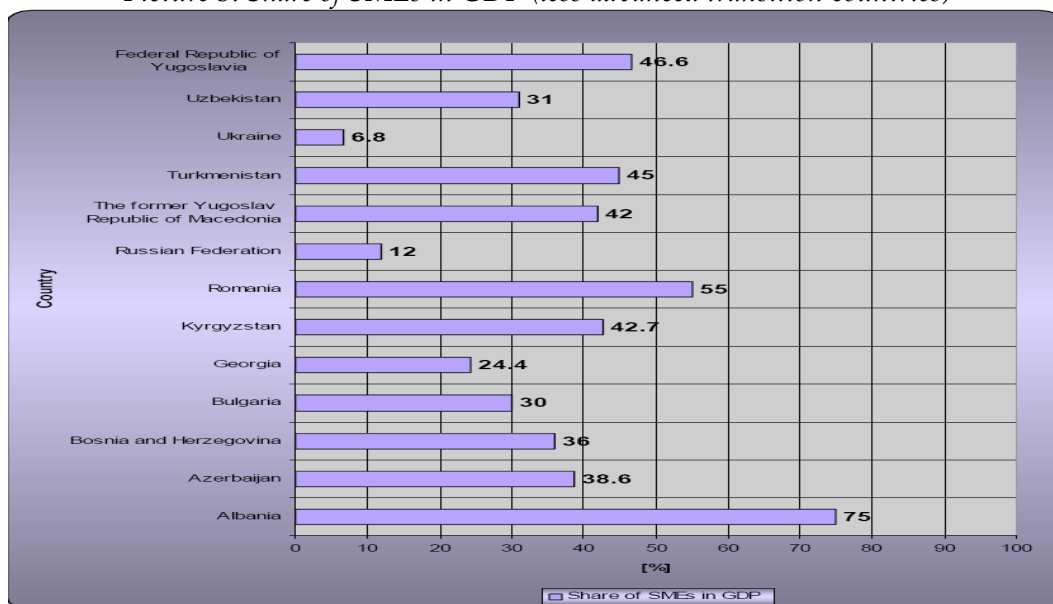
The following pictures show the share of SME sector in GDP, in both advanced and less advanced transition countries. Countries of Western Balkans are shown in picture 3.5. with a relatively low share of SMEs in the total GDP.

Picture 4. Share of SMEs in GDP (advanced transition countries)



Source: UNECE, *Small and medium size enterprises in countries in transition*, New York and Geneva, 2003

Picture 5. Share of SMEs in GDP (less advanced transition countries)



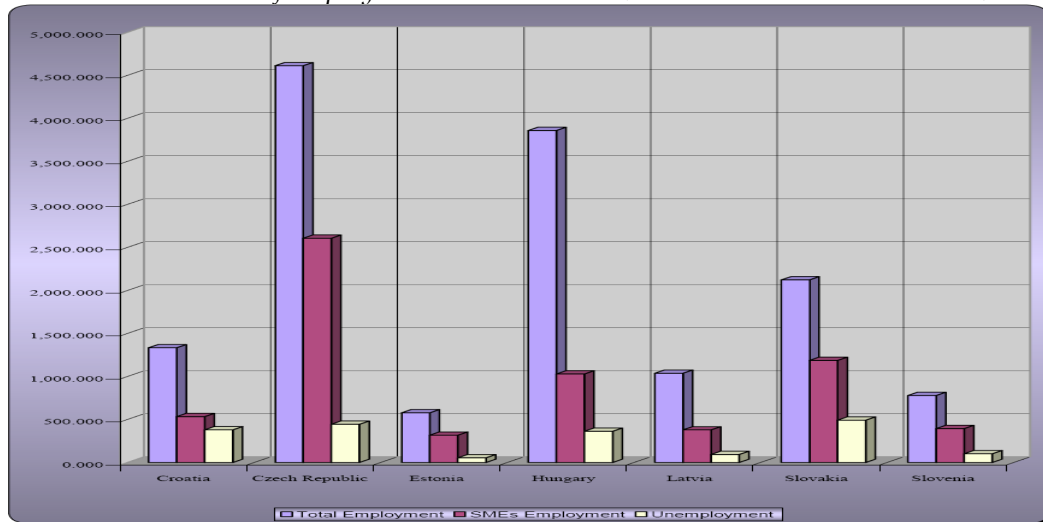
Source: UNECE, *Small and medium size enterprises in countries in transition*, New York and Geneva, 2003.

Thus, it is evident that the share of SME sector in GDP is low, and it amounts to only 36% in B&H, which confirms the fact that our economy is still dominated by large companies, which are mostly state owned.

### Share of employment in SME sector

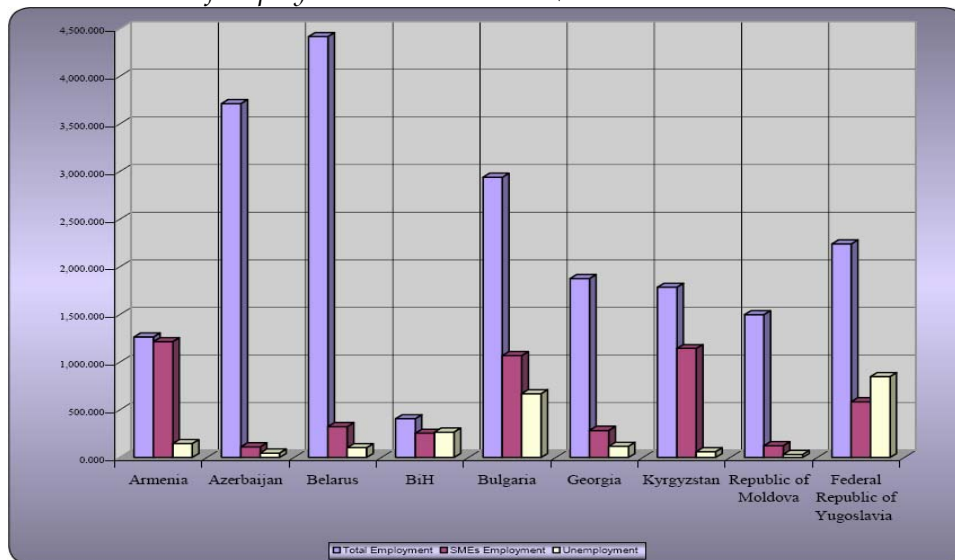
The following pictures 6 and 7 show the share of employment in SME sector in advanced and less advanced transition countries.

Picture 6. Share of employment in SME sector (advanced transition countries)



Source: UNECE, *Ibidem*

Picture 7. Share of employment in SME sector (less advanced transition countries)



Source: UNECE, *Small and medium size enterprises in countries in transition, New York and Geneva, 2003*

The share of employment in SME sector is the highest in the Czech Republic, which is now a member of EU, while in B&H it is very low, even lower than the total unemployment. This data confirms the existence of informal economy in our country in a great percent. Only Serbia and Montenegro are in a more alarming state. In all other less advanced transition countries the share of employment in SME sector is greater than that of the overall unemployment, and in Armenia this percentage is the greatest.



### Comparison of index of development of SMEs in Western Balkans countries

Based on the previous charts, we can calculate the index of development of SMEs in these countries and perform benchmarking of countries of Western Balkans in relation to Croatia, as the most successful country in the region.

*Table 4. Benchmarking - Index of SMEs Development in Western Balkans countries<sup>5</sup>*

Country	Share of the private Sector in Total Economy (%)	Share of the SME Sector in Total GDP (%)	Share of number in employees in all SMEs	GDP/ (USD/capita)	Index of SMEs Development
Albania	75	40	58,4	1.565	274,2
Bosnia and Herzegovina	45	36	53	1.376	118,2
Croatia	99	56	65	5.053	1.820
The FYR of Macedonia	60	42	65,1	1.866	306,1
Serbia and Montenegro	55	46,6	32,4	1.879	156,0

We can conclude that only Serbia and Montenegro have a lower index of development of SMEs than B&H, while all other members of Western Balkans have a higher index. In comparison to the countries of the region it is evident that B&H is lagging behind, in regards to the institutional support to the development of SMEs. Also, the share of private sector in GDP is quite low (40%) which confirms the thesis that the process of privatization of state-owned sector is very slow, but also it confirms the fact that the rate of establishment of new SMEs in B&H is on a very low level.

### Comparison of the development of institutions for support of SME sector

The unsatisfactory institutional support in relation to the region is shown in the following table as well:

*Table 5. A comparison with the surrounding countries – Institutions for the support of SMEs*

	Minist. for SMEs	Law on SMEs	Agency	Fund	SME Strategy	Internat. Organiz.	Chamber Agencies for SMEs	Centres and Incubators	Education	Spec. instit.
Albania	+	+	+	+	+	+	-	+	+	+
Croatia	+	+	+	+	+	+	+	+	+	+
Macedonia	+	+	+	+	+	+	-	+	+	+
SCG	+	+	+	+	+	+	+	+	+	+
B&H	-	-	-	-	-	+	+	+	+	-

B&H is the only country that has no Ministry for SMEs on a state level, it has no law on SMEs, it has no SME Agency, no SME funds, no strategy for the development of the SMEs sector,

<sup>5</sup> This document is prepared on the basis of the UNECE Questionnaire on Small and Medium - sized Enterprises in Economies in Transition and Emerging Market Economies in 2001. Printed at United Nations, Geneva (Switzerland), 2003.

no specialized institutions that exist in other countries. The previous statements and a very complicated business environment for the development of the SMEs and entrepreneurship are confirmed and according to the research of the World Bank, conducted in 155 countries.

Table 6. Benchmarking – Doing business on each of the ten topics (out of 155 countries)

	B&H	ALBANIA	CROATIA	MACEDONIA	SMN	Best performer	Worst Performer
Simplicity of doing business	87	117	118	81	92	New Zealand	Congo, Dem. Rep.
Business Start Up	123	108	103	114	35	Canada	Angola
Licence acquiring	141	131	148	64	130	Palau	Tanzania
Worker employment	95	127	109	123	61	Palau	Burkina Faso
Registration of property	132	66	99	73	103	New Zealand	Nigeria
Credit acquiring	9	41	131	53	99	United Kingdom	Cambodia
Investor protection	77	136	135	30	45	New Zealand	Afghanistan
Tax payment	46	132	85	58	74	Maldives	Belarus
Foreign business operation	122	100	109	96	123	Denmark	Iraq
Contract obedience	72	113	43	111	110	Norway	Timor-Leste
Business shut down	58	73	66	109	90	Japan	West Bank and Gaza

Source: Doing business, The World Bank, 2006

Based on table 6 we can conclude that B&H is in 87th place out of 155 countries, which is, compared to other countries of Western Balkans, a weaker position than that of FYR of Macedonia, but better than that of Albania, Croatia and Serbia and Montenegro. However, as far as conditions required to start up business in Bosnia and Herzegovina are concerned, our country is in the low 123rd place, and Serbia and Montenegro is in the 35th. Property registration places B&H in the 132nd place, and Albania in 66th. Conditions needed for getting credit in B&H place it in the high-ranking 9th place, which is a significantly better position than other countries in Western Balkans. It can be concluded here that obstacles for the quicker development of SME sector come mostly from government, because the market and its mechanisms function well enough.

Based on the data from the table 7 it can be concluded that entrepreneurs go through 10 different procedures when starting up a business in Serbia and Montenegro, 11 procedures in Albania, 12 in B&H, 13 in FYR Macedonia, which takes about 15 days in Serbia and Montenegro, 41 days in Albania, 48 days in FYR Macedonia, and 54 days in B&H. During registration, entrepreneurs face costs of 6% GNI per capita in Serbia and Montenegro up to amazing 40,9% in B&H. As a consequence of a complicated procedure during business registration in B&H, our registration has a total of 7 SMEs/1000 inhabitants, which is significantly below all other countries in the region. Number of SMEs per capita is shown in the following picture.

Table 7. Time required for business registration in Western Balkans countries

Company registration			
2005.	Number of steps	Days	Costs (% GDP p/c)
ALB	11	41	31,1
B&H	12	54	40,9
MKD	13	48	11,3
SiM	10	15	6,0
SEE-4	11,8	39,5	22,3
OECD	6,0	19,0	6,5

### The key obstacles of faster development of SMEs in Bosnia and Herzegovina

The most visible obstacles have been elaborated in the following nine bullets. In some cases we give some recommendations and possible solutions, based on results of our exploring, and on our own experience. I hope that our suggestions will be of use to the creators of economic policy of Bosnia and Herzegovina, because in the worse case, obstacles to the development of the SMEs can also slow down the process of transition and to block the transfer to the market economy.

Although the current situation of the SMEs in Bosnia and Herzegovina we can not characterized as satisfied for many reasons, as inadequate financial support, non-supporting tax system, complex and long lasting process of registration of entrepreneurship, insufficient institutional support, SMEs are the only economic structure that worked with positive results in the past period. With relatively small initial capital, SME sector achieves over 40% of GDP of the country and it gives needed job to over 250 000 employees, or in the other words, around 654%. The structure of SMEs by economy activity is not satisfied because out of total number of SMEs, 45 % of them are involved in trade, 18 % in the production, and 9%, in building projects, 12 % in service and 16% in other activities. That is the reason why SMEs are involved export only with 39%. Based on stated data, we can conclude that SME sector could give a job to a larger number of people in this country, in the case of decreasing of tax load on them, establishing of stable business environment, making deregulation of certain regulations, liberalization in the field of foreign-market economy, and in the case of easier access to the initial capital with better conditions.

Research that we made showed us that SMEs in Bosnia and Herzegovina are facing many obstacles, on daily basis but the major one is lack of finances. Considering that the system of financial support is inadequate in Bosnia and Herzegovina, majority of companies is financed by its own capital and with loans from the customers and suppliers. The biggest number of companies (apx. 93% out of total number of SMEs) is defined as micro-companies (up to 10 employees) and the amount of capital is limited. If we are talking about economic effects of working of SMEs, the majority of them is on the edge of surviving – they achieve economic sustainability very hardly (approx. 50%), while approx.. 20% of them do not want to increase number of employees and capacity of business because of fear of failure. Cases of complete ruin of companies are often and not because of market circumstances but because of high obligations toward the state. Newly established SMEs have the largest problems with lack of capital, and banks see them as very risky category of applicants for loans, and often banks insist on very high measures of risk-protection (mortgage is approximately 200-300% of measure). Beside that, rates are mainly very high and they are between 11% and 13%, and in a case of micro-credit organizations they are between 20% and 25%.

These mentioned loans are strictly oriented, short lasting (up to 12 months) and with the grace period 6 to 12 months. This is the reason why financing externally is still inadequate for SMEs.

The next obstacle to the faster development of SMEs in Bosnia and Herzegovina is tax system that is primarily in the function of covering high public expenses. With a current high ratio tax/GDP, the economy of Bosnia and Herzegovina is one with the highest taxes in the Central Europe, where the taxes are one of the reasons of slow development of private sector and SMEs and leads to transition to the grey economy and induces avoiding of tax payment. Besides that, valid tax regulations are often complicated and complexity is additionally increased by their often changing. Luckily, current inefficient tax regulations will be changed with new and more efficient laws. Following measures that would lead to the faster development of SMEs are:

- Abolition of income-tax in total amount or up to certain amount in the first year of work
- Abolition of taxes on newly employed personnel of specific type of profession and age, tax credits for research and development

The procedure for registration of company is really complicated in the administrative way. There are no regulations in the legal system of the Bosnia and Herzegovina that strictly define specially for SMEs, and their state and business could be seen only as companies in general. One of the key institutional measures has to be simplifying of registration procedure. This procedure at this moment is really complicated, complex and long lasting, and costs are very high. For the start up of new business in Bosnia and Herzegovina, a person will need 12 steps and 54 days, and costs are double than in the countries in transition, and around four times higher than in the countries of OECD. In Bulgaria, businessmen for the start up need only 11 steps and 20 days.

SMEs in Bosnia and Herzegovina in the past period did not have support of the leaders in the economic development. Similar to the other countries that have been in the transition period, SMEs in B&H have shown a constant growth in the last decade. At the same time the environment is also in the process of transformation through the bringing up new regulations, finalizing the process of privatization but also starting with the first planned activities by the state toward development of SMEs and business. However, this is only the beginning and a lot of time will be needed for creating good conditions for the faster development of this sector. The owners of SMEs should hope that the support to this sector will be less declarative, and more concrete, and also that the atmosphere for the development of internationally oriented sector. To achieve this it is necessary that the state make influence on more positive environment for the SMEs by measures of direct and indirect policy. The government has to provide political, legal and economic stability of the country in order to develop SMEs. Until now, there is no one institution for the monitoring and support of the SMEs on the state level in Bosnia and Herzegovina, there is no regulations, nor programs of support of the development of SMEs, neither on state nor entity, cantonal, regional nor municipality level. Besides this, on economic faculties, departments for entrepreneurship and management have been opening just recently. Professionals should be educated in these departments, and they would later on direct the development of SMEs, but there are still no SME Centres, that would function in universities, and that would be connected with SME agencies. In regards to them the centres would be in the expert's role. Also, the universities still have not established even a single incubators, as we can see in other countries. There is not even a joint definition of SMEs. Therefore, making a comparison of the level of development of institutions crucial for the development of SMEs in B&H with highly developed countries, and with the transition countries, we have pointed at our distance from those countries clearly and unambiguously.

Having in mind the importance of SMEs in the market structure of the developed countries and the advanced transition countries, B&H should secure support and help to the development of SMEs, by using the legal system and setting up the appropriate institutions to:

- Establish a stable policy of support to the development of SMEs on all levels of territorial organization in B&H, which would not oscillate depending on the changes in power on all levels;
- Making programs of support for SMEs.
- Supporting the creation of centres in non-governmental institutions that would give special and immediate support to SMEs in all stages of their development
- The local authorities should support the development of technological parks, clusters, incubators etc.
- The local authorities should improve legislation, and especially practices, of registration of companies based on principle: „Everything in one place – faster, easier and cheaper“.
- Establishing funds for the development of SMEs, which would stimulate activities of companies on:
  - Improving current and creating new products and services,
  - Developing competitive advantages of SMEs in domestic and foreign markets,
  - Securing the level of quality in accordance with the requirements of ISO standard,
  - Faster implementation of modern technologies,
  - Introducing information systems and e-commerce,
  - Preparation and execution of ecological projects, etc.
- Establishing euro-info centre state-wide and including it in the European network of euro-info centres. These centres today have the status of official IT network of the EU and besides the member countries they also include over 20 countries of Central and Eastern Europe, as well as the Mediterranean. These centres give answers to all the questions regarding the operations of SMEs in the European Union. This computer network would provide employment for a large number of young experts of various profiles.
- Leasing has been proven as an effective tool of supporting SMEs in many countries and, therefore, legislation in this area could be a priority for the authorities in Bosnia and Herzegovina. The government can influence the leasing market as it is very sensitive to tax treatment and the protection of rights of retailers in order to be able to extract money in case that the customer does not pay.

One of the basic results of the analysis conducted in this paper is that the creation of a specific model of a successful transition in B&H is a task with no alternative. This is not surprising, because under the influence of events that are gaining speed ever so quickly (and these event are mostly external – globalization) there is no possibility of a stationary condition; either there is economic growth, or there is recession, with all the consequences of such a process. This is especially true for B&H, which, as a late participant in the process of globalization, which is caused by war, must put in additional effort. The economy of Bosnia and Herzegovina must get institutional support on national (and more and more even on the international) level, in order not to lose its chance in regards to those countries that have gone quite far down that road. Besides this, the program of restructuring of the economy and the development of the SME sector is unimaginable

without the necessary infrastructure. First of all this relates to: highways, railroads, telecommunication systems, securing cheap and safe sources of electric power, creation of industrial zones, etc. Only such a modern infrastructure, ready for investments of commercial investment capital can be the answer (the countermeasure) for opportunity attractiveness of investing in other, mainly transition countries in which there is a low price of workforce. If these things do not happen, investment capital will not come to B&H.

Although the SME sector was expected to expand and grow so that it creates enough jobs, to absorb the fired workers in the process of restructuring and privatization of large companies, and to create jobs for those that are new in the labour market, this has not happened in many transition economies, especially in South-East Europe. In our country too, the SME sector neither grew fast enough to prevent the growth of unemployment, nor it realized its potential as the initiator force. Even though a large number of new SMEs entered the market, because of market liberalization those SMEs did not grow as fast as it was expected based on the experiences of the developed market economies. A possible reason might be in the obstacles to development that we listed earlier on. Such obstacles to development stunt a quicker transfer of workforce from the old, non-productive large companies to the newly formed private sector. As a consequence, this can result in less-than-possible growth of a given economy, as well as a significantly greater unemployment than the one that is necessary.

In the end we can conclude that the most *evident obstacles to the development of SMEs in B&H* are the following:

- The divided economic space,
- Insufficient legislation,
- Lack of financial support,
- High tax rates and a complicated tax system
- Non-existence of a central registry of a bank account holder in banks in B&H,
- Non-existence of a financial market and non-banking credit institutions,
- Non-existence of advisory and financial support for start-ups,
- No possibility for securing the requested collaterals,
- Big technological backwardness,
- Non-sufficient presence on foreign markets,
- Non-sufficient education of the management,
- Lack of managerial skills,
- Big share of informal economy
- No networks between the existent SMEs,
- A very long period of time is required to register a firm, also a lot of documentation is required etc..

## **Conclusions**

More than a decade after the end of war in B&H, when it comes to the private sector, three things can be concluded:

First – there are still numerous obstacles for its development.

Second – that development is still a crucial precondition for the progress of economy in B&H.

Third – the economic space in B&H is still divided in two parts.

In order for the SME sector to develop faster, and thus decrease unemployment, it is necessary to create a unified economic space and then conduct a significant deregulation, as this area is regulated with too much legislation. Then, it is necessary to make access to financing easier for SMEs, to pass a leasing law, to privatize state firms and to increase the share of sector in GDP. Simply, the number of SMEs must be significantly greater in the following period, because without the new companies there will be neither new employment nor the reduction of the huge deficit. There is no positive trend while the growth of new firms in B&H is 30-40%. It is thus needed to create the presumptions for the increase in number of start-ups. Also, it is necessary to increase the number of medium sized enterprises because the share of micro SMEs with less than five employees is currently too big.

The situation is somewhat better in Serbia. In this country there is around 50 thousand active private SMEs, and their number has not increased significantly in the last ten years. There are 600 medium enterprises and only 83 large enterprises. In comparison with Hungary, which has around the same population, the number of SMEs is too small. Namely, Hungary has got over 500 thousand SMEs. The basic obstacle to faster development of SMEs in this country is, similarly to other countries of Western Balkans „undercapitalization“. On the average, SMEs in Serbia have 20,000 euros at their disposal, and under current conditions they can be in credit of up to 6,000 euros.

Finally we can conclude, that in comparison to other countries of Western Balkans, B&H is lagging behind both in institutions and in lack of support for SMEs. The ground laws for SMEs in Bosnia and Herzegovina have not been passed yet, there is no state-wide SME strategy, there is no Agency for SMEs, which is a unique case in the whole region. The government not only does not have the strategy for the development of SMEs, but many obstacles, as we have seen, also come from government. However, we consider that the philosophy on which the market structure in Bosnia and Herzegovina should be established is the following:

5 firms with 200 employees is  
*safer* than  
1 firm with 1000 employees,  
and  
100 firms with 10 employees are  
*more flexible* than  
10 firms with 100 employees.

One of the primary results of the analysis undertaken in this paper is that the SME sector has not created enough jobs, that it absorbs the fired workers in the process of restructuring and privatization of large companies, and that it has not created jobs for new workers in the labour market. The possible reason is in obstacles that we have mentioned earlier on, which can result in growth under possibilities, and a significant unemployment. In the worst case, the obstacles to the development of SMEs can block the transition of Bosnian economy to market economy. Besides this, the set goals and tasks of research have been realized.

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