

Small and Medium-Sized Enterprise Development Strategy in BiH

2005 – 2007

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- Short Version -*

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Short Version

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4 Executive Summary

Small and medium enterprises may have considerable influence on the development of BiH. With a right development policy, legal framework and coordinated institutional support on all levels, SMEs might win a greater share of the domestic market and, gradually, of foreign markets, be a quality partner to larger domestic and foreign companies, they could initiate sound development project and consequently create more jobs. This means that SMEs might actively participate in the poverty reduction process in BiH. Therefore the adoption of the BiH SME Strategy one of priorities of the BiH Medium Term Development Strategy (PRSP).

The Strategy has a short and long version (the long version¹ with more extensive comments, overview of the current situation and review of European best practices complements the short version) and three main parts:

The first, introductory part (chapters 1 – 4) describes the motifs and goals of the Strategy and provides information about the general macroeconomic situation, on the present SME structure and about the environment for business support in BiH. The introductory part is concluded by the priority SME development issues of the EU which lead to BiH priorities for 2005 – 2007 period.

The second, „middle“ part (chapters 5 – 13) contains generally known competitiveness factors of enterprise development, whose development requires initiation or intensification of certain activities of SME development support institutions on all levels. Due to a relatively brief period covered by the Strategy, the current business environment and the development level of SMEs in BiH, the SME Development Strategy 2005 – 2007 primarily envisages:

- adoption of changes or amendments to the legal framework for operation of SMEs at BiH level;
- changes in the institutional framework;
- improvements in the educational and consulting system;
- improvement of financial instruments for SMEs.

These are both preconditions or so-called basic conditions, or competitiveness factors of SME development. This is another reason why most activities in the Strategy focus on improvements in the above listed factors. For so-called advanced competitiveness factors (such as strengthening of technological and innovation capacities of SMEs, information and communication technologies, Europeisation, internationalization, partnership and networking), the activities proposed over the strategy period mainly concern training, promotion and dissemination. It is estimated that greater attention will be devoted to these factors after 2007, when the key institutions will be established and basic conditions set up for proper support to SME development.

In the third, „concluding“ part (chapters 14 – 18), an overview of recommendations and priority activities for the implementation of the Strategy is provided. Chapter 16 summarizes concrete activities for all areas covered by the Strategy. A separate chapter also provides the guidelines for monitoring of

¹ The long version – working material of the BiH SME Strategy is available on the IFC/SEED webpage: <http://www2.ifc.org/seed/> (in Bosnian only).

the strategy implementation, as well as for a continuous monitoring of quality and of effectiveness of implemented activities within the Strategy.

The strategy will be implemented successfully if it is adopted and implemented by all levels of SME development support. Within the framework of activities proposed in the 2005 – 2007 period, certain activities will be adapted to SME needs (on the basis of feedback from SMEs), as well as to donor projects underway at a given time. On the other hand, adoption of the BiH SME Development Strategy will also offer donors a clearer picture of the needs and development orientation in the SME field.

PART I

1 Introduction

The situation in which the BH economy found itself after the end of the war in 1995, in particular the devastated industry and the large lagging behind in technological development, have resulted in gradual acceptance of the fact that in BiH, over the forthcoming long-term period, small and medium-sized enterprises (SMEs) shall necessarily have a key role in the economic development and new job creation. The previous strategic documents, primarily the General Framework of the Economic Development Strategy (1999), and the BiH Medium-Term Development Strategy (2004) had emphasized the central importance of the SME for the recovery and development of BiH, but also the necessity to establish a favorable environment and create adequate conditions for their successful growth. The past activities on support to development of the SMEs have been conducted at the entity levels, with very significant financial support and technical assistance by international donor organizations, but without appropriate coordination. The need to streamline this coordination for better utilization of the existing resources, but also in order to meet the conditions required for access to additional donor funding – primarily the EU structural funds – has resulted in the initiative for preparation of a BiH SME Development Strategy.

Adoption of the BiH SME Development Strategy is one of the priorities of the BiH Medium-Term Development Strategy (PRSP), and it will also constitute a significant step in meeting the obligations assumed by BiH under the framework of implementation of the recommendations from the European Small Business Charter². At the level of BiH, the SME Development Strategy identifies the necessary improvements of the legal framework and institutional structures which, directly or indirectly, affect foundation, development and success of SMEs, with the main goal to establish efficient coordination in policy design and implementation of all forms of SME support. Specific measures are proposed to improve the situation from the aspect of each chapter of the European Charter and areas are identified where it will be necessary to adjust the needs of SMEs with the interests of other stakeholders in the economic development process. The strategy also proposes activities needed to enable the SMEs in BiH to begin reducing the technological and competitiveness gap relative to the enterprises from the EU countries, or even those from the neighboring countries.

However, the greatest part of the task is and should remain at the entity and lower levels, which had long conducted assorted SME support activities. The proposed solutions, based primarily on the rich European experience, promote primarily the flexibility, which permits reliance on the existing documents and institutions, their incorporation into and exchange of experiences within a networked system of information and idea flow. The strategy defines functions that an SME development support system should have and identifies the most appropriate levels and structures for execution of specific functions.

² European Small Business Charter

Fundamental shortcomings in the existing legal framework for SMEs and a lack of adequate institutional infrastructure for business support, as well as a difficult and complicated access to loan funds, constitute major obstacles to SME development in BiH relative to most other countries in the region. The major issues that need to be resolved for enhancement of conditions for SME development in BiH are:

- Creation of a consistent legal framework for SMEs.
- Removal of barriers hinder and retard starting and operation of businesses.
- An SME definition (in line with the EU recommendations³, see also Chapter 5), and strengthening of the statistics system.
- Organizational structure/institutional framework for business support (see Chapter 6);
- Horizontal and vertical instruments for business development (see Part II, Chapters 5-13).

The above mentioned issues are also priorities of the SME Development Strategy. The present Strategy aims to follow the recommendations of the European Small Enterprise Charter, which is reflected in its structure and in the cross-sectoral approach to SME development.

In general, the BiH SME Development Strategy aims to:

- improve the business support environment (legal and financial environment, institutional business support infrastructure);
- harmonize strategic and institutional factors in SME development with the EU recommendations;
- stimulate increase of the SME sector's share of revenue and value-added contribution;
- stimulate growth through targeted support to high-growth, innovative and export-oriented SMEs;
- enable and actively support development of small enterprise »clusters«, networks and associations for cooperation, in order to create »the critical mass«, for instance, in the areas of research and technological development, procurement, marketing and exports;
- facilitate access of SMEs to financing of budgetary and commercial character;
- provide incentives to new businesses across all sectors of the economy;
- actively promote and facilitate promotion of an entrepreneurial culture in BiH;
- improve competitiveness of SMEs on domestic and foreign markets;
- assist in development of the new educational system at the secondary, associate-degree and university studies, with youth entrepreneurship would be prioritized, and which would educate new managers;
- reduce the grey economy; and
- identify priority projects and activities for the 2005-2007 period.

Implementation of the goals set forth in the period of 2005-2007 should result in:

- Increase of the SME share in the GDP;
- Increase in the number of active SMEs;
- Increased number of jobs created by SMEs;
- Increased SME competitiveness;
- Faster creation of SMEs in the high—technology field;
- Mass retraining of labor force that is unskilled or whose skills are obsolete or ill-adjusted to the needs of the modern economy,
- Broader application of the ICT in the work of SMEs.

³ Official Journal of the European Union, L 124/36, 20.5.2003: Commission Recommendation concerning the definition of micro, small and medium-sized enterprises.

In the preparation of the Strategy, the following basic documents were used:

- European Charter for Small Enterprises and best implementation practices from EU countries;
- The Multi-Annual Programme for Enterprise and Entrepreneurship, and in particular for Small and Medium-sized Enterprises 2001-2005⁴, with the currently known guidelines of the new Multi-Annual Programme for the 2006-2011 period, which is in preparation; and
- BiH Medium-Term Development Strategy – PRSP (2004-2007).

In addition to the above documents, the importance of the EU recommendations⁵ related to the SMEs definition has been recognized. Among other things, the **EU SME Definition** defines the number of employees and financial ceilings which determine enterprise categories:

- The category of micro, small and medium-sized enterprises comprises enterprises which employ fewer than 250 persons, with an annual turnover not exceeding EUR 50 million, and/or an annual total balance sheet not exceeding EUR 43 million.
- Within the SME category, a small enterprise is defined as an enterprise which employs fewer than 50 persons and with an annual turnover and/or annual total balance sheet not exceeding EUR 10 million.
- Within the SME category, a micro-enterprise is defined as an enterprise which employs fewer than 10 person and with an annual turnover and/or annual total balance sheet not exceeding EUR 2 million.

It also defines the necessary measures to collect and organize SME statistics to reflect the following classes of enterprises by size:

- 0 – 1 person;
- 2 – 9 persons;
- 10 – 49 persons;
- 50 – 249 persons.

The acceptance and adaptation of the EU SME definition would permit business support institutions in BiH to perform comparative analysis with other economies in the EU and neighbouring countries and introduce similar support instruments for the same target groups, thus facilitating creation of more favorable conditions for SME development. The proposed EU definition can be adapted to the situation in BiH in the context of actual annual sales levels and/or total annual balance sheets.

Table 1-1: SME Definition

State	BDP per capita in 2003 (EUR)	SME Definition	% SME
Average in	23,200 (in	- The category of medium-sized enterprises is made	In 2003:

⁴ The Multiannual Programme for Enterprise and Entrepreneurship, and in particular for Small and Medium-sized Enterprises 2001-2005.

http://europe.eu.int/comm/enterprise/enterprise_policy/mult_entr_programme/programme_2001_2005.htm

⁵ Official Journal of the European Union, L 124/36, 20.5.2003: Commission Recommendation concerning the definition of micro, small and medium-sized enterprises.

EU (15)	2001)	<p>up of the enterprises with less than 250 employees, with annual sales not exceeding 50 million €, and with total annual balance sheet not exceeding 43 million €.</p> <ul style="list-style-type: none"> - Under the SME category, a small enterprise is defined as an enterprise with less than 50 employees and with total annual sales and/or total annual balance sheet not exceeding 10 million €. - Under the SME category, a micro-enterprise is defined as an enterprise with less than 10 employees and with annual sales and/or total annual balance sheet not exceeding 2 million €. 	<p>SME⁶ = 99.8%, Of which: micro = 92%, small = 6.8% and medium = 1%</p>
Slovenia	12,273	<ul style="list-style-type: none"> - The category of medium-sized enterprises is made up of the enterprises with less than 250 employees, with annual sales not exceeding 50 million €. - Under the SME category, a small enterprise is defined as an enterprise with less than 50 employees and with total annual sales not exceeding 10 million €. - Under the SME category, a micro-enterprise is defined as an enterprise with less than 10 employees and with annual sales not exceeding 250,000 €. 	<p>In 2001 as per the OECD definition: SME⁷ = 99.1%, of which micro = 84.7%, small = 11% and medium = 3.4%</p>
BiH	1,635	<p>Proposal:</p> <ul style="list-style-type: none"> - The category of medium-sized enterprises is made up of the enterprises with less than 250 employees, with annual sales not exceeding 20 million €, and with total annual balance sheet not exceeding 15 million €. - Under the SME category, a small enterprise is defined as an enterprise with less than 50 employees and with total annual sales and/or total annual balance sheet not exceeding 2 million €. - Under the SME category, a micro-enterprise is defined as an enterprise with less than 10 employees and with annual sales and/or total annual balance sheet not exceeding 200,000 €. 	<p>???</p>

With categories of annual sales and total annual balance sheet, it would be necessary to consider the share of micro, small, and medium enterprises for each given category. The criteria should be adapted in such a way to result in more than 99% SMEs, of which 85 – 95 % would be micro-enterprises and 5 – 10 small ones.

The Strategy also describes the so-called advanced competitiveness factors along with specific

⁶ EC – DG Enterprise. 2004. 2003 Observatory of European SMEs: SMEs in Europe 2003. Brussels: EC – DG Enterprise, http://europe.eu.int/comm/enterprise/enterprise_policy/analysis/observatory.htm.

⁷ Mayr, Branko. 2003. Socialni in ekonomski potencial malih in srednjih podjetij v Sloveniji. Ljubljana: GZS.

instruments to promote exports, assist in development of innovative companies or promote networking and partnering as an important strategic instrument in the business world today. The Strategy concludes with the tables summing up recommended legislative and institutional changes and with a proposal of monitoring mechanisms for implementation.

2 The current macroeconomic situation in BiH and in the region

This chapter provides an overview of the macroeconomic level of development of BiH relative to other countries in the region, as well as with the EU countries. The chapter also describes major obstacles for development of the economy.

2.1 Macroeconomic framework with general economic indicators

The EC's November 2003 report on BiH's performance under the SAP⁸ noted that BiH in general developed sound macroeconomic policies and made some progress with structural reforms. Despite this, the risks to macroeconomic stability were seen in high current-account deficits and a persistent absence of sustainable domestic growth.

BiH has still not reached its pre-war GDP level (it is estimated that this may happen in 2011). Its GDP per capita of around 1,6358 EUR (in 2003 – see Table 2-1) is one of the lowest in the region. Between 1996 and 1999, real GDP growth, fueled by high levels of foreign reconstruction aid, averaged above 30 per cent. Since then, however, with inadequate domestic sources of growth, in particular private sector activity, GDP growth slowed. In 2004, according to IMF estimates, GDP growth was 5 per cent.

Estimates of **unemployment levels** vary considerably, from the approximately 25 to as high as 40 per cent. The average monthly net salary was 247 EUR (in 2003) and at BiH level, and considerably lower in RS. The high unemployment rate is still an most important cause of poverty, and its reduction is one of the priority issues in BiH.

One of the most positive macroeconomic results in BiH in recent years was the **price stability and relatively low inflation rate**. The **current-account deficit** is high (17% of GDP in 2003) although it was lower than in 2002 due to a reduction of trade deficit. **Foreign direct investments** in 2004 increased greatly (to 618 million EUR) relative to previous years and, together with SME growth, it represents the brightest hope for the BiH economy. The main economic indicators are presented in the table 2-1.

Table 2-1: General Economic Indicators

Indicators	1999	2000	2001	2002	2003	
GDP billion Euros	4.6	5.1	5.358	5.957	6.266	
GDP per capita, Euros	1.231	1.356	1.411	1.556	1.635	
Real GDP growth rate %	9.8	5.5	4.4	5.5	4.0	5.0 IMF estimate
Annual inflation rate, <i>FBiH</i>	-0.9	1.2	1.7	0.2	0.1	-0.3

⁸ The European Commission's annual report on BiH's performance under the **Stabilisation and Association process** (SAP), released in November 2003

%	RS	15.1	13.6	6.5	1.7	1.8	1.9
Average of monthly net salaries, Euros		175	191	226	228	247	
Current account balance, million Euro		-1,029	-1,464	-1,360	-1,835	-1,840	
External Debt of Government Sector, billion Euro		1,9	2,1	2,3	2,2	2,1	2,0
Net foreign reserves, million Euro		432.85	510.6	1,333.3	1,231.6	1,418.2	1,767.0

Source: BiH Statistics Agency Bulletin, IMF Country Report 2004, FIPA: <http://www.fipa.gov.ba>, Central Bank of BiH, BiH Statistics Agency, Federal Statistics Institute, Institute for Statistics RS

2.2 Private sector growth⁹

The main levers of private sector growth in all countries are enhancement of the business environment for domestic and foreign investment and support to entrepreneurship. Relative to previous years, notable improvements in removal of administrative barriers for domestic and foreign investment occurred. The focus in improving the business climate will shift from removing administrative barriers to creation of conditions for improved competitiveness of the domestic economy, reduction of tax rates and strengthening of corporate management. These two factors are key strategic instruments in all countries.

Attracting more foreign investment is a crucial priority of the BiH Medium-Term Development Strategy (also known as the Poverty Reduction Strategy Paper - PRSP), given the shortage of domestic capital and numerous positive effects of FDI, including increased employment, new management skills, new technologies, new markets and increased exports. The data on foreign investments into BiH are included into the Chapter 12 – Internationalization of SMEs.

Strengthening entrepreneurship in BiH has already been recognized as a precondition for rapid private sector development, and particularly for growth of SMEs. Relative to other transition countries, BiH has the lowest number of enterprises per 1,000 inhabitants, setting up companies is the most expensive in the region, more expensive than in any EU country, and much more costly than in the U.S. and Russia (see Figures 3-1 – 3-3 in Chapter 3), which is a strong sign to the BiH Council of Ministers to accelerate needed reforms to create a more SME-friendly business environment.

2.3 Sectoral priorities

Of the sectoral priorities set out within the BIH Medium-Term Development Strategy (2004-2007) most important are education, agriculture, tourism, industrial sectors (strategic industries: wood-processing, food-processing, textile, leather goods and footwear, metalworking and energy) and ICT. Due to importance of education and ICT for SME development, these two sectors, as important competitiveness factors, are described in more detail in separate chapters of this Strategy. The agriculture and industrial sectors are also important. More efforts have to be invested into SME

⁹ Based on the Poverty Reduction Strategy Paper (PRSP) – BiH Medium-term Development Strategy 2004-2007

networking and promotion of partnering to permit exploitation of all potential of these sectors. For example, development of co-operatives in the agriculture business sector is recommended, and subcontracting and clustering for the industrial sectors. The SME networking and partnering as a horizontal issue are described in greater detail under the chapter 13 of this Strategy.

2.4 Major macroeconomic, legal and infrastructural obstacles for faster SME development

The preservation of macroeconomic stability and stability of the financial markets, the need for faster development of capital markets, as well as for reform of the fiscal system, labor market, further liberalization of the foreign trade in the region, and other issues which still require improvements in BiH, deter many foreign investors. The absence of a functioning single economic space in BiH is a particular obstacle to the creation of an attractive business climate for domestic and foreign investors and for a closer integration with the EU. Increasing FDI and creation of an open SME-friendly capital market (the risk capital is particularly important for innovative SMEs) will be crucial for the country's long-term prosperity.

Legal and administrative obstacles are explained in detail in the second part of the Strategy (particularly Chapter 5, and Chapters 6 – 13). We can mention here expensive and lengthy bureaucratic procedures for business registration and inadequate tax and financial support to enterprises with the potential for rapid growth. Other major obstacles for SME operations arise from infrastructural limitations:

- According to the OHR datasheet on public services in BiH (for 2003) a ten-minute phone call is 3 to 6 times more expensive for a company in BiH than in countries in the region or EU;
- According to a source of the European Commission, the percentage of Internet users in BiH is at the lowest level in the region (from 25% to 600% lower than in other countries).

Under such conditions, it is extremely expensive to operate on the international level or to start partnership or networking initiatives. Both processes highly depend on the previously mentioned infrastructure and accompanying local and international communications, which have to be much cheaper than they currently are in BiH. It is also contrary to the priorities of the ICT sector mentioned in the BiH Medium-Term Development Strategy (PRSP).

An additional obstacle in the area of infrastructure is the price of electricity for enterprises, which is also highest in the region (according to the OHR datasheet on public services in BiH from 2003).

3 Overview of the current position of SMEs in BiH

The lag in development of small and medium-sized enterprises in BiH may be attributed to historical causes. It was predicated on a very gradual recognition of the role and significance of the small business in the economy of the country, because throughout the pre-war period the country's economy had been based on large enterprises and complex integrated business systems. The socialist economic model did not recognize private ownership, business and free enterprise, and consequently, this sector had not only remained unsupported, but it had actually been constrained by systemic measures.

After the war, however, economists and policy makers long debated the whether the focus should remain on the pre-war economic system and, in this context, priority should be placed on large state-owned enterprises or the role and significance of small and medium enterprises should be recognized and their development supported in line with the models implemented in the developed countries. In this sense, BiH does not represent a typical example of SME development for a country in the process of post-socialist economic transition. The absence of clear orientation lasted for long, while small and medium enterprises, as a factor of the country's development, have been quickly gaining significance, owing to the positive influence of the international community, influence of the experiences from the neighboring countries, and influence from a small number of experts and politicians. Today, it may be said that there is a consensus of both economists and politicians that support to small and medium enterprises in all aspects of development is a desired direction for future economic development of BiH.

Another evident fact that has negatively affected SME development is the slowness of the privatization process and of the transition of BiH to market economy. Since the transition stresses entrepreneurship and self-employment in accordance with the rules of market economy, it becomes manifest that the results of transition will have a direct positive effect on SME development.

The third important factor is linked to the inconsistency of economic policy and legislative measures at the BiH level, because the strategic approaches, legal frameworks and other instruments of SME development have so far been established exclusively at the entity levels, without adequate coordination and agreement at the state level.

Inconsistency of the institutional framework is the fourth key factor that exacerbates the situation for SME development in BiH. All tasks which must be completed at the state level are passed to the Entrepreneurship Department of the BiH Ministry of Foreign Trade and Economic Relations, which had been established relatively recently (in 2003) and still lacks adequate human and technical resources.

There are many weaknesses in BiH and most are related to the legal environment and the institutional framework. Among other issues obstructing SME development **non-existence of adequate SME statistics.** Major **external barriers** include the following:

- The existing legal framework is not favorable for SMEs, and a consistent legislative framework for SMEs at the BiH level does not exist.
- No definition of SMEs is at present formally recognised within any legal framework in BiH.

- Information technology is not broadly implemented in administrative processes.
- SME feedback mechanisms are not defined (in relation to the SME development support institutions: SMEs as beneficiaries).
- Government institutions at the BiH level lack both a clearly determined or defined role in the entrepreneurship and SME development sector, and a role in determining the manner of distribution of SME support tasks between the national and entity or regional levels.
- With regard to monetary, credit and fiscal policies, strategies for adaptation to the needs of business are only being developed.
- At the level of BiH, there is no institutional framework for support to SMEs, and even at the level of entities or districts, the existing institutions have not met the needs and expectations of SMEs. As a result, there are no programs or measures for concrete support to SME development.

Currently available information on the situation in BiH are excerpted from SWOT analysis various regional¹⁰ and other strategies¹¹ and a study of the SME in FBiH¹², the following external barriers to or weaknesses in the SME development should also be mentioned:

- high level of bureaucracy for SMEs
- poor focus on manufacturing companies
- Scarcity developed industry sectors which SMEs could link with
- lack of vocational education and an underdeveloped system of adult education
- insufficient investment into prospective sectors based on expertise

On the SME side, there are also the so-called **internal barriers**:

- low level of knowledge and skills in the field of new technologies, ICT, management, etc.
- outdated technology in the majority of the existing SMEs
- strong orientation of small and medium-sized enterprises onto traditional manufacturing industries based on very low productivity and low level of technology
- overly narrow orientation of SMEs to local markets

3.1 Structure of SMEs and major indicators

Due to the shortage of consistent data, various sources were used for data on the number of SMEs in BiH. According to the USAID's Small and Medium Enterprise Interventions and Gap Analysis from

¹⁰ EURED – European Union Regional Economic Development Project in BiH. 2004:

- Regional Economic Development Strategy of the Sarajevo macro economic region, Socio-economic audit of Sarajevo macro region;
- Regional Economic Development Strategy of the North-West BiH Economic Region, Socio-Economic Analysis of the North-West BiH Economic Region;
- Regional Economic Development Strategy of the Herzegovina Economic Region, Indicators, Trends and SWOT elements i SWOT Analysis of the Herzegovina Economic Region;
- Regional Economic Development Strategy of the Central BiH Economic Region, Socio-Economic Audit and SWOT Analysis of the Central BiH Economic Region;
- Socio-economic Audit and SWOT Analysis of the North-East BiH Economic Region.

¹¹ Poverty Reduction Strategy Paper (PRSP) – BiH Medium-term Development Strategy 2004-2007.

¹² Dostić, Milenko, 2004: "Is there an opportunity for small and medium-sized enterprises in FBiH"

June 2004¹³ that there are approximately 60,000 registered companies and an unknown number of businesses operating in the grey economy. According to the EU SME Definition, most companies in BiH are SMEs. The total number of enterprises obtained is based on the data from tax administrations of FBiH and RS, as well as from the Social Security Fund of the District of Brcko, are different from the USAID data. This data is shown in the tables below:

Based on the tax administration data on the number of taxpayers in December 2004, **the SME structure in FBiH** is the following:

Table 3-1: Structure of SMEs in FBiH:

Number of employees	Total number of legal entities and entrepreneurs	% of the total number of SMEs
1 – 5	48,635	86 %
6 – 10	3,159	5.5 %
11 – 50	3,610	6.5 %
51 – 250	1,150	2 %
TOTAL	56,554	100 %

Based on the tax administration data on the number of taxpayers in December 2004, **the SME structure in RS** is the following:

Table 3-2: Structure of SMEs in RS:

Number of employees	Number of legal entities	Number of entrepreneurs	Total number of legal entities and entrepreneurs	% of the total number of SMEs
1 - 5	12,805	24,144	36,949	86.5 %
6 - 10	1,828	187	2,015	5 %
11 - 50	2,390	38	2,428	5.5 %
51 - 250	1,191	0	1,191	3 %
TOTAL	18,214	24,369	42,583	100 %

This data encompasses taxpayers, which means, that the enterprises which are not tax payers are excluded (very small entrepreneurs with low annual revenues), and large enterprises, with over 250 employees, are also excluded.

Based on the Social Security Fund data on the number of enterprises in December 2004, **the structure of SMEs in the Brčko District** is as follows:

Table 3-3: Structure of SMEs in the Brčko District:

Number of	Number of	%
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¹³ USAID. 2004. Small and Medium Enterprise Intervention and Gap Analysis: Final Report. Sarajevo: USAID.

⁶ The tables are made based on statistics from the Entity and DB tax administrations.

employees	enterprises	of the total number of SMEs
1 - 5	2,924	65 %
6 - 10	641	14 %
11 - 50	889	20 %
51 - 250	53	1 %
TOTAL	4,507	100 %

Table 3-4: Structure of SMEs in FBiH, RS, and DB:

Number of employees	Total number of legal entities and entrepreneurs in FBiH, RS, and DB	% of the total number
1 - 5	88,508	85.4 %
6 - 10	5,815	5.6 %
11 - 50	6,927	6.7 %
51 - 250	2,394	2.3 %
TOTAL	103,644	100 %

We can see that the statistics is differently¹⁴ organized between the entities. FBiH counts legal entities and entrepreneurs together, while RS separates legal entities from and entrepreneurs. The data shows that the largest number of enterprises in BiH are the so-called micro-enterprises (with number of employees up to 10), which account for 91 % of all SMEs. This is also the most vulnerable group, which needs support in all areas and at all levels.

The size of the grey economy is a separate issue. According to the estimates done by the EC and the World Bank, the grey economy encompasses some 36% of the total economy in the country. Given the size of population and cities, there are more cafes and small grocery stores than in most other places in the world. These industries are facing strong competition and low profit margins, so that they are barely surviving, sometimes for several months only. From the sectoral perspective¹⁵, the trade sector (either wholesale or retail) dominates. In addition to trade, processing industries (particularly in the food and wood sectors) and mining industry are considered strong.

This problem can be more efficiently resolved only once the state develops a strategy of providing incentives for intensive use of comparative advantages of the resources available in BiH, such as energy, agriculture, forests and tourist potentials, etc. Such a strategy would also encourage an increase in the number of SMEs in the manufacturing sector.

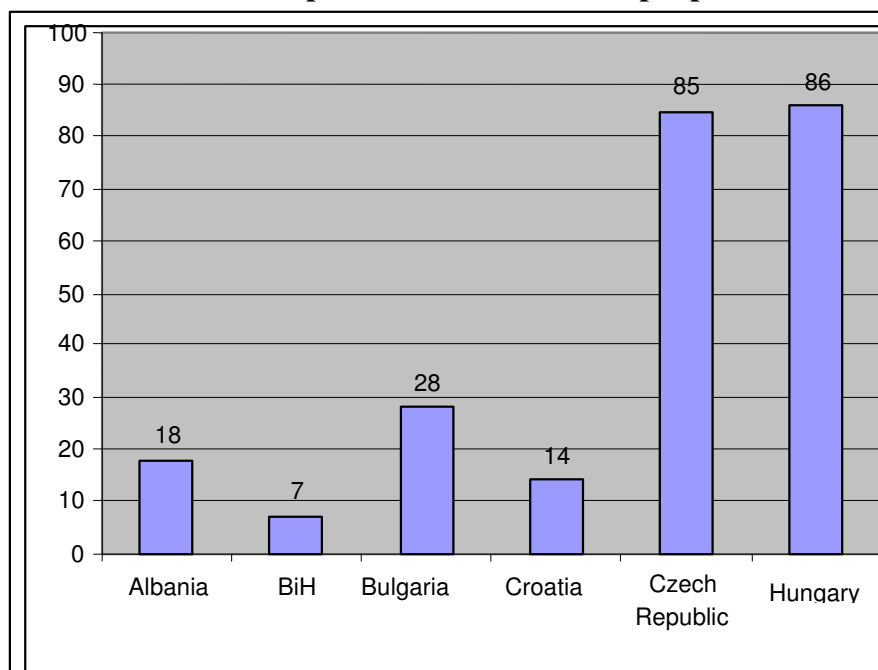
There is a very large difference in BiH between the registered and active SMEs. The available numbers are unreliable, due to the aforementioned problems with statistics, but it has been recognized that the expansion of the number of enterprises in some periods was unsuccessful, as many of them never became sustainable, while others later failed.

¹⁴ The tables were made based on the statistics of the tax administrations of the entities and DB.

¹⁵ Adopted – based on the Socio-Economic Studies of Regional Development Strategies of EURED

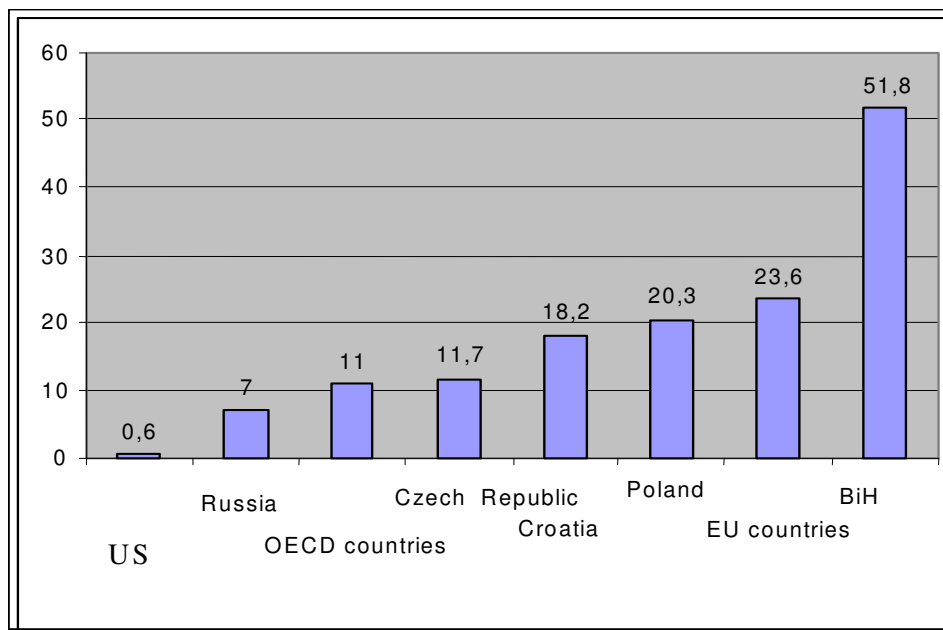
Some analyses have shown that the major causes of failure of small and medium enterprises in BiH are poor business climate and legal frameworks, absence of real support by the state, lack of capital at realistic cost, and illegal competition. However, some causes for failures of start-ups also lie in the lack of competence by their founders or managers, who had not adequately been prepared for managing their own businesses. Entrepreneurship education, both at the level of regular education, as well as at the level of additional training, seminars, and similar forms of education, have developed much more slowly than the practical needs. The following graphs show the most significant indicator of development of the SME environment relative to the other countries in the region.

Graph 3-1: Number of Enterprises in Southeast Europe (per 1000 inhabitants)



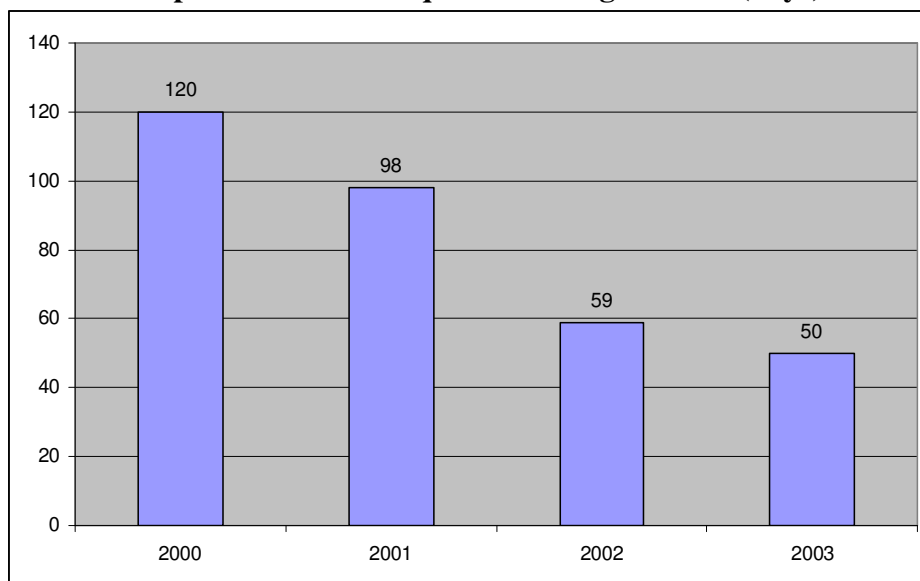
Source: EBRD Transition Report, 2003.

Graph 3-2: Costs of Business Start-up (in % of income per capita)



Source: World Bank 'Doing Business in BiH', Country Profile, 2004.

Graph 3-3: Period Required for Registration (days)



Source: World Bank 'Doing Business in BiH', Country Profile, 2004.

In BiH, the number of enterprises per thousand inhabitants is the lowest, and the costs of business start-up are the highest among the countries analyzed, and also the period required for ownership registration is the longest. BiH lags behind the region over numerous other indicators.

3.2 Business Support Environment

The service infrastructure is very disparate and non-transparent. There are various business support

agencies, business associations, clusters and incubators, but a lack of coordination is evident. For this reason, no unified standards for offering of business services to SMEs have been defined yet. The activities of these organizations are not supported by a single serious ICT platform, and therefore it is very difficult to monitor SME development and judge the relevance or efficiency of business support services. Owing to the lack of coordination in the business support environment, financial support for either business support service providers or for SMEs themselves is very weak. Although the banking system has been rather successfully reformed and strengthened, and microcredit institutions are also active in BiH, owing to unfavorable and insecure environment, SMEs are still having difficulties accessing lending funds and credit guarantees.

Many activities on introduction and improvement of business services were initiated by international donors. However, from the results it is evident that business services in BiH, at this level of development, can not be sustainable. The reasons are, among other things, in the low level of knowledge and skills, low levels of business and entrepreneurship culture, and lack of funding. For all these reasons, SMEs are not showing serious willingness to pay for any business services. Consequently, the conditions for the newly founded private business services sector are inadequate. Such an environment makes it difficult even for the existing business services to grow and develop. Because of insufficient knowledge, SMEs usually can not benefit from information only, or from brief initial consulting services. Frequently, they even do not know what they need nor can they, because of numerous drawbacks in the country, use information they obtain. This means, that in order to succeed, SMEs need a more comprehensive approach combining information services, training, consulting and/or mentoring services. In addition, this initial support (e.g. for up to three years of a company's existence) needs to be co-funded.

The institutional framework required for support of the SMEs and a listing of institutions at various levels is described in more detail primarily in chapter 6, as well in the chapters of the entire Part II of the strategy (chapters 5-13).

4 European Union SME development priority issues and link with BiH conditions

SMEs are considered to be the backbone of every economy, which certainly applies to Bosnia and Herzegovina. SME competitiveness has been the subject of a number of European Commission¹⁶, UNCTAD¹⁷ and other strategic documents. While each has a slightly different focus, they all agree that an important element in improving competitiveness is building domestic economic, technological, managerial and other business capabilities.

Many factors influence the development of SME capabilities. First, the following **pre-conditions** have to be in place:

- in addition to macroeconomic and political stability, well-functioning market and institutions providing business development services for SMEs are also needed;
- legal framework supportive of start-up creation and SME development, and it is also necessary to resolve the problem of closing enterprises;
- SMEs' access to finance has been identified in many surveys of business people as the most important factor determining survival and growth of SMEs in both developing and developed countries, and
- access to knowledge.

More **advanced SME competitiveness elements** are related to the SMEs' access to new technologies (including ICT) and their ability to endure on the global market, which might require specific support instruments for their performance to improve. For example, export competitiveness of SME sector can be increased to a large extent by establishment of clusters or by other inter-company linkages (e.g. linkages between large and small enterprises, or formal and informal cooperation among local SMEs).

From the European Commission's entrepreneurship strategies, it is evident that many instruments and tools are introduced to improve each of the above mentioned SME competitiveness factors. The European Commission has developed a number of initiatives to promote entrepreneurship and SME Development, such as the European Charter for Small Enterprises and Action Plan for Entrepreneurship¹⁸. The implementation of the European Charter for Small Enterprises is an essential part of the Lisbon Strategy. Other important activities are related to benchmarking and exchange of good practices. The special needs and concerns of SMEs are incorporated into most EU policies and programmes. This is shaping Europe's agenda for entrepreneurship for the years to come and might serve as the basis of the BiH SME Development Strategy.

¹⁶ - Commission of the European Communities. 2002. Communication from the Commission to the Council and the European Parliament – Productivity: The Key to Competitiveness of European Economies and Enterprises (COM 2002, 262 final). Brussels: European Commission.

- Commission of the European Communities. 2002. Commission Staff Working Paper: 2002 European Competitiveness Report (SEC 2002, 528). Brussels: European Commission.

¹⁷ UNCTAD. 2002. Improving the Competitiveness of SMEs through Enhancing Productive Capacity. Geneva, UNCTAD – Trade and Development Board, Commission on Enterprise, Business Facilitation and Development.

¹⁸ European Commission – DG Enterprise: <http://europa.eu.int/comm/enterprise/entrepreneurship/index.htm>

4.1 BiH Priorities in the period from 2005 - 2007

The urgent priorities for the upcoming 12 months are already identified in the European Charter for Small Enterprises - Questionnaire 2004 for BiH (published in September 2004) where it was indicated that BiH needs to concentrate **on establishing a legal framework**, i.e. **on enhancement of business environment** through improvement and harmonization of laws and regulations on SMEs in general and on the establishment of cheaper and faster conditions for start-ups. Further **development of institutional framework** is also needed. Further action is urgent in legal framework related to **access to finance and innovation**. The views of SMEs must be taken into account in law- and policy-making. Therefore, representation of small business interests in the law- and policy-making process has to be ensured through transparent dissemination of information, for instance through the Internet. Better collaboration of all stakeholders involved in SME development has to be ensured as well, to which a key contribution will be completion of the institutional framework for the SME development, first of all establishment of the Council for Development and Entrepreneurship. **Acceptance of a single SME classification** (harmonized with the EU approach) will enable better tracking of SMEs and of the situation in the country and beyond.

Looking at the current situation in BiH, the above mentioned **preconditions for competitiveness have to be improved and upgraded** by application of the latest information and communication technologies. SMEs will also benefit from the application of ICT in their daily work. The BiH Council of Ministers and governments in BiH could stimulate these activities by deciding to provide all information electronically and by securing the means for full exploitation of this technology in transactions between SMEs and the government, in business to business transactions, as well as in fulfilling legal requirements.

During the period covered by this Strategy, **the business support environment should be organised and capabilities of the staff of relevant institutions improved to permit provision of initial advice on advanced competitive factors for business development** related to the Europeanization and internationalisation, as well as for promotion of partnering and networking among different formal and informal business and/or public groups.

Special **attention should be given to the most vulnerable target groups**, e.g. crafts and micro enterprises (including self-employed), women entrepreneurs and young entrepreneurs, in order to stimulate business and entrepreneurship among these categories. Development of traditional trades also requires special consideration.

And last but not least, the European **best practices and benchmarking approach should be introduced** in BiH. Institutions involved in SME development will benefit from effective exchange of good practices. This should be one of the tools of every institution.

Although most of the above mentioned priority activities are horizontal, additional efforts should be invested into the **priority sectors** identified in BiH PRSP, or Medium-Term Development Strategy¹⁹, i.e. wood-processing, food-processing, textile, leather goods and footwear, metalworking, tourism and

¹⁹ BiH Medium Term Development Strategy – PRSP (2004-2007), Final Version

ICT.

The chapters 5 to 13 (Part II) describe in greater detail individual segments which affect SME competitiveness and ways these elements can be improved to support faster SME development in BiH.

4.2 Vision for the period after 2007

Since the implementation of the European Charter for Small Enterprises is an essential part of the Lisbon Strategy and a constant agenda in EU, it can be expected that this process will continue beyond 2007. Based on the development of BiH at that time (*infrastructure will have been developed and institutional staff will have been trained and more experienced in providing support for the SMEs sector*) it is expected that more efforts will be put into introduction of instruments for improvement of advanced SME competitiveness factors and related advanced business development services. Own best practices will be developed as well, which will contribute to self-learning and self-improvement, and consequently to the gradual sustainability of the overall business support framework. Pro-active participation of all actors in business support during the first development period (2005-2007), will also enable BiH to adapt more easily to any potential new EU requirements.

PART II

5 SME Laws and Regulations

Stable legislation and regulations are important parts of preconditions for SME development. In particular, rationalisation of government regulatory measures and elimination of bureaucracy, establishment of one-stop-shops, introduction of e-government and establishment of a central company register, are most important for creation of start-up enterprises, survival and development of SMEs. Regulations on all levels should be simple and practical, clear in their goals and cost-effective in the implementation. Existing regulations should be reviewed and changes made where necessary. But, first of all, the regulations need to be adopted at the right level of government. On the state level, many laws are missing that would provide companies with same business conditions regardless of the place of registration.

In development of legislation for SMEs, the **“think small first”** rule should be the basic guiding principle. If the measures, legislation, regulations and practice are suited to small firms, they will be acceptable to large companies as well.

Main goals in the period of 2005-2007:

Main goals:	Indicators:
- harmonization of the SME definition	- the definition is integrated into all relevant laws and regulations (and in particular the Law on Commercial Companies, the Law on the Register of Enterprises, and the Law on Promotion/Development of SMEs and Entrepreneurship)
- simplification and streamlining of laws in BiH to facilitate cheaper and faster start-ups, as well as to promote the single economic space in BiH	- adopted all laws of priorities I and II in the implementation plan (total of 16 laws)

5.1 Brief overview of the current situation in BiH

SMEs require an environment with certain characteristics to operate successfully. An essential part of a favorable environment is a legal framework combined with fully operational institutions for enforcement of laws. The situation in relation to legislation and regulation in BiH is complicated due to overlapping competencies between municipalities, cantons, entities and the state. In the post-war development and with establishment of two Entities, Republika Srpska (RS) and the Federation of Bosnia & Herzegovina FBiH, and the Brčko District, most legislation affecting business environment and SME development were adopted separately, without adequate coordination and harmonization between these different constitutive entities. A detailed list of laws and regulations that are directly or

indirectly related to SME development on the BiH and entity levels is given in the comprehensive SME Development Strategy Background Document.

Certainly the greatest effort has to be put into **legislation changes** or adoption of new, currently missing, laws. Most drafts in the Priority I and II groups of the Implementation Plan can be done in the period covered by this Strategy. The implementation of the new laws into the daily administrative procedure is the most difficult task and it is also the matter of best practice which is developed over time. Monitoring and best practices approach should be introduced at each registration point and in each business support institution at all levels. This means that the monitoring of legislation's implementation and SMEs' appropriateness of legislation and administrative procedures would be monitored by the administrative staff and with the help of SMEs feedback. The monitoring system should ensure, among other things, feedback from SMEs and their collection in central newly established Agency for Development and Entrepreneurship at the national level. Best practices exchange among administrative staff of registration points would also be useful in order to improve their daily procedures.

Here we wish to highlight most important laws and regulations that need to be adopted over the period covered by the Strategy:

- the Law on Commercial Companies should include, among other things, the SME definition, and the resolution of the issue of inclusion of the artisans and trades in this law or adoption of a separate law on trades at the level of BiH,
- the Framework Law on Registration of Businesses which was recently adopted can be further improved in the segments addressing one-stop shops, the single company's number and with additional shortening of registration procedures,
- the Law on Bankruptcy and the Law on Liquidation are important in the legal context of the business environment,
- the Law on Promotion of SMEs and Entrepreneurship, defining the institutional setup necessary for SME development, including state, entity, regional and local institutional setup for SME support.

A proactive stance is necessary with respect to preparation and/or changes to the Law on Statistics and Law on Regional Development, for simplification of procedures of obtaining building and zoning permits, and of regulations on inspections, as well as for other laws that affect SME development indirectly.

5.2 Implementation plan with expected results and timelines

Priority	Action	Implementing body	Time frame (B – beginning, E – end)	Indicator
I	Law on Commercial Companies (to include trades, consider inclusion of cooperatives)	Relevant ministries at BiH, FBiH, RS, DB level, external experts	B: 2006 E: 2007	Draft law passed to the Council of Ministers
I	Law on Registration (to be reviewed and modified)	Relevant ministries at BiH, FBiH, RS, DB level, external experts	2006	Review of the existing law and potential amendments passed to the Council of Ministers

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I	Law on Accounting Standards (review harmonization with international standards)	Relevant ministries at BiH, FBiH, RS, DB level, external experts	B: 2006 E: 2007	Review of the existing law and potential amendments passed to the Council of Ministers
I	Law on Bankruptcy, Enforced Settlement and Liquidation	Relevant ministries at BiH, FBiH, RS, DB level, external experts	2006	The law has been adopted at the entity parliaments, bankruptcy procedures have started, the draft law passed to the Council of Ministers
I	Law on SME Promotion and Entrepreneurship	Relevant ministries at BiH, FBiH, RS, DB level, external experts	2006	Draft law passed to the Council of Ministers
I	Law on Statistics (basic SME statistics)	Relevant ministries at BiH, FBiH, RS, DB level, external experts	2006	Review of the existing law and potential amendments passed to the Council of Ministers
I	Law on Public Funds	Relevant ministries at BiH, FBiH, RS, DB level, external experts	B:2006 E: 2007	Draft law passed to the Council of Ministries
I	Law on Regional Development	Relevant ministries at BiH, FBiH, RS, DB level, external experts	B: 2006 E: 2007	Draft law passed to the Council of Ministers

6 Institutional support to SME infrastructure and business services

The chapter describes the responsible institutions on all levels who play important roles in SME development and their existing links, and proposes improvements in the form of establishment of new organisations, organisational improvements, introduction of new business services and/or improvements of existing ones. This chapter shall describe various levels of institutional support to businesses, as well as the difference between public and commercial (business) support service providers.

Main goals in the 2005 – 2007 period:

Main goals:	Indicators:
- Ensure coordination of policies and initiatives for development and entrepreneurship on the level of BiH	- Council for Development and Entrepreneurship formed
- Establish the basic institutional framework - Ensure transparency and compatibility of services for support to development and entrepreneurship in BiH	- Development and Entrepreneurship Agency and Development and Entrepreneurship Fund established
- Use the existing institutional framework on all levels and ensure equal distribution of SME support for all targeted groups throughout the country	- Development and entrepreneurship network established

6.1 Overview of the current situation in BiH and proposed development

Many international donors have initiated projects of establishment of various agencies, centres, institutions without a common plan. Such an approach has resulted in a very complex and non-transparent institutional framework and causes difficulties both to business providers themselves and certainly to SMEs. Nevertheless, there are also some positive results, notably a considerable number of strategies prepared in different spheres of activities and on different levels. At the same time, a lot of efforts have been invested into improvement of staff skills and of their capabilities in general. Nevertheless, the results would have been much better if a harmonised approach had been adopted and a suitable platform for exchange of best practices and sharing of information and knowledge across the country developed. This approach is the leading principle taken into consideration in the Strategy preparation.

Institutional support to development in BiH must be based on the needs of the SMEs. In each phase of their development, we must offer them relevant support or services at different levels. Owing to the specificity of specific phases of SME development and development of their products, each individual

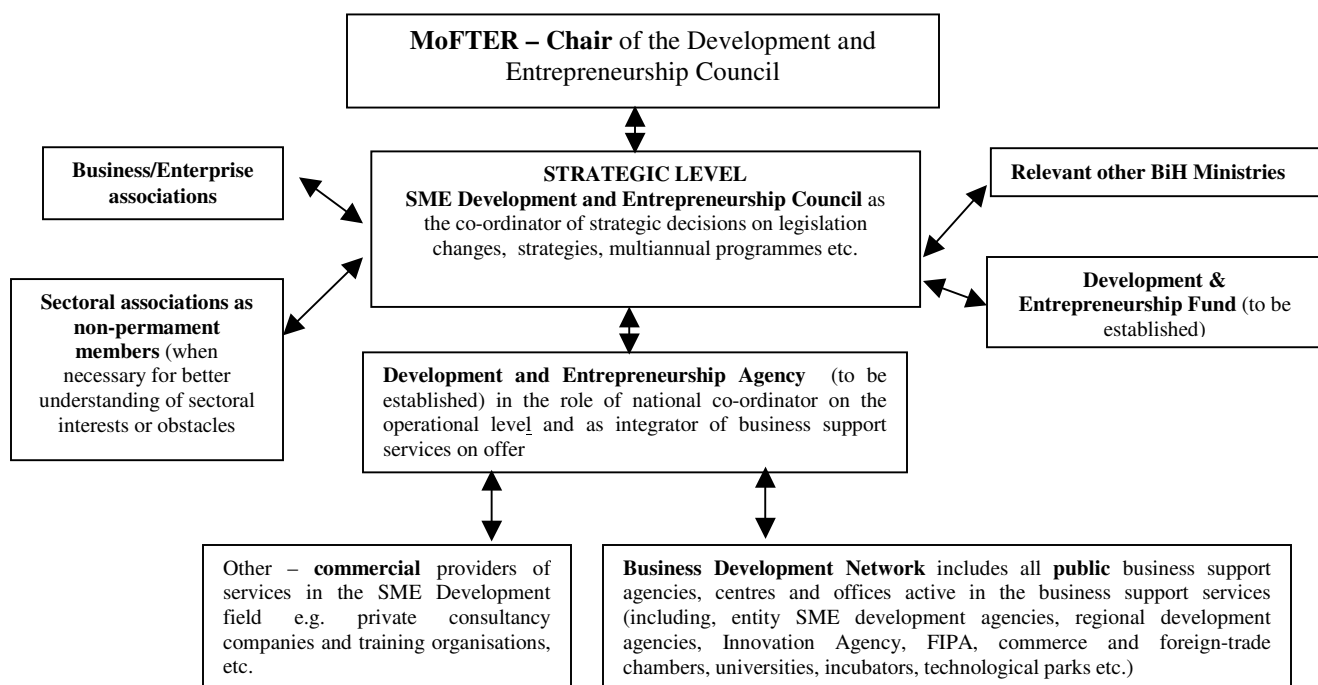
phase also requires development of specialized private sector providers who can offer professional consultancy services.

It is recommended that a strong co-ordination function has to be established on the BiH Council of Ministers' level. To involve all players into the strategic decisions, establishment of the **Development and Entrepreneurship Council/Forum** is recommended, consisting of all important stakeholders. The Council may be structured of different groups of members, e.g.:

- permanent members (those directly linked to SME development),
- non-permanent members (depending on the individual issue to be discussed) and
- observers (representatives of foreign donors, European Commission etc.).

The Development and Entrepreneurship Council's main aim is to integrate the enterprise and competitiveness dimensions in other policies, such as competition, environment, regional, research and trade policies.

Figure 6.1: Institutional inter-relationships among stakeholders in development and entrepreneurship sector



This recommended solution also leads to achievement of one of the recommendations from the European Union Charter: “Allow for stronger, more effective representation of SME interests”, which means create the conditions that enterprises, most probably through strengthened business associations, can be directly and regularly involved in policy development.

The creation of the BiH Development and Entrepreneurship Council enables SMEs to have a certain influence on all levels of governmental activities. It is also recommended that the Development and Entrepreneurship Council/Forum considers all legal and regulatory changes in the country (regardless of the level). This would help integrate the principle of “think small (enterprises) first” into all legislation and regulations in the country and facilitate harmonization of different-level laws and

regulations.

The next proposal concerns the establishment of the national **Development and Entrepreneurship Agency**. Such an agency is crucial to the process of coordination and for achieving transparency and compatibility of development and business support services across the country. This will also help reduce the overall costs of business development support services, particularly through joining of two important functions – function of development agency and function for support to SME development , i.e. development of entrepreneurship.

In addition to the main developmental function, pertaining to regional strategic planning and securing of the EU (pre-) structural funding, the developmental functions of the Development and Entrepreneurship Agency are:

- promotion of innovation and transfer of technologies;
- development and promotion of tourism;
- support to agriculture and development of rural businesses;
- development of regional and local transportation infrastructure; and
- **support to SMEs**, to be administered by a separate department for SME development within the Agency. The SME department shall have a key role in organization and development of the Business Development Network and its maintenance. The main target group of this department are service providers involved in the Business Development Network, and – indirectly – the SME as the end users. The SME department shall combine strategic planning and implementation of the conclusions of the **SME sector**, including design, administration and establishment of standards for operating systems, supervision, evaluation and auditing of transactions. The SME department shall administer some international projects and country-level projects that are relevant for development of the SME sector in BiH. The work of the SME department may include:
 - coordination of the Business Development Network, and specifically:
 - implementation of the general framework standards of SME business support services of the Business Development Network (in the public sector) in BiH and ensuring of continuous benchmarking of existing services;
 - organization of training, development of training tools and packages in order to improve personnel skills in organizations for business support that are part of the Business Development Network (in the public sector);
 - analysis of the SME development process in BiH, based on feedback received from SMEs through the entities district and regional development agencies, and based on the continuous benchmarking, recommend to the Council legislative improvements, new or improved SME development instruments and initiatives;
 - develop national entrepreneurship portal as a common platform for SME support providers and for SME, which consists of internal information system - Intranet solution for all members of the SMEs Development Network and members of the SME Council to cover their daily processes, group communications, on-line access to information and shared knowledge and the Internet portal for all companies and citizens;
 - dissemination of successful programs and entrepreneurial experience, promotion of successes of the SME sector and promotion of the positive image of the SME sector in BiH, as well as internationally;
 - cooperation with domestic and international counterpart organizations;

- conduct annual surveys on SMEs competitiveness (e.g. taking part in the GEM²⁰ study “Global Entrepreneurship Monitor” and in the European Network for SME Research²¹ with the project “Observatory of European SMEs”) and other surveys crucial for better understanding and consequently better planning of further SMEs policies and strategies.

To make business support services more visible to SMEs, ensure the exchange of best practices and better communication among SMEs’ development providers, to improve access to integrated information and shared knowledge databases and finally to ensure most efficient use of resources, the **Business Development Network** is proposed as the informal virtual business support providers’ network. The Business Development Network is envisaged as a platform (together with the entrepreneurial portal) for all support activities related to business. This means that in the case of establishment of any other business public network (for example an innovation network), the existing platform should be expanded for use of new members of the network (incubators, technology parks, research centres, etc.). The members themselves may initiate establishment of working groups as effective tools of targeted discussion and development of specialized services and projects on individual topics of interest.

The role of individual *regional development agencies* (which are part of the Business Development Network) has been described in more detail in the regional strategies, Their main roles are in:

- promotion and coordination of development in the region;
- promotion of direct foreign investment;
- export promotion of regional/local enterprises;
- support to entrepreneurs;
- support to technological development in the region;
- environmental protection.

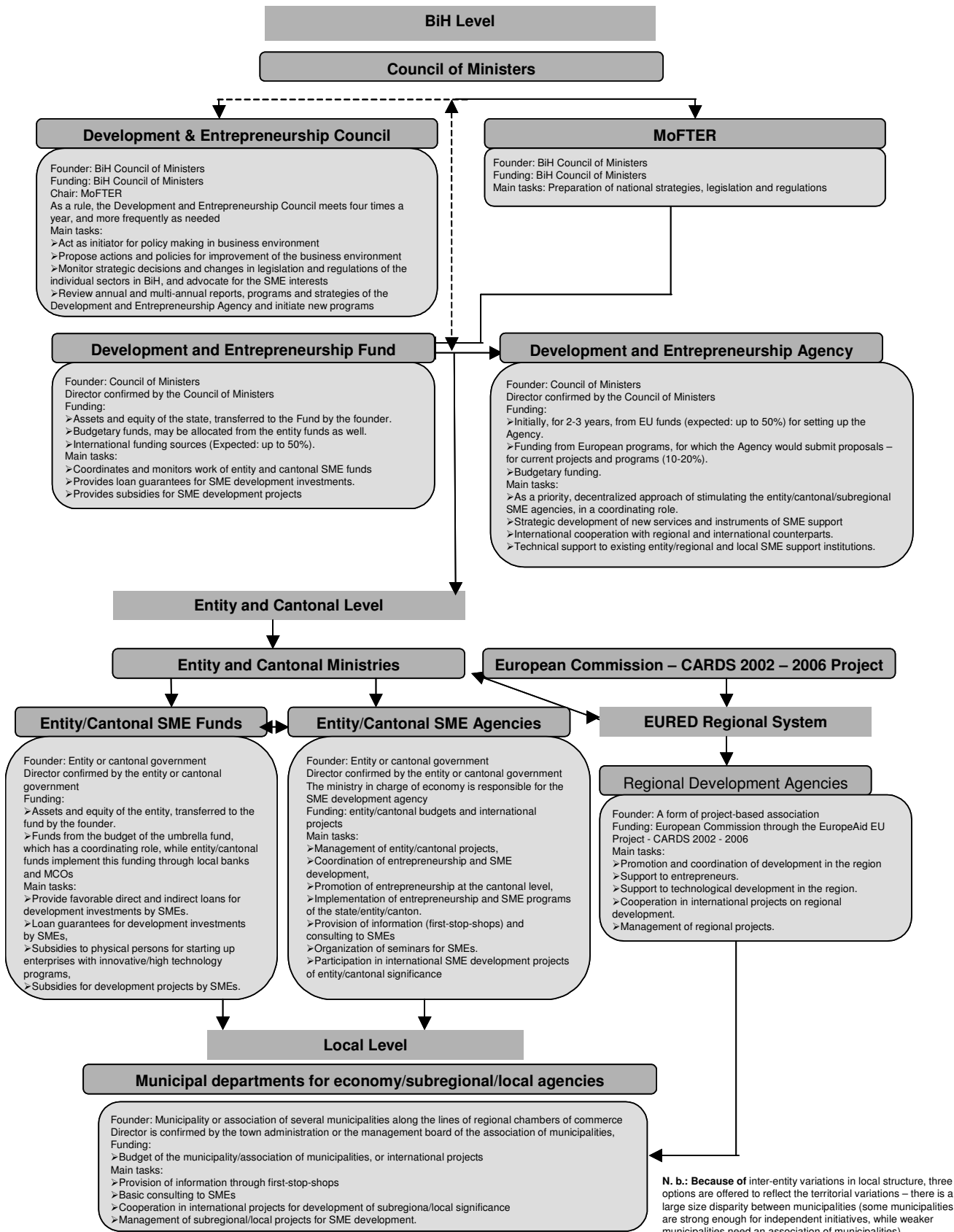
Establishment of the **Development and Entrepreneurship Fund** shall also be required in order to secure financial support for prospective inter-entity SME projects, projects of national significance and inter-regional and international SME projects.

The summary of the above description of individual institutions, directly linked to development and entrepreneurship, and their tasks, is shown in the following graph:

²⁰ Global Entrepreneurship Monitor – GEM: <http://www.gemconsortium.org>

²¹ EC – DG Enterprise, The Observatory of European SMEs:
http://europa.eu.int/comm/enterprise/enterprise_policy/analysis/observatory.htm

Figure 6-2: Vertical structure of SME support public institutions and their main tasks



There are three important additional aspects to institution building:

The service market should not be distorted by overprotected and comprehensive services from the public sector. The public sector services are introduced as initial support offered to SMEs. Professional services of a higher level should remain in the domain of private providers. To some degree, the concession approach could be used for some services (e.g., concessions for provision of services of one-stop-shop offices can be given to small private providers, or with one-stop-shops where one of the main tasks is to provide information and disseminate certain types of information);

Public-private partnership is frequently introduced in case of major projects co-funded by the EU (frequently because this is required– when it involves structural funding – but often also when it is not a requirement, due to lack of human and financial resources on the part of SMEs, which can not provide own funding to ensure their financial participation or lack appropriate human resources and expertise to administer international projects; in this case, project management is often taken over by a public sector service provider, and professional tasks are performed by SMEs);

Depending on the (national, entity, regional or local) level in question, there are some differences in types of services offered by the public sector for SMEs. Institutions at the **national level** are in charge of developing national and international policies and strategies, developing of relevant instruments, initiatives and tools for SME development or for strengthening of public SME service providers (Business Development Network). The institutions at the national level usually do not offer services directly to SMEs (except in the case of the EICC²², due to type of its job and because it is founded only at the national level, as only one in the country, in the case of the Development and Entrepreneurship Fund, as only one of this type in the country, or in some similar cases).

SME development or similar agencies at the **entity or regional** level could have a similar role for development of policies and strategies at the entity or regional levels expanded to include direct services for SMEs. Services at this level are usually more specialized than those at the local levels. This level also normally provides initial services connected with research and technological development, internationalization, establishment of partnerships and networking, and other complex issues. Both at the entity and regional levels, organizing training programs is recommended. Information function must be introduced **at the local level**. This means that the first-stop-shops must be established at the local level. These offices also offer initial consulting services connected to the fundamental problems of entrepreneurship, for instance, issues of company registration, administrative procedures, and availability of SME support instruments.

We must stress the importance of sound organisation, management and information support to any finally adopted institutional framework for its long-term sustainability and its positive image, which also results in a continuous SME growth. A detailed operational programme and a project for implementation of these recommendations must be developed by MoFTER.

²² EICC – Euro Info Correspondence Center.

6.2 Implementation plan with expected results and timelines

Activity	Institutions and bodies for implementation	Time Frame (B-beginning, E-end)	Indicator
Harmonization of the institutional framework for business support			
Establishment of the Development and Entrepreneurship Council	MOFTER, other relevant ministries, external experts	B: 2005 – ongoing	Development and Entrepreneurship Council established
Preparation of a detailed project with business plan for establishment of a new harmonized infrastructure for business support, 'Development and Entrepreneurship Business Network' to support SMEs	MOFTER, Development and Entrepreneurship Council, external experts	B, E: 2006	The project and business plan prepared
Establishment of the Development and Entrepreneurship Agency	MOFTER, Development and Entrepreneurship Council, external experts	B: 2007 - permanent	Development and Entrepreneurship Agency established, the staff trained at all levels, specific activities introduced
Establishment of Development and Entrepreneurship Fund	MOFTER, Development and Entrepreneurship Council, Development and Entrepreneurship Agency, external experts	B: 2007 - permanent	Development and Entrepreneurship Fund established, the staff trained at all levels, specific activities initiated.
Implementation of the Agency programs	Development and Entrepreneurship Agency, Business Development Network with all stakeholders for support of SMEs	B: 2007 - permanent	First Agency programs in implementation
Implementation of the Fund programs	Development and Entrepreneurship Fund, Development and Entrepreneurship Agency	B: 2007 - permanent	First Fund programs in implementation.

Support activities and development tools for improvement of quality and transparency of the Business Development Network and business support services for member SMEs			
Development of the basic information system – entrepreneurship portal (Intranet Internet solution)	MOFTER, Development and Entrepreneurship Council, external experts	B: 2006 E: 2007	Stage one of development of the information system completed
Organization of training and best practices exchanges for improvement of skills of the Business Development Network staff	Development and Entrepreneurship Agency, Business Development Network with all stakeholders in SME support, external experts as needed	B: 2007 - permanent	Training organized on the basis of needs of the SME support stakeholders, annual conference of all stakeholders in the Business Development Network held
Regular analytical activities	Development and Entrepreneurship Agency, other relevant ministries at all levels, SME support agencies at all levels, external experts as needed	B: 2007 – Permanent	Analyses prepared regularly

7 Education, Training and Consulting

Education and training contribute enormously to the development of the knowledge-based economy and consequently to economic development in general. From the SME point of view, education and training for entrepreneurship and availability of skills are vital development factors. The section proposes an introduction of new education and training models and programmes, and emphasizes the importance of involvement of all target groups in the educational and training process as well as universal availability of these services.

The main goals in the area of education for the period from 2005 – 2007

Main goals:	Indicators:
- Introduction of entrepreneurial subjects/programs in elementary and secondary schools, as well as at non-economic faculties at the university level	- Number of formal educational institutions that have introduced entrepreneurship into their curriculum. - Number of participants and students participating in those programs - Increase in the number of new companies established by young people.
- Promotion of expansion of the number of private service providers for training, entrepreneurship and training for managers	- Number of institutions for education and training in the private sector - Number of SMEs that are users
- Promotion and training on entrepreneurship	- Number of training programs and number of participants - Increased number of newly established companies

7.1 Summary of the current situation in BiH and proposed developments

All formal education in BiH is undergoing reform. It applies to elementary, secondary, higher and university education. The reform of elementary and secondary education is taking place under the auspices of OSCE, and higher and university education has accepted the principles of the reform defined by the Bologna Convention. The Law on Higher Education in under procedure and promotion of entrepreneurship and education of young entrepreneurs in secondary schools is also envisaged in the reforms. Development of entrepreneurial and management study subjects within the universities in BiH is underway, mainly within the framework of EU TEMPUS programme. In the future, the development of a programme of post-graduate study is planned, as well as many types of shorter seminars for those who are not able or interested to study within formal regular programmes.

On the level of **secondary education**, the reform foresees to introduce practical work, in addition to theory, in secondary schools as well as more subjects needed for the production process and services.

Youth entrepreneurship also enjoys considerable significance. At the **university level**, curricula are being developed for entrepreneurship and management of small enterprises under the auspices of the TEMPUS Program. A program of post-graduate study would be developed at some point in the future.

Common to all training programmes in place is that SMEs use them mainly if the training costs are subsidized by the donors. The awareness about the importance of continuous learning is still not widespread among SME managers. Similarly, many SMEs are unaware of the benefits of consulting services, despite many donor projects. Several programmes have been developed in order to train local consultants, but their quality has not always been in line with SME requirements. OECD research with SME focus groups indicated that SMEs find service delivery poor, with academic emphasis instead of practical skills and know-how desired.

The EU Member States are increasingly turning their attention to the **promotion of entrepreneurship in education and training**, seeking to develop and support the interest of their citizens for entrepreneurship, many of whom profess willingness to learn how to start or take over a business.²³ **Particular attention is devoted to groups that are under-represented** within entrepreneurial activity such as women, young people, disabled, single parents, unemployed, and third age citizens.

As evident from the above brief review of the entrepreneurial training and education strategies, the **target groups** comprise individuals at all stages in their life (from school education right through to third age). Strategies of individual EU members target individuals that have the capacity to become entrepreneurial, as well as existing entrepreneurs who are in a position to expand and grow their businesses.

In addition to introduction of entrepreneurship at least into secondary schools and on the university level in BiH, it will be important to improve entrepreneurial and managerial skills of students at technical faculties. Therefore a certain level of flexibility of combining different programs from different faculties has to be established in a way that students can combine subjects from technical faculties with several most important entrepreneurial and managerial subjects from the economics faculties.

In the context of ongoing reform of the formal education system, which includes the entrepreneurship and managers skills development, **improved transparency** of existing educational and training programmes for SMEs or entrepreneurially-minded individuals would be necessary for both educational and training institutions and organisations as well as for SMEs. A special database on available SME training and educational programmes and materials in BiH (either of formal ones or shorter seminars for all target groups organised at any level in BiH) should be developed and its contents publicly presented via the planned “BiH entrepreneurship portal”²⁴ for publishing of information, with its development resting with MoFTER.

Awareness campaigns to stimulate development of entrepreneurial spirit in the country and among all target groups are another instrument extensively used in the EU countries on a permanent basis. Such

²³ Commission of the European Communities. 2003. Communication from the Commission to the Council and the European Parliament: Thinking Small in an Enlarging Europe. COM(2003) 26 final. Brussels: Commission of the European Communities.

²⁴ See the Chapter 6 for more details.

awareness campaigns often include events such as entrepreneurship days, awards for successful entrepreneurs and various guidelines, training and informational materials on entrepreneurial opportunities. The role of governments at all levels is to ensure the full involvement of all relevant stakeholders.

At the university level in particular, **direct interaction between businesses and formal theoretical programmes has to be ensured**, and students must be given opportunities to acquire entrepreneurial work experience, either in successful BiH companies or with the help of simulated/fictional business start-ups.

In addition to the regular formal entrepreneurial education at the primary, secondary or university level, **the development of new training products**, either with the assistance of public business support providers or private sector, must be based on real needs of start-ups or of growing companies.

In European countries, different instruments of initial and specialised training and consultancy are introduced. The most popular are linked to the **vouchers scheme approach**, for example:

- The system of **training/educational vouchers**, designed to promote job creation through training people to become self-employed or to set up small business or to use the vouchers to cover the costs of a course of education or training intended for SME employees, in both cases at a recognised institution. Every voucher has a certain market value), with one half paid by the enterprise and half from the government budget allocated for this instrument (in some cases – for self-employed the enterprise contribution can be even lower). An enterprise can purchase a limited number of vouchers every year. Vouchers can be used for any training programme(s) available and offered by public or private providers recognised by a responsible authority, but selected by SMEs themselves.
- **The consultancy voucher system approach** is complementary to the one described above. Vouchers may be used by start-ups and/or young companies (in some cases the limit is up to 3 year-old companies) for co-financing (up to 50%) of consultancy and mentoring services. The procedures for official recognition of external consultants have to be open, simple and transparent. Consultants are certified by the responsible authority.

For both above-mentioned voucher systems a SWOT analysis of the benefits of their potential introduction in BiH should be conducted.

7.2 Implementation plan with expected results and timelines for 2005 to 2007

Activity	Implementing Body	Timeframes B: beginning, C: completion	Indicator
Promotional campaigns, including events such as entrepreneurs' days and awards for enterprises	Development and Entrepreneurship Agency, regional, entity and local SME support agencies	B: 2007 - ongoing	Indirectly: increased number of start-ups
Development of a database of available training and educational programs for SMEs which will be integrated with the "entrepreneurship information system and portal"	Development and Entrepreneurship Agency, responsible ministries at all levels, business network for development and entrepreneurship, external experts	B, C: 2007	Database developed and available online on the Internet
Preparation of training voucher system project	MoFTER until establishment of the Development and Entrepreneurship Agency, responsible ministries on all levels, external experts	B: 2006 C: 2007	Project prepared
Preparation of consultancy voucher system project	MoFTER until establishment of the Development and Entrepreneurship Agency, responsible ministries on all levels, external experts	B: 2006 C: 2007	Project prepared
Implementation of training voucher system	Development and Entrepreneurship Agency, responsible ministries on all levels, external experts	B: 2007- ongoing	System introduced
Implementation of consultancy voucher system	Development and Entrepreneurship Agency, responsible ministries on all levels, external experts	B: 2007 - ongoing	System introduced

Comments:

Activities related to the formal education are not mentioned in the implementation plan as they are part of other strategies and under direct responsibility of other authorities. The cooperation in creation of specific entrepreneurship curricula within the formal educational system has to be ensured via appropriate coordination bodies, and one of the tasks of the Development and Entrepreneurship Agency and the Council will be to participate in their development.

8 Taxation Measures and Financial Instruments

This chapter evaluates existing funding schemes for entrepreneurship and taxation measures. It describes different financial instruments (loans/finance schemes for new and small business, business angels, taxation measures, mutual guarantee schemes etc.) which are in broad use in other countries.

For the period the strategy covers, the main goals might be:

Main goals are:	Indicators:
- to facilitate access to credit funds	- amount of credit funds and number of SME users
- to promote development of specific financial instruments	- amount of concrete financial support to SMEs and number of SME users
- to stimulate development of capital market for SMEs with a prospect of rapid growth	- number of SMEs and /or projects that are (co)-financed with risk or other capital and their values
- promotion and training of SMEs in the area of options for funding their growth and projects	- number of training programs and number of participants

It is expected that the ongoing privatisation process in B&H will increase the inflow of foreign capital, who will invest into promising, innovative projects in BiH in the future. SMEs in BiH have to understand (in addition to typical credit financing, taxation and subsidy systems) also the operational principles of the capital markets.

8.1 Summary of the current situation in BiH and proposed development

8.1.1 Taxation

The taxation systems in BiH are incoherent, unsynchronised and very difficult to enforce. The system imposes a number of taxes multiple times on the same base and is poorly enforced. It prevents SMEs to legally operate and encourages businesses to operate in the grey economy. There is also a strong tendency for SMEs to avoid increasing the scope of their business activities in order to avoid being in focus of the tax authorities. . The tax policy reform is in process. consequently, the BiH Council of Ministers passed the Excise Tax Law on the BiH level in late 2004. **Value Added Tax Law** with a single rate of 17% was also adopted in late 2004 and it will come into force on January 1, 2006. The state-level Indirect Taxation Administration will in future be in charge of collecting VAT, all excises and payments related to international trade. Other tax obligations, which are currently entity-determined and consequently have different tax rates (e.g. tax on income of legal persons, wage tax), also pose problems. If a company is based in the Brčko District and it has branches in the entities, the income tax for the branch is paid in the entity where the business unit is registered, and for the portion of income realized in the Brčko District, the tax is paid in the District. The same applies to the situation

when the company is headquartered in one of the entities, and a branch is located in the Brčko District.

The creation of a clear and efficient tax system is a priority in BiH. Furthermore, in line with the IMF indications²⁵, BiH decision makers should consider the possibility to restructure its depreciation system, to create a more attractive tax environment for SMEs. Finally, the implementation of different tax incentives for the support of local SMEs, especially of those investing in complicated sectors, may be taken into consideration.

Directly, MoFTER is not in charge of changes of legal framework for taxation measures. But an active cooperation on preparation or change of tax laws (Law on Profit Tax, Law on Turnover Tax and Excises etc.) would be required to secure more favorable conditions for development of SMEs.

8.1.2 Financial instruments

The majority of business representatives stress access to finance as their primary concern. Most feel that loans for working capital and new investment are hard to get. They also tend to rely on family and individual capital for investment rather than expecting affordable financing from banks, Micro-Credit Organizations (MCOs), leasing companies and other institutions that provide loans. On the other hand, banks and MCOs note that they made many loans to SMEs and there is still sufficient capital available for lending to SMEs, but the banks are still unwilling to offer long-term loans. Most bank loans to SMEs are short-term, though SMEs keep demanding long-term loans. Evidently, SMEs suffer because of this gap between their capital needs and the willingness of banks to face accompanying risks. Banks require from SMEs too high guarantees for such small loans and their procedures for loan approval are slow and complicated. Most banks approve loans based more on guarantors and high collateral requirements, rather than on analysis of the borrower's business plans, cash flow projections, and other commercial indicators of the borrower's ability to pay. Banks and other investors prefer real estate and dead capital to business processes and market perspective of a borrower. The shortage of loan analytical skills in both banks and SMEs is of great concern. Even with adequate analysis, BiH banks demand high collateralization. Loans to collateral ratios are often in the 30 - 50% range. As a result, SME assets fail to secure additional financing as in other CEE countries.

Over the last eight years numerous entrepreneurs started their businesses with the loans from the micro credit organizations. With the help of the World Bank and 27 other donor organizations, MCOs developed a formula that meets some of the financing needs of new and existing SMEs. However, SMEs are not always satisfied with micro credits. There are warnings that the interest rates in MCOs are very high and that is why their funds are slowly implemented. Interest rates at commercial banks are in many cases more favorable.

Credit guarantees are a new concept in BiH. Although the foreign banks that have invested in BiH banking are familiar with this product, these banks have not yet had significant influence on local banking practices and culture. Local banks are still not familiar with many of credit guarantee options available to them and their customers, nor with ways to use guarantees for development of additional products. On the other hand, SMEs do not know how to obtain such guarantees from banks or government, or even that such products exist. As a result, they are still restricted to capital accessed

²⁵*Tax policy in developing countries, 2001 - IMF*

through personal (family and friends) connections.

One of the most significant issues for SMEs is to find a simple access to finance, in order to sustain their growth and obtain sufficient resources for the implementation of their strategic plans. Problems faced by SMEs in obtaining finance result primarily from the reluctance of many financial institutions to service small business clients on grounds of costs or risks, or because of their limited business capacity. Thus, availability of financing is not a major constraint: critical problems arise from the relative immaturity of the banking and financial sectors, as well as from the perception that SME financing is both risky and too costly. In this situation, different instruments for the support of local SMEs should be deployed or strengthened, so as to assist them until a well-functioning banking system is established. Hence, several alternatives can be explored in order to broaden SME opportunities to obtain financing.

Various modes of financing SMEs are in use around the world, and the choice depends greatly on the development stage of the enterprise²⁶. Thus, in the start-up phase in the life cycle of an SME, financial assistance should focus on equity as well as on the support of the initial business activities. Four main instruments have been identified for this purpose: so-called business angels; seed capital and equity capital; micro-credit and e-finance.

The phase of development and growth represents the second stage in the development of an SME. Its revenues start to grow and the company becomes profitable. Therefore, SMEs in this phase need a different kind of support: generally speaking debt financing may become more important than equity, since the company is already structured. Seven instruments can be identified for application in this stage: venture capital; debt markets and ABS; loans and grants; factoring; guarantees and, leasing.

When improving financial support, the authorities should offer different forms of financing, and to set up such legal framework to attract also private seed and equity capital, as well as both domestic and foreign venture and risk capital. An SME definition is a necessary precondition to clearly delineate SME target group in the entire country. In addition, the EU has clear regulations on modes of financial support to SMEs²⁷. Such rules should also be incorporated in the BiH regulations as well. Training programs on different types of business activities or on project financing are also indispensable to ensure that different financing forms are properly and most beneficially exploited for SMEs.

8.2 Implementation plan with expected results and timelines

Activity	Implementing body	Timeframe B – beginning E – ending	Indicator
Promotional and awareness	MoFTER, i.e. Development and	B. 2006 -	

²⁶ A more detailed overview of financial instruments described here for different stages of development of SMEs is given in the long version of the BiH SME Development Strategy.

²⁷ EC Treaty on State Aid to Small and Medium-sized Enterprises; Source: <http://europa.eu.int/scadplus/leg/en/lvb/l26064.htm>

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campaigns	Entrepreneurship Agency from 2007, responsible entity and district ministries and SME support agencies, external experts as needed	ongoing	
Training programmes on different types of business or projects financing	Development and Entrepreneurship Agency from 2007, responsible entity and district ministries and SME support agencies, external experts as needed	B: 2007 - ongoing	

9 Strengthening Technological and Innovation Capacity of SMEs

In all developed countries, there is agreement that technological and innovation capacity is the most important development and competitiveness factor of today's world. This chapter describes the most important instruments to assist SMEs in their innovation processes and in their use of most recent technology available in their daily working processes. Improvements to the current system and introduction of new instruments are proposed.

For the period of the strategy applies, the main goals are:

Main goals:	Indicators:
- Improvements of access for SMEs to appropriate infrastructure, knowledge and research results	- Number of incubators, technological parks, university centers for applied research, which are opened for partnership with the private sector and number of users which are SMEs - Increased number of patents
- Promotion and training in the area of research and technological development and innovations	- Number of training programs and number of their participants - Increased number of patents

9.1 Summary of the current situation in BiH and proposed developments

The situation in BiH we can summarize as follows:

- Before the war in Bosnia and Herzegovina there was a strong link and network of cooperation between science and research centres within the universities (Sarajevo/Zenica, Tuzla, Mostar) and large enterprises. This cooperation is nowadays very weak, and between SMEs and science and research centres almost non-existent.
- The legislation and regulations in this field have not yet been defined and there is at best only sporadic funding available in this field.
- The “cluster concept” is relatively new in BiH and represents a new development model. The international donors are assisting in identification of clusters possibilities in BiH. USAID has recently started the activities to establish a wood industry cluster in Central Bosnia and an tourism cluster in Herzegovina, while GTZ leads the activities on development of three clusters: auto, textile and leather industries. In BiH, there are no programs to promote technologies in small enterprises, except presentations at fairs. The main barrier for transferring technologies to SMEs, apart from non-existence of such programs, is also a lack of information on new technologies. There are no development projects for SMEs involving new technologies.

The legal frameworks are usually defined by the Law on Intellectual Property and related laws, which are not directly within the remit of the MoFTER, although they have considerable effects on competitiveness of SMEs.

In Europe, in recent years, special attention has been devoted to development of an environment

supportive to innovation. Many programmes and projects have been initiated either by the European Commission or on the level of individual member states.

The situation in BiH is such that due to different governments, different initiatives have been launched, even at the level of the local governments. This results in a complex, poorly organised situation where SMEs do not know where to start and who exactly to contact for what service. SMEs also often complain of the voluminous amount of paperwork and the time-consuming project approval processes. It is extremely important that the government implements one central policy and organization for the support, coordination and stimulation of research and development in BiH. The **innovation policy** and relevant **legal framework** would be needed on a national level, and an agency for innovation and/or technological development can be organized either on the national or entity level. Also from the European best practices, it is evident that **an agency** for innovation and/or technological development is a good choice for co-ordination of innovation and R&D activities. An agency for innovation and/or technological development can also integrate **a special fund** (or it can be established as an independent institution) which offers companies (including SMEs) financial support for innovative R&D projects. In some countries this role is taken over by the national development funds which support other types of projects as well.

Establishment of incubators and technological parks is necessary as well as establishment of clusters; in BiH this process is already underway. What is missing is an innovation policy or strategy, which would define the roles of all existing stakeholders, identify possible new ones to be established, and set up the mechanisms for coordination among them. This strategy should also define the conditions for establishment of incubators, technological parks and other support institutions with their roles. At the same time, the ways for SMEs to access these forms of support should be clarified. An innovation strategy would be a good base for establishment of an **innovation network** (members can be existing local business centres or regional agencies with the extension services geared to promotion of innovation and research programmes, supported by EC or by BiH governments). Universities and research centres, technological parks and technology-oriented incubators, inventors and other stakeholders should also be members of an innovation network.

Such organisation would result in enhanced transparency, better targeted spending of foreign assistance and improved efficiency of funded programmes and projects, all of which should give raise to a bigger interest of SMEs for technology transfer opportunities and for increased orientation on innovation.

Although eligible, BiH SMEs do not participate in the **EU 6th Framework Programme** (INCO²⁸), a principal European research programme which funds numerous research projects from all over Europe every year. It would be necessary to improve the **dissemination of information and assistance** linked to such programmes among SMEs through the EICC and other business support providers. There are other research European programmes and initiatives in which BiH SMEs can participate but the BiH Government needs to initiate appropriate procedures at EU level:

- COST Research Programme (all countries in Europe, including neighbouring countries, are taking part in this programme, except Albania and BiH);
- EUREKA Initiative²⁹ – a pan-European Network for market-oriented industrial R&D innovation (all

²⁸ <http://www.cordis.lu/fp6/inco.htm>

²⁹ www.eureka.be

countries in Europe as well as BiH neighbouring countries are taking part in this programme, except Macedonia and BiH).

The **Innovation Relay Centres Network** is also co-funded within the 6th Framework Programme. And the BiH Government must check the possibility of membership and start the application procedure for membership in this well-organised network. Another broadly recognised European network recommended is the **EBN - the European BIC Network** of public or private organizations – for support, to innovative SMEs and entrepreneurs with long tradition. EBN gathers 160 Business and Innovation centres (BICs) and similar organisations such as incubators, innovation centres and entrepreneurship centres. EBN is the reference point on innovation, incubation and entrepreneurship in Europe. For both mentioned networks it would first be necessary to solve the legal issues on innovation policy and organize an appropriate SME innovation support infrastructure.

From many BiH reports it is evident that SMEs have little interest in R&D and innovation issues. For this reason, more efforts should be given to introduction of **training programmes** as early as secondary schools, and certainly at university levels, as well as training programmes for current managers, which should be in the form of shorter seminars. The **awareness campaigns** are also a very efficient tool to reach a broad audience.

9.2 Implementation plan with expected results and timelines

Activity	Implementing body	Timeframes B: Beginning C: Completion	Indicator
Organisation of training programmes for industrial and ICT of SMEs	Development and Entrepreneurship Agency, business network for development and entrepreneurship with all SME support stakeholders, particularly technological parks, industrial incubators, research centers, external experts as needed	B: 2007 - continuous	<ul style="list-style-type: none"> - seminars on systematic innovation and creativity - importance of patents and IPR in general - contractual issues (transfer of technology, etc.)
Awareness campaigns on innovation	Development and Entrepreneurship Agency, business network for development and entrepreneurship with all SME support stakeholders, particularly technological parks, industrial incubators, research centers, external experts as needed	B: 2007 - continuous	50 % of industrial and ICT SMEs aware of innovation and its protection

10 ICT – Information and Communication Technologies

ICT has an immense impact on all aspects of living in a modern society, and the use of ICT and the building of an Information Society can be a powerful tool for achieving sustainable development. It is thus perfectly natural and predictable for an SME development strategy to apply this powerful tool to improve the situation of SMEs. However, ICT, as a prime example of high technology, not equally available to all. Making effective use of ICT requires high levels of education, experience, knowledge, as well as excellence in management and governance. Insufficient development of some, or all of these aspects in less developed countries or regions, as well as in smaller enterprises, tends to obstruct the achievement of the desired goals.

For the period of the strategy, the main goals are:

Main goals	Indicators
- To provide SMEs with cheap access to Internet and licensed software, and/or promotion and access to software that exists in the public domain	- Increase of the Internet usage - Increase of usage of legal software in the SME sector
- Promotion and training in the sphere of ICT	- Number of training programs and number of participants

10.1 Summary of the current situation in BiH and proposed development

As reported in the UNDP Readiness Assessment Report³⁰, the **SME situation** in BiH, regarding ICT, seems to be that computers are in use, there is connectivity, as well as Internet access. However, applications in use tend to be restricted to Microsoft Office and there is little use of other software common in the modern enterprise, such as ERP and CRM. The Internet access generally boils down to e-mail and there is next to no use of web pages, and much less of web technology to drive e-business. There is a shortage of trained users, experts to introduce and support ICT-based solutions, as well as funds for their procurement. There is also a lack of management vision regarding the potentials of ICT. Strategically, it is important to ensure continuous development of successful examples and so that they become models for other enterprises, as well as to provide mechanisms to support development of the average company.

The facts mentioned in the introduction have been recognized by Bosnia and Herzegovina and a comprehensive »BiH ICT Strategy« is under preparation with the UNDP assistance. There is no need to attempt to duplicate this work and, indeed, its findings and recommendations need to be universally supported to enable the country to move forward in this crucial segment of development. The measures proposed by the »BiH ICT Strategy« would benefit society as a whole and certainly SMEs in particular.

³⁰ UNDP ICT Forum 2003, Readiness Assessment Report: Preliminary Study. Sarajevo: UNDP

They are comprehensive enough to influence all walks of life and all segments of society.

The legal framework is typically centered on the Communications Law and the Telecommunications Law (already passed at BiH level), as well as the Law on Electronic Business and Electronic Signature, Law on Data Protection, Law on Customer Protection and other related laws. These are not directly under the remit of the Ministry of Foreign Trade and Economic Relations, but have extensive effects on use of ICT and its subsystems by SMEs, e.g. on use of solutions for e-business.

10.2 Proposed developments in BiH in the SME context

Telecommunications and the Internet: In the context of SMEs in BiH, the level we are looking for is the introduction of broadband services. The main reason for this is mainly a service whose pricing is not dependent of the amount of communication. As it will be difficult to provide such a service everywhere, priority should be given to locations where there is a concentration of productive resources, such as in business centres, technology parks, incubation centres and clusters.

Application Software Provider (ASP) model: Internet availability, as described above, would make it possible to use the ASP model to solve the problem of SME access to high quality enterprise software. In the ASP model, the application is provided centrally at one point and can be accessed by many companies over the Internet. There is no necessity to purchase servers, licenses or train IT staff. This model is particularly suited to the SME, as they are usually unable to attract the best IT people and thus have difficulties in selecting, purchasing and supporting enterprise software.

Software costs: Software licensing costs are a major problem for a country such as BiH and especially for SMEs. The most successful companies will be able to take full advantage of commercial software and the benefits derived from them. Many others will not. There are two other alternatives, and both need to be employed:

1. Extensive application of public domain software.
2. Commercial software vendors need to be encouraged to adjust their pricing to take into account local economic realities. There is a global trend that manufacturers of both software and hardware provide low cost alternatives for specific markets.

A good approach would be for the government to set aside a percentage of the licensing costs it pays for commercial software into a fund for supporting local open-source initiatives. In addition, when large agreements are signed with software vendors, they should include provisions advantageous to other users of the same software in the country. These can range from discounts to the requirement of providing translation, training or special benefits that are usually restricted to certain markets such as technology guarantees.

Other ICT equipment: Just like software, other ICT equipment needs to be recognized as enabling technology, and the government needs to find ways to encourage its use through tax incentives, financing and other means at its disposal.

Knowledge: The most important deciding factor for the introduction of ICT into SMEs is the support

of the CEO or owner, and the availability of external technical support. Policy makers usually assume that knowledge will be generated by universities and that what is needed is efficient transmission of such knowledge to enterprises and financial support for the universities. Experience has shown that knowledge cultivated by universities is of a more fundamental nature, with longer-term value than the ICT knowledge required by the SME. Typically, the SME requires practical information on how to develop an ICT strategy and implement required ICT solutions. This is usually provided by the commercial private sector rather than universities.

e-Government: As the government begins to implement e-Government, many ICT technologies will be investigated and applied. The government will seek to reduce costs and create economies of scale by concentrating efforts within the public administration and through introduction of common technology. Much of this can and should be made available to SMEs. Examples include providing web-hosting, low-cost web page preparation, easily configurable e-commerce software.

10.3 Implementation plan with expected results and timelines

Activity	Implementing body	Timelines B: beginning C: Completion	Indicator
Promotion and awareness campaign (eBusiness, public domain software)	Agency for Development and Entrepreneurship, responsible ministries and SME support agencies at all levels, external experts as needed	B: 2007-ongoing	50% of SMEs in B&H informed on ICT and eBusiness opportunities
Organization of various types of seminars across the country	Agency for Development and Entrepreneurship, responsible ministries and SME support agencies at all levels, external experts as needed	B: 2007- ongoing	Every year at least 500 SMEs trained
Establishment of Internet sites for SMEs offering professional assistance to users (possibly within existing business infrastructure support, including incubators, technological parks etc.)	Agency for Development and Entrepreneurship, responsible ministries and SME support agencies at all levels, with foreign assistance	B: 2007-ongoing	Minimum of 20 Internet sites established across the country and support staff trained
Providing co-financing for purchasing of equipment and software license for innovative start-ups; a part of this activity is providing co-financing for small innovative SW development companies and groups for customization, localization and distribution of “public domain software” for SME needs which might represent a minimum of 10% of all approved project proposals.	Fund for Development and Entrepreneurship	B: 2007-ongoing	Financial assistance distributed among SMEs through public tenders every year

11 Europeanisation – importance of the Single Market

This chapter describes the most important benefits and possible obstacles of the EU Single Market and proposes the instruments to help SMEs in B&H to benefit from the Single Market. SMEs in B&H must be made aware of important elements of the Single Market, among others: EU Norms and Standards, Public Procurement, Single Currency, liberalization of competition in the telecommunications market which accelerated the e-business and e-commerce, etc. Especially the issues of Certification, (closely linked with Technical Harmonisation of B&H legislation), as well as Standardisation and Quality, are of utmost importance to both B&H production companies and to B&H consumers.

For the period of the strategy applies, the main goals are:

Main goals:	Indicators:
- Initiate activities in the area of technical harmonization with EU	- Prepared action plan and harmonized initial priority laws (this is not in the direct domain of the SME policy)
- Promotion and training in the area of a single market	- Number of training programs and number of participants - Increased exports to the EU

11.1 Summary of the current situation in BiH and proposed developments

The legislation is gradually being harmonized with the EU *acquis* in the fields connected with the EU Single Market. In this context, a number of new acts has been adopted, among others: the Laws on Establishment of the BiH Institutes for Standardization, Metrology and Intellectual Property, the Public Procurement Law, the Competition Law etc. Despite the above facts, SMEs still encounter huge barriers to entry to the European market for two major reasons:

- the regulations related to the EU norms and standards, e.g. the technical legislation, standards on food safety, such as the HACCP, consumer protection etc. are still not aligned with the EU *acquis*;
- the institutional framework in the fields of technical legislation and regulations, standards and quality has not yet been fully developed.

It should be noted that these problems do not affect only SMEs, but also the BiH industry as a whole. The only difference concerns the business support services, which are needed much more by SMEs than by large companies.

Free movement of goods is based on prevention of new barriers to trade, mutual recognition and technical harmonization of industrial products. For manufacturers and especially for SMEs, this means that they must be properly trained and informed on how to comply with the requirements for products to be put on the market. It is important that the exporters to EU are aware of the EU market requirements. The technical requirements and rules benefit the final consumers the most. The technical

and safety requirements of products increase the producers' liability and improve consumers' confidence into products' safety and quality. The European legislation in the field of technical harmonisation of industrial consists of a number of directives for groups of products, which set a minimal level of safety, public health, consumer and environmental protection (also known as the 'Fundamental or Essential Requirements'). The manufacturer has to ensure that the products that he places on the market fulfil these requirements.

Several framework laws are necessary to enable the quality infrastructure to function properly. The laws on standardization, accreditation and on establishment of an accreditation institute at BiH level are already in place. In addition to these laws, there is also the state-level Customer Protection Law, which provides customers with an additional protection instrument.

Special attention is usually paid to the certification bodies which work in the area of the New Approach directives. Many new Member States have used a law on technical requirements for products and conformity assessment as the basic law for transposition of most New Approach directives and by-laws. A strategic decision has to be made in BiH of how to proceed in this area.

Another set of basic legislation has to be in place in order to permit functioning of the internal market:

- General Product Safety Directive – 2001/95/EC
- Product Liability Directive – 85/374/EEC

Small and medium-sized companies encounter particular difficulties in achieving of the EU technical requirements, mainly because of the lack of human resources and lack of finance in case of expensive products' testing is needed. Thus a partial external financial and advisory assistance adapted to respective specific sector and SME capabilities would be of great importance.

Based on the 2004 Questionnaire related to the European Charter for Small Enterprises that has been provided by B&H and on the experience from other countries, we believe that SMEs development priorities in B&H in the area of Europeanisation should be as follows:

- **Putting in place an appropriate legal framework** in the field of safety of products and public procurement procedures
- **Institutional building** for Quality Infrastructure: Quality Infrastructure consists of institutions that serve economic operators in the areas of standardisation, accreditation, metrology and conformity assessment. Institutions and practice that is compatible with EU principles would assist BiH in their efforts to come to the EU markets and globally. This activity would enable SMEs in B&H to obtain certificates that are recognised in their home country as well as globally, especially in the European internal market.
- **Training:** a strategic move in the direction of Europeanisation would be to provide specialised training for SMEs to help them fulfil requirements of the Single Market. This training should be performed in the areas important for the BiH SMEs that export their products to EU, for instance:
 - o EU requirements for technical products (CE marking, New Approach directive and global Approach, harmonized European standards, single product certificates that are accepted at all 25 Member States, Electrical Products, Machinery, Electromagnetic Compatibility, pressure equipment);
 - o EU requirements for wood and wood products (EU legislation on wood, requirements for furniture and other products based on the General Product Safety Directive);
 - o EU requirements for textile products (EU directives, Eco labelling for textiles, textiles as personal protective equipment);

- EU requirements for food products (EU directives on food packaging, HACCP, Eco labelling for food);
 - Voluntary marking of products (how and where to get them, better acceptance at the market with voluntary markings);
 - Public Tender procedures;
 - EU information resources on the web, especially for SMEs (EurLex, Commission – area for SMEs in the DG Enterprise, Solvit as a tool to assist in solving questions related to proper functioning of the internal market)
- **Easy access to information and business services:** will be achieved by the development of on-line databases and portals, and through introduction of specialised business services. SMEs would need information on CE markings, certification requirements, New Approach directives, Directive on General Product Safety, textiles, food safety, wood and packaging.

11.2 Implementation plan with expected results and timelines

Activity	Implementing body	Timeframe B: beginning C: completion	Indicator
TECHNICAL HARMONISATION, STANDARDISATION AND QUALITY			
Training	<ul style="list-style-type: none"> - EICC (with the involvement of EU experts) - chambers of commerce - other relevant bodies 	B: 2007-ongoing	250 people trained every year
Implementation of EU requirements for technical products (CE marking), wood, textiles, food and packaging for SMEs	<ul style="list-style-type: none"> - Institutions or companies for the EU member states (to be selected based on public tender) 	B: 2007 - continuously	200 SMEs implement requirements annually

12 Internationalization of SMEs

All countries and companies are permanently faced with the emergence of globalization and rationalization, accompanied by ever more accelerated participation of companies in the international markets. In order to ensure the best possible conditions for successful entry of their companies into the foreign markets, countries are introducing numerous support mechanisms.

Companies are confronted with a long list of internal problems as well as problems from their business environment; small enterprises in particular are unable or not in position to deal with these problems without assistance of their government and governmental support programmes. To make their entry into a foreign market more or less successful, companies require more than only state help; business services, such as information services, telecommunication or advisory and educational services, are also important. Especially the latter seem to be of utmost importance, since enterprises lack know-how about foreign markets and knowledge related to each phase of the internationalization process.

For the period of the strategy, the main goals are:

Main goals:	Indicators:
- Cooperation among all stakeholders mentioned in the Chapters 5 – 13 (inter-sectoral) to improve competitiveness of B&H SMEs both in local and foreign markets	- Product of local SMEs can be competitive with foreign companies both in local and foreign markets (a share of domestic products, improvement of foreign trade balance)
- Promotion and training of SMEs in the sphere of internationalization	- Number of training programs and number of participants
- Increase of exports of B&H SMEs	- Improvement of foreign trade balance

The aim of this Chapter is to make a critical assessment of various forms of assistance, established programmes and services available for promotion of business internationalization of small and medium-sized enterprises, and to propose a model of institutional support, required instruments and services, needed for advanced integration of BiH SMEs in the international business operations. In the context of SME capacities to enter foreign markets, the importance of networking and partnering (between SMEs, as well as between SMEs and large companies) will be additionally highlighted.

12.1 Summary of the current situation in BiH

The effects of internationalization have begun to affect Bosnia and Herzegovina as well, especially through international organizations, which offer assistance in developing strategies, legislation, institutions and instruments in different areas. Numerous internationally supported training programmes for various target groups are in different stages of implementation. The application of information technology, networking and partnerships in particular are promoted, as well as international study visits, exchanges etc. All these activities contribute to a better insight into international trends in BiH and are helping improve the basic business environment, which is set up to become gradually more comparable with the business environments in other countries and more attractive for potential foreign investors.

The main **foreign trade** partners of B&H in 2004³¹ were Croatia, Serbia and Montenegro, Germany, Slovenia, Italy, Austria and Hungary, followed by Switzerland, the Netherlands, Turkey and the Czech Republic. BiH has a relatively high foreign trade deficit. The statistical data also show that, apart from the trade deficit, the structure of the foreign trade in Bosnia and Herzegovina is really unfavorable, since most exports consist of raw materials and semi-finished goods, while the country is importing finished and luxury goods.

BiH has one of the lowest rates of **foreign investment** in the region. However, recent efforts to improve the investment climate by increasing transparency and reducing administrative barriers led in 2002 to a doubling of foreign direct investment, and in 2004 direct foreign investment reached EUR 618 million³², much higher than in previous years.

On the governmental level, the strategic role in the process of internationalization belongs to the Ministry of Foreign Trade and Economic Relations, and to the Ministry of Foreign Affairs when bilateral agreements, European integration and foreign assistance are concerned.

Currently, the most **important institutions involved into the direct support to SMEs in the process of internationalization** are the Foreign Investment Promotion Agencies (FIPA), Investment Guarantee Agency (IGA), Foreign Trade Chamber and other chambers of commerce and the Euro Info Correspondence Center (EICC). All of them are connected with the European and/or international networks with tradition in offering services to companies that seek to internationalize their business. In the future the regional development agencies and eventually the newly established state-level Development and Entrepreneurship Agency will also have a role in the process of internationalization, especially in offering relevant instruments for internationalization of SMEs.

In spite of a relatively good legislative framework from the standpoint of internationalization, because of the lack of well-qualified support institutions, **SMEs are confronted with many internal and external obstacles**³³ when they attempt to enter foreign markets. Based on many studies made in the

³¹ Source: BiH Foreign Trade Chamber, 2005

³² Ministry of Foreign Trade and Economic Relations B&H: Information on direct foreign investments in B&H, May 1994-June 30, 2004.

³³ - The SME and the Global Market Place – An analysis of competitiveness constraints (ITC – International Trade

old and newly integrated EU members states, it is evident that the types of obstacles on the level of SMEs are similar. Internal obstacles are mostly linked to the lack of financial and information resources, technologically outdated production equipment and products, undeveloped or underdeveloped marketing strategy of SMEs for entering foreign markets, small output capacity, lack of knowledge and information on foreign markets, and knowledge barriers. Most evident among external barriers/difficulties are irregular or late payments and non-payments, high transport costs, shortage of advisory & consulting services, inadequate financial assistance instruments, legislation and procedures, customs and forwarding formalities and underdeveloped and insufficiently coordinated institutional infrastructure.

It is recognized that many of instruments and services have already been introduced in BiH. What is missing the most is the co-ordination of strategic and operational activities in relation with the internationalization, and their transparency. For this reason, establishment of a coordination body on the strategic level is recommended. At the same time, the central role in the field of export promotion on the national level should be either assigned to an existing institution, or a dedicated agency needs to be established. Possible candidates are FIPA or IGA (in its projected expanded capacity as Export Credit Agency). The same institution would also be in charge of ensuring transparency and developing an integrated information portal for exporters. Individual activities related to supporting SME internationalization may be allocated on the basis of concessions and to other institutions – particularly to the Foreign Trade Chamber.

12.2 Implementation plan with expected results and timelines

Activity	Implementing body	Timelines B: Beginning E: Ending	Indicators
Promotional and information campaigns (foreign markets, strategies for entry into foreign markets)	Development and Entrepreneurship Agency, other responsible ministries and SME support agencies on all levels, external experts as needed	B: 2007 – permanently	20% of SMEs in BiH informed about the possibilities offered by foreign markets
Organization of different seminars throughout the country	Development and Entrepreneurship Agency, other responsible ministries and SME support agencies on all levels, external experts as needed	B: 2007 – permanently	At least 300 SMEs trained every year

Centre UNCTAD/WTO, 1997);

- Haahti A., Hall G., Donckels R., *The Internationalization of SMEs – The Interstratos project* (Routledge, 1998)
- Rezec, Filipič. 2000. *Study on Slovenian Internationalisation of SMEs.* (SBDC, 2000)

13 Partnering and Networking

The present-day age is most decidedly and recognisably marked by development of entrepreneurial and other types of networks, and this trend is set to continue. It is increasingly apparent that ours is the era of global partnership, where enterprises resort to co-operation and partnering in order to distribute (and thus reduce) risks and costs, facilitate exchange of knowledge, skills and know-how, access to new markets and information, save time or even unite and combine their technological achievements.

Consequently, the business support infrastructure should offer those kinds of support and assistance that would provide companies with elements necessary for survival under these conditions. Partnering and networking takes numerous forms (public-private sector co-operation; small-large companies sub-contracting; local, regional, entity- and district level partnering and networking; national, inter-regional and international partnering and networking of SMEs as well as business support institutions etc.). Another important aspect is the co-operation/partnership between governmental and non-governmental institutions and organisations (especially between the government and business associations).

On the basis of this introduction into the importance of partnership and networking, the major goals in this field for the Strategy period are defined (see the table below):

Main goals:	Indicators
<ul style="list-style-type: none"> - Training of SME support providers - Promotion of partnering and networking and SME training on these topics 	<ul style="list-style-type: none"> - Number of training programs and number of participants (for details see subsection 'Implementation Plan') - Number of privately initiated partnerships and business networks

13.1 Summary of the current situation in BiH and proposed developments

The importance of networking and partnering is becoming increasingly recognized in BiH, but possible types of networks and partnerships, strategic approaches and implementation procedures to initiate appropriate networks are still insufficiently known, and skills needed to make them successful and sustainable in long-term are missing. The processes of networking and partnering in B&H have been noticed in the following spheres:

- chambers of commerce networks with non-obligatory membership (established on national, entities and district levels);
- business associations (Association of Enterprises/SMEs is present in FBiH and in RS);
- incubators (with the international assistance four incubators have been established so far, i.e. in Gradačac, Modriča, Mostar and Brčko);
- technology parks (some project proposals have been initiated, e.g. in RS);
- clusters (in FBiH the USAID CCI project is implementing 2 clusters, wood industry in Central Bosnia and tourism cluster in Herzegovina, while GTZ works on three clusters: auto, textiles and

leather industries);

- network of regional development agencies coordinated by EURED is operational, with 5 regional agencies;

Other types of partnerships and networks are established among companies themselves (e.g. joint ventures, strategic alliances, franchise networks, consortiums, co-operatives, business clubs, sub-contracting cooperations - mainly between larger and smaller companies, business and scientific-research networks, virtual enterprises, etc.).

Knowing the difference between above mentioned type of networks is very important for institutional business support staff, and even more for companies, since every type has its own particular characteristics and advantages. And BiH businesses exhibit the lack of understanding of different types of networks and consequently lack of capacity for their sustainable management.

Each network needs to be supported by different information technology tools and knowledge databases to cover network members' daily processes, offer constant communication among them and access to shared knowledge. The development is going further towards virtual business networks and virtual enterprises. The extraordinary development of ICT allows for innovative relationships among enterprises, organised in extended networks regardless of their location. In this scenario, large enterprises can re-organise their traditional supply chains (generally formed by SMEs) according to Virtual Vertical Enterprise concepts and methodology, in order to obtain better control of subcontractors activities, cost and delivery time reduction and reduction of the number of subcontractors.

Depending on the type of network which to be initiated and developed, different support activities are needed. All networks need general training programmes on business networking and partnerships, to awareness campaigns and dissemination of published guides on networking, but there are also many issues which can not be generalised, e.g. legal issues which might vary considerably depending on the type of network; the same holds for organisational approach and management. This also means that parallel to training programmes, the government needs also to introduce reliable consulting and advisory or mentoring services, partly co-funded by the government, at least for first three years from the initial idea of network establishment.

The importance of governmental support to different kind of networks and partnerships (not only larger industrial networks like clusters or incubators) must not be neglected. The networks are initiated by companies and people themselves are highly valuable, even if they include only a few small companies. These small initiatives contribute to the raising of networking and partnership culture and at the same time provide a real-life networking practice and experience for those involved in these partnerships. And the business success stories are full of examples of successful businesses which have been started just from the small partnership networks.

Owing to the traditional role of large industrial companies and because of foreign investors who might be involved in the ownership structure of such companies in B&H, it is expected that there will be increased demand for specialised services and production in the future. Sub-contracting as one of the main forms of large-small partnerships, might become very important for SMEs development. The role of the government is to help prepare SMEs for such opportunities.

SME start-ups derive a great deal of benefits from business incubators. Many countries have successfully developed such instruments. Technology parks are another instrument that, through co-operation with universities and other research institutions, offers good solutions for technology-oriented and innovative companies. In the agro-business sector, there is a long-established practice of foundation of co-operatives and this format, with some modernisation, may still provide useful services to BiH SMEs.

Based on these examples of possible networking creations in BiH, networking and partnership models are both valuable and important enough for SMEs prosperity to merit development of a special medium-term strategy or programme for strengthening SME networking in BiH. The strategy would identify most suitable types of networks for different groups of SMEs in correlation with possible business opportunities. Because of the complexity and diversity of the issue, the implementation plan below contains only general initial activities.

13.2 Implementation plan with expected results and timelines

Action	Implementing body	Time frame B -Beginning, E - Ending	Indicator
Cofinancing of training programmes for different target groups (it can be funded from technical assistance)	Development and Entrepreneurship Agency, entity and district-level ministries, SME support agencies on all levels, Business Development Network with all SME support stakeholders, external experts as needed	B: 2007 – on-going	200 participants per year for each of the training programme developed for most important target groups
Cofinancing of informal business meetings with presentation of issues related to networking and partnership	Development and Entrepreneurship Agency, entity and district-level ministries, SME support agencies on all levels, Business Development Network with all SME support stakeholders	B: 2007 – ongoing	Monthly informal meetings – 10 meetings per year (in different towns for different participants) – total expected number of participants: 500
Promotional and awareness campaigns on networking and partnering	Development and Entrepreneurship Agency, entity and district-level ministries, SME support agencies on all levels, Business Development Network with all SME support stakeholders, external experts as needed	B: 2007 - ongoing	Level of readiness to enter into any kind of network, number of established privately initiated networks

14 Overview of recommended legal changes

This section provides an overview of the legal changes proposed in the Part II of the Strategy. In many cases, the laws themselves do not concern SMEs directly, and instead a proactive 'think small first' attitude is required in approaching nearly every legal and strategic document. For this reason, the Strategy includes some laws whose influence is indirect. The list below contains also the laws which have been adopted at the BiH level, but which need to be reviewed to ensure effectiveness of the legal framework changes for SMEs.

The list below does not contain specific laws on EU norms and standards, since this specific package of legislation and regulation requires special procedures. The Department for Development of Entrepreneurship within the MoFTER must closely monitor these legal changes and secure an adequate period of transition and technical assistance to help prepare SMEs for introduction of EU norms and standards. The proactive approach of the MoFTER in this case would be very important for SMEs.

For Section 5 – SME-related Legislation and Regulation, the priorities are further simplification of firm registration, establishment of a national SME development institution and introduction of financing instruments better adapted to SMEs. These laws must also offer a solid basis for better coordination of activities across all levels and between all sectors, as well as a foundation for collection of statistics and indicators on the success of reforms.

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Second Draft

Title		Status		
		Non-existent	In preparation	Exists
1	Law on Commercial Companies	x		
	<i>Responsible body:</i>	MoFTER		
	<i>Comments:</i>	One legal framework for any type of business is very important to ensure equal opportunities for start up, registration and development of the legal structure of the companies. It is very important that registration is simple, fast and cheap. To legalize one stop shops and a unified company register as a public record has to be the main guidance. Definition of small, medium and big enterprises is crucial.		
	<i>EU regulations:</i>	Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises		
2	Law on Company Register			x
	<i>Responsible body:</i>	BiH Ministry of Justice		
	<i>Comments:</i>	<p><i>Original name:</i> Framework Law on Registration of Business Entities</p> <p><i>With the BiH Framework Law on Registration, some basic elements of the registration procedure have been standardized (registration principles, subjects of registration, content and management of the Register, registration costs, registration time, subjects' mandatory data, procedures of legal-forms and other subjects' changes, forms needed at the registration, third party Register examination, etc.)</i></p> <p><i>SMEs must submit various forms and applications for approvals to different offices at different levels of government. Several EU, OSF, Swedish, Swiss and USAID projects are working to establish 'one-stop shops' to rationalize and simplify processes for approvals by eliminating steps and consolidating authorities.</i></p> <p><i>For legal security, reliable, unified and harmonized register of legal subjects in B&H is very important. The Register of legal persons is a public record and has to be accessible to every interested party, if possible in electronic version.</i></p> <p><i>Among other issues, the definition of costs associated with registration need to be amended in this law, because this matter has not been uniformly resolved.</i></p>		
	<i>EU regulations:</i>			
3	Bankruptcy Law	x		
	<i>Responsible body:</i>	BiH Ministry of Justice		
	<i>Comments:</i>	<p><i>Debt-ridden economy of BiH needs a bankruptcy system in place. Popular and professional understanding of bankruptcy is very poor at several levels, leading to a lack of support for the use of bankruptcy procedures. The bankruptcy is not understood as a preventive measure that enables debtors to restructure and become profitable.</i></p> <p><i>Special commercial divisions are being established at fifteen first-instance courts in the FBiH and RS. Both entities have enacted new bankruptcy laws, which are at an implementation impasse because of pending amendments proposed by labor unions in the FBiH.</i></p> <p><i>Several projects are working with local partners to implement these reforms. USAID is implementing training programs and providing resource materials for judges, lawyers, trustees and others on bankruptcy and liquidation and conducting pilot cases on bankruptcy. Additionally, SEED and USAID are introducing mediation as an alternative to litigation.</i></p> <p><i>Transparent and fair protection of creditors is very important for legal security on the market. Solutions in B&H are very different, implementation is bad, and experience shows that proceedings are long, unfair and expensive. B&H needs one unified law on bankruptcy enforced settlement and liquidation with practical training for trustees and judges to understand important economic knowledge..</i></p>		
	<i>EU regulations:</i>			

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4	Liquidation Law	x		
	<i>Responsible body:</i>	BiH Ministry of Justice		
	<i>Comments:</i>	<i>To build up transparent procedures - this part need to be connected to bankruptcy and enforced settlement</i>		
	<i>EU regulations:</i>			
5	Law on SME Promotion and Entrepreneurship	x		
	<i>Responsible body:</i>	MoFTER – Department for Entrepreneurship		
	<i>Comments:</i>	<i>After adoption of SME development strategy, it is very important for SMEs that the B&H Law on SME Promotion is adopted.</i>		
	<i>EU regulations:</i>	<i>Council Decision on a multi-annual programme for enterprise and entrepreneurship, and in particular for (SMEs) – 2001-2005, Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises, European Charter for Small Enterprises.</i>		
6	Law on Statistics			
	<i>Responsible body:</i>	BiH Statistics Agency		
	<i>Comments:</i>	<i>The existing law does not provide for monitoring SME situation. The system for collection of statistics should be adapted in line with the SME definition to be adopted in the Law on SME Promotion and Entrepreneurship.</i>		
	<i>EU regulations:</i>			
7	Zakon o regionalnom razvitku	x		
	<i>Responsible body:</i>			
	<i>Comments:</i>	<i>This law should establish the principles of regional development in line with the EU approach into the BiH legal system and define the position and competencies of certain existing and future institutions in the regional development system.</i>		
	<i>EU regulations:</i>	<i>The Council Decision of May 31, 1994 on information and dissemination measures to be implemented by Member States regarding structural funds assistance and on the Financing Instrument for Fisheries Guidelines (FIFG) Council Regulation (EC) No. 1260/1999 of June 21, 1999, establishing general provisions on structural funds Council Regulation (EC) No. 1264/1999 of June 21, 1999, amending the Regulation (EC) No. 1164/94 on establishment of the Cohesion Fund Council Regulation (EC) No. 1265/1999 of June 21, 1999, amending the Annex II of the Regulation (EC) No. 1164/94 on establishment of the Cohesion Fund Council Regulation (EC) No. 1266/1999 of June 21, 1999, on coordination of assistance to candidate countries within the framework of the pre-accession strategy and amending the Regulation (EEC) No. 3906/89.</i>		
8	Law on Public Funds	x		
	<i>Responsible body:</i>	BiH Ministry of Finance		
	<i>Comments:</i>	<i>This law should allow establishment of necessary fund institutions in line with the model acceptable for access to EU funds.</i>		
	<i>EU regulations:</i>	<i>All directives and regulations concerning financial aid from public funds, and particularly the Council Regulation (EC) No. 3604/93 of December 13, 1993, determining the definitions for implementation of the ban on favored access mentioned in the article 104a of the Treaty (EC).</i>		

15 Overview of Institutional Changes

This section summarizes recommended institutional changes of all topics under Part II.

The most needed activity is the establishment of an appropriate SME institutional infrastructure for development and entrepreneurship on the state level, consisting of the SME Development and Entrepreneurship Council, SME Development and Entrepreneurship Agency and the SME Development and Entrepreneurship Fund. Uniform standards, better coordination, enhanced visibility of introduced instruments and activities may be achieved through a well-managed informal virtual Business Development Network consisting of all public development and business support providers at all levels and from all sectors.

Better co-ordination has to be achieved among all existing providers. The Business Development Network, supported by a complex information system, is one of the most suitable solutions. Among existing providers, **a special attention has to be given to establishment of incubators, clusters, co-operatives and to all forms of business cooperation.**

16 Summary of Implementation Plans, with Expected Results and Timeframes

This section summarizes all activities proposed for the period until the end of 2007. The term ‘Activities’ covers either laws, regulations and other documents that should be designed and adopted, institutions to be established and other measures. The term ‘Implementing Body’ denotes institutions which are responsible for the given activity and identifies other important stakeholders, but owing to limited space it is not possible to list all stakeholders, nor their full names. To facilitate implementation, foreseen duration of each activity has been indicated, some of which might last for several years. The column ‘Indicators and comments’ contains expected measurable outcomes of each activity, as well as necessary explanations.

It has not been possible to propose a budget for the listed activities, as the expenditure for implementation of the strategy depend on a range of factors that are unknown at this time. Only the implementing organizations may determine whether a given activity will use internal resources of the institution in question and other governmental bodies, external experts from BiH or foreign experts and companies, which implies extraordinary variations in projected costs. However, it is important to note that the support of EU and other donors is expected for a major share of the activities proposed, but it is important to take into consideration that, in the following period, most activities funded by the EU will require allocation of budgetary funds for co-financing. E.g for access to EU structural funds, it will be necessary to secure budgetary cofinancing of 25%. The adoption of the strategy will create opportunities to seek funding for specific activities, both from the budget and from international donors.

16.1 Priorities in 2005

Action	Implementing body	Time frame (B – Beginning, E – Ending)	Indicators and comments
Section 6: Institutional Infrastructure for SME Support and Business Services			
Establishment of Development and Entrepreneurship Council	MOFTER, other responsible ministries, external experts	B: 2005 – ongoing	Development and Entrepreneurship Council has been established
Section 7: Education, Training and Consulting			
Section 8: Tax Measures and Financial Instruments			
Section 9: Strengthening Technological and Innovation Capacity of Small Enterprises			
Section 10 – ICT			
Section 11 – Europeanisation – Importance of the Single Market			
Section 12 – Internationalization of SMEs			
Section 13 – Partnering and Networking			

16.2 Priorities in 2006

Action	Implementing body	Time frame (B – Beginning, E – Ending)	Indicators and comments
Section 5: SME Laws and Regulations			
Law on Commercial Companies (include trades, possibly cooperatives)	Responsible ministries at BiH, FBiH, RS and DB level, external experts	B: 2006 E: 2007	Draft law passed to the Council of Ministers
Law on Registration (review and modify)	Responsible ministries at BiH, FBiH, RS and DB level, external experts	B, E: 2006	Review of the adopted law and potential amendments submitted to the Council of Ministers
Law on Accounting Standards (check harmonization with international standards)	Responsible ministries at BiH, FBiH, RS and DB level, external experts	B: 2006 E: 2007	Review of the adopted law and potential amendments submitted to the Council of Ministers
Law on Statistics – basic SME statistics	Responsible ministries at BiH, FBiH, RS and DB level, external experts	B, E: 2006	Review of the adopted law and potential amendments submitted to the Council of Ministers
Law on Bankruptcy, Enforced Settlement and Liquidation	Responsible ministries at BiH, FBiH, RS and DB level, external experts	B, E: 2006	Law adopted in the entity parliaments, bankruptcy proceedings have started, draft law submitted to the Council of Ministers
Law on SME Promotion and Entrepreneurship	Responsible ministries at BiH, FBiH, RS and DB level, external experts	B, E: 2006	Draft law submitted to the Council of Ministers
Law on Public Funds	Responsible ministries at BiH, FBiH, RS and DB level, external experts	B: 2006 E: 2007	Draft law submitted to the Council of Ministers
Section 6: Institutional Infrastructure for SME Support and Business Services			
Current activities of the Development and Entrepreneurship Council	MoFTER and other responsible ministries	Continuously	Current activities of the Council
Preparation of detailed project with business plan for establishment of a new harmonized infrastructure, so-called Business Development Network for SME support	MOFTER, Development and Entrepreneurship Council, external experts	B: 2006 E: 2006	Detailed project completed with business plan (* The project may be cofunded through donor projects (EC, UNIDO-UNDP etc.)
Development of information system – entrepreneurship portal (Intranet Internet solution)	MOFTER, Development and Entrepreneurship Council, external experts	P: 2006 Z: 2007	Finalized stage one of development of the information system (*The project may be cofunded through donor projects (EC, UNIDO-UNDP, USAID etc.)
Section 7: Education, Training and Consulting			
Preparation of training voucher system project	MoFTER, responsible entity and district ministries, external experts	B: 2006 E: 2007	Project prepared (*The project may be cofunded through donor projects
Preparation of consultancy voucher system project	MoFTER, responsible entity and district ministries, external experts	B: 2006 E: 2007	Project prepared (*The project may be cofunded through donor projects
Section 8: Tax Measures and Financial Instruments			
Promotional and awareness campaigns	MoFTER, responsible entity and district ministries, external experts as needed	B: 2006 - continuous	
Section 9: Strengthening Technological and Innovation Capacity of Small Enterprises			
Section 10 - ICT			
Section 11 – Europeanisation – Importance of the Single Market			
Section 12 – Internationalization of SMEs			
Section 13 – Partnering and Networking			

16.3 Priorities in 2007

Action	Implementing body	Time frame (B – Beginning, E – Ending)	Indicators and comments
Section 5: SME Laws and Regulations			
Law on Commercial Companies (include trades, possibly cooperatives)	Responsible ministries at BiH, FBiH, RS and DB level, external experts	B: 2006 E: 2007	Draft law passed to the Council of Ministers
Law on Accounting Standards (check harmonization with international standards)	Responsible ministries at BiH, FBiH, RS and DB level, external experts	B: 2006 E: 2007	Review of the adopted law and potential amendments submitted to the Council of Ministers
Law on Public Funds	Responsible ministries at BiH, FBiH, RS and DB level, external experts	B: 2006 E: 2007	Draft law submitted to the Council of Ministers
Law on Regional Development	Responsible ministries at BiH, FBiH, RS and DB level, external experts	B: 2007	Draft law submitted to the Council of Ministers
Section 6: Institutional Infrastructure for SME Support and Business Services			
Establishment of the Development and Entrepreneurship Agency	MOFTER, Development and Entrepreneurship Council, external experts	B: 2007 - continuous	Development and Entrepreneurship Agency founded and the staff trained at all levels, specific activities introduced (*) The project may be cofunded through donor projects (EC, UNIDO-UNDP, USAID etc.)
Establishment of Development and Entrepreneurship Fund	MOFTER, Development and Entrepreneurship Council, Development and Entrepreneurship Agency, external experts	B: 2007 - continuous	Development and Entrepreneurship Fund founded and the staff trained at all levels, specific activities introduced (*) The project may be cofunded through donor projects (EC, UNIDO-UNDP etc.)
Implementation of the Agency programs	Development and Entrepreneurship Agency, Business Development Network with all SME support stakeholders	B: 2007 - continuous	Implementation of the Agency programs (*) In addition to regular activities, funding could be sought from EC or other donor programs.
Implementation of the Fund program	Development and Entrepreneurship Fund, Development and Entrepreneurship Agency	B: 2007- continuous	Implementation of the Fund program (*) The Fund could obtain funding from European funds such as EIF
Organization of training and best practices exchange for improvement of skills of the Business Development Network staff	Development and Entrepreneurship Agency, Business Development Network with all SME support stakeholders, external experts as needed	B: 2007 - continuous	Training to meet the needs of SME support providers held, a summer conference of all Business Development Network stakeholders held (*) The project may be cofunded through donor projects (EC, IFC etc.)
Current activities of the Development and Entrepreneurship Council	MoFTER and other responsible ministries	Continuous	Current activities of the Council
Development of the basic information system – entrepreneurship portal (Intranet and Internet solutions)	MoFTER, Development and Entrepreneurship Agency, Business Development Network with all SME support stakeholders, external experts	B: 2006 E: 2007	Development of the basic information portal concluded (*) The project may be cofunded through donor projects (EC, UNIDO-UNDP, USAID etc.)
Regular analytical studies	Development and Entrepreneurship Agency, responsible ministries and SME support agencies on all levels, external experts as needed	B: 2007 – continuous	Studies completed

Section 7: Education, Training and Consulting			
Promotional campaigns, including events such as the entrepreneurs' day and enterprise awards	MoFTER, other relevant ministries at all levels, Business Development Network, external experts as needed	2007 – continuous	Indirectly: increased number of start-ups
Development of a database on available SME training and education programs, for later integration into the 'information system and entrepreneurship portal'	Development and Entrepreneurship Agency, responsible ministries on all levels, Business Development Network, external experts as needed	B, E: 2007	Database developed and available online.
Implementation of training voucher system	Development and Entrepreneurship Agency, responsible entity and district ministries, external experts	B: 2007 – continuous	System introduced (vouchers available facilitating cofinancing of SME training)
Implementation of consultancy voucher system	Development and Entrepreneurship Agency, responsible entity and district ministries, external experts	B: 2007 – continuous	System introduced (vouchers available facilitating cofinancing of consulting to SMEs)
Section 8: Tax Measures and Financial Instruments			
Awareness campaigns	Development and Entrepreneurship Agency, responsible entity and district ministries and SME support agencies, external experts as needed	B: 2006 - continuous	(* Cofunding possible through EU programs (e.g. through EICC activities) or through other donor projects (IFC, USAID etc.)
Training programmes on different types of business or projects financing	Development and Entrepreneurship Agency, responsible entity and district ministries and SME support agencies, external experts as needed	B: 2007 - continuous	(*Cofunding possible through EU programs (e.g. through EICC activities) or through other donor projects (IFC, USAID etc.)
Section 9: Strengthening Technological and Innovation Capacity of Small Enterprises			
Organisation of training programmes for SMEs in industry and ICT	Development and Entrepreneurship Agency, Business Development Network with all SME support stakeholders, particularly technological parks, industrial incubators, research centers, external experts as needed	B: 2007 - continuous	<ul style="list-style-type: none"> - Seminars on systematic innovations and creativity - importance of patents and IPR in general - contract issues (technology transfer) (*) Cofunding possible through EU programs (e.g. through EICC activities) or through other donor projects (IFC, USAID etc.)
Awareness campaigns on innovation	Development and Entrepreneurship Agency, Business Development Network with all SME support stakeholders, particularly technological parks, industrial incubators, research centers, external experts as needed	B: 2007 - continuous	50% of industrial and ICT SMEs made aware of innovations and forms of their protection (*) Cofunding possible through EU programs (e.g. through EICC activities) or through other donor projects (IFC, USAID etc.)
Section 10 - ICT			
Providing co-financing for purchasing of equipment and software license for newly established innovative companies; a part of this activity is providing co-financing for small innovative SW development companies and groups for customization, localization and distribution of “public domain software” for SME needs which might represent 10% of all approved project proposals.	Fund for Development and Entrepreneurship	B: 2007 - continuous	Funding for procurement of equipment and software licences distributed to SMEs every year on the basis of public tenders (*) Resources planned within the regular activities of the Development and Entrepreneurship Fund in Chapter 6.
Promotion and awareness campaign (eBusiness, public domain software)	Development and Entrepreneurship Agency, responsible ministries and SME support agencies on all levels, external experts as needed	Continuously	50% of SMEs in BiH informed about possibilities offered by ICT and e-business (*) Campaigns may be organized with the assistance of EICC and

			other EU programs, or through other donor projects.
Organization of different types of seminars across the country	Development and Entrepreneurship Agency, responsible ministries and SME support agencies on all levels, external experts as needed	Continuously	Minimum 500 SMEs trained every year (*) Campaigns may be organized with the assistance of EICC and other EU programs, or through other donor projects.
Establishment of Internet sites for SMEs offering professional assistance to users (possibly within existing business infrastructure support, including incubators, technological parks, etc.)	Development and Entrepreneurship Agency, responsible ministries and SME support agencies on all levels, external experts as needed	Continuously	Minimum 20 websites established throughout the country, support staff trained.
Section – 11 – Europeanisation - Importance of the Internal Market			
Training	- EICC (with the involvement of EU experts) - chambers of commerce - other relevant bodies on all levels -	B: 2007 - continuously	250 persons trained (*) May be cofunded through various EU programs, as well as other donor programs
Implementation of EU requirements for technical products (CE marking), wood, textiles, food and packaging in SMEs	- Institutions or companies from the EU member states (to be selected based on public tender)	B: 2007 - continuous	50 SMEs implements the requirements every year (*) May be cofunded through various EU programs, as well as other donor programs
Section 12 – Internationalization of SMEs			
Organization of various seminars throughout the country	Development and Entrepreneurship Agency, responsible ministries and SME support agencies on all levels, external experts as needed	B: 2007 - continuous	Svake godine obučeno minimalno 300 MSP (*) May be cofunded through various programs (UNCTAD/ WTO ITC Geneva etc.)
Promotional and awareness campaigns (foreign markets, strategies of entry into foreign markets)	Development and Entrepreneurship Agency, responsible ministries and SME support agencies on all levels, external experts as needed	B: 2007 - continuous	20% of SMEs in BiH informed about possibilities in foreign markets (*) May be cofunded through various programs (UNCTAD/ WTO ITC Geneva etc.)
Section 13 – Partnering and Networking			
Co-financing of training programmes for different target groups (may be funded from technical assistance)	Development and Entrepreneurship Agency, responsible ministries and SME support agencies on all levels, external experts as needed	B: 2007 - continuous	200 participants annually for each training program developed for the most important target groups
Co-financing of informal business meetings with presentation of issues related to networking and partnership	Development and Entrepreneurship Agency, responsible ministries and SME support agencies on all levels	B: 2007 - continuous	Monthly informal meetings – 10 meetings per year – in different towns for different participants) – total expected number of participants: 500
Promotional and awareness campaigns on networking and partnering	Development and Entrepreneurship Agency, responsible ministries and SME support agencies on all levels, external experts as needed	B: 2007 - continuous	Level of willingness for joining any kind of network, number of established privately initiated networks

16.4 Vision for post-2007 period

The current activities from 2007 will continue in subsequent years. Legislative changes will continue, as well as introduction of new laws as needed (for instance, harmonization of laws related to technical standards), and additional support to SMEs will be introduced, particularly in the areas connected with so-called advanced factors of competitiveness:

- in the internationalization process, e.g. cofinancing of membership fees in global networks (for BiH network willing to become members of global networks, or for individual companies wishing to join a global professional or business network);
- in the process of partnering and networking;
- in the process of innovation and technological development;
- in the process of development of IC.

17 Monitoring and Quality of the SME Strategy Implementation

This section describes mechanisms proposed for monitoring of the implementation of the SME Development Strategy and measuring of the quality and effectiveness of activities proposed.

17.1 Monitoring of the strategy implementation

- The main monitoring authority is the **Council of Ministers**, which will follow the implementation of the strategy activities based on the yearly reports of the MoFTER.
- An **external auditor** (most likely a private company) will monitor the strategy implementation on a quarterly basis. The auditor will check:
 - whether the Strategy implementation proceeds in accordance with the implementation plan and on schedule
 - based on the feedback mechanism from SME and business support providers or via interviews, whether the quality of the activities undertaken is satisfactory.
- At the end of the Strategy period, the external auditor will prepare the final report or audit.³⁴ The external auditor reports directly to the MoFTER.
- Individual activities planned in the Strategy are also monitored by **potential donors** for the given activity or project.

The Council of Ministers will cover all costs of the audit.

17.2 Monitoring of quality

The quality is measured mainly by SMEs through business support institutions' feedback mechanism.

The quality of services provided to SMEs is measured through questionnaires or evaluation forms developed for SMEs which use the services of business support institutions, educational and training organisations or consultants within the Development and Entrepreneurship Network. Another indicator of the quality of services provided to SMEs is the number of visitors/users of individual services or instruments, and especially the number of regular/repeat users of the services or instruments in question.

SME service providers may use other mechanisms to improve their quality, e.g. round tables, discussion groups and similar formats, where the services offered to SMEs are discussed. The feedback of SMEs is collected at the level of each individual service provider, who prepares a

³⁴ The approach of the European Commission is similar. Each EU programme is reviewed by an external provider at the program's end.

summary report about such feedback and proposed indicators to the Development and Entrepreneurship Agency on a quarterly basis. Based on these reports, the Development and Entrepreneurship Agency prepares a report for the entire Development and Entrepreneurship Network. The report serves to develop an estimate of effectiveness of various instruments or services, and it also assists with the planning of the next period activities and budget, and it may be used to promote the Development and Entrepreneurship Network.

Each individual SME business provider is required to implement at least the above mentioned quality measures on a regular basis. It is recommended that the uniform standards (questionnaires, evaluation forms, reporting forms) are defined for all members of the Development and Entrepreneurship Network to permit comparative analysis and preparation of the report for the entire Development and Entrepreneurship Network.

The quality of the services and instruments can be measured also by SMEs providers. It means that SMEs provider can estimate by themselves the quality of administrative procedures, the quality of guidelines received from the MoFTER or the Development and Entrepreneurship Agency and based on that recommend the improvements to MoFTER of the Development and Entrepreneurship Agency.

17.3 Monitoring of effectiveness

A combination of indicators is used in the major EU and world SME development or competitiveness reports and studies. All below mentioned reports or studies offer good comparative estimations of the level of SME development and the effectiveness of instruments and services introduced for SMEs in comparison with other countries. It would be important for BiH to be covered in these studies. To take part in the reports and studies mentioned below, it is necessary to introduce and measure the appropriate combination of indicators which are used in these studies and reports.

- At the European Commission level, **the enterprise policy indicators** are introduced for all EU members states. Every year a special publication³⁵ with the indicators of all EU countries is published. Therefore, the use of the same indicators in BiH is recommended. The areas in question are access to finance, administrative and regulatory environment, functioning markets, innovation, entrepreneurship, human capital and access to information and communication technologies. For each area, indicators are selected from the enterprise scoreboard (total: 21 indicators).
- The European Commission – Enterprise Directorate General conducts another annual survey on SME competitiveness - the European Network for SME Research³⁶ with the “**Observatory of European SMEs**” project).

³⁵ For more details see the EC-DG Enterprise's pocketbook of enterprise policy indicators: How Member States rank in the enterprise scoreboard available on http://europe.eu.int/comm/enterprise/library/lib-competitiveness/series_competitiveness.htm

³⁶ EC – DG Enterprise, The Observatory of European SMEs: http://europa.eu.int/comm/enterprise/enterprise_policy/analysis/observatory.htm

- Another well-known study, so-called the GEM (Global Entrepreneurship Monitor)³⁷ study is also important for better understanding and better planning of further SME policies and strategies.
- The »**Benchmarking the Regulatory Cost of Doing Business Project**«³⁸ is another SME benchmarking project performed by the World Bank on a yearly basis in over 130 countries. The BiH data are already included but it is not clear who is the main information source or how the information is collected.

Because of the complexity of indicators which have to be introduced, it is recommended to initiate a special project to analyse the required indicators and to suggest methods to collect the requisite data for BiH.

³⁷ Global Entrepreneurship Monitor – GEM: <http://www.gemconsortium.org>

³⁸ For more details see the Internet address: <http://rru.worldbank.org/doingbusiness>

18 Conclusions and Recommendations

Owing to the very complex structure of SME competitiveness factors in the macro and micro sense, the sectoral point of view as well as from both horizontal and vertical perspective, all aspects can not possibly be captured in detail in one Strategy, nor in 2005 – 2007 period. For this reason, the proposed »BiH SME Development Strategy« should be seen as a framework SME Development Strategy with initial activities. The Strategy also includes recommendations for the development of more advanced support programmes, which could be implemented basically during the period of this Strategy, while more complex activities in the post-2007 period will most likely be a subject of a future strategy.

Non-existence of appropriate SME statistics in BiH generally causes many problems and the same problems emerged during the preparation of this Strategy. These issues impede the empirical approach to any SME study in BiH. Correction of this shortcoming is recommended as one of the priority horizontal issues which has to be initiated by the MoFTER in the near future.

Many times during the work on the strategy, the question arose concerning the extent to which a given topic is relevant to SME development specifically and at what point the issues apply to large companies also or to the entire economy. However, there is no difference between SMEs and large companies in their need to be competitive. But the difference, is in the character of business services introduced as SMEs require more external SME-friendly business, consulting and financial support adapted for their needs. The principle »think small first« is taken into account when such dilemmas arose.

One question partly related to the above mentioned issue is, for instance, the entire area of harmonisation of technical legislation. Sooner or later, the harmonisation will have to be implemented, but from the SME point of view this would present more of an obstacle than an advantage at this level of SME development in BiH, in part because the institutional framework is still not geared to implement such a complex and highly demanding project. Even in Europe, companies were given a transition period of one or two years to adapt their internal processes. In this context, a gradual harmonisation of laws is suggested, but it is strongly recommended that companies are given sufficient time to adapt their processes. Prior to this phase, companies need to receive appropriate instructions and training programs. To provide such services, a responsible body needs to ensure technical and financial support for implementing institutions and companies. The implementing institutions also need to be trained and consulting services developed in order to be able to provide companies appropriate advice in this respect.

There are several priority issues that require particular attention, and their implementation during the period of this Strategy is recommended:

- Legal and regulatory changes are needed, especially pertaining to: enactment of the Company Law, SME Promotion Law, simplification of business registration process and facilitation of access to finance. Due to the high complexity of these issues, the Strategy recommends a detailed examination of legal and regulatory changes across all levels and sectors. In

combination with construction and improvement of institutions, this should be the top priority for this Strategy over the 2005 – 2007.

- Institutional framework has to be developed and managed in such a way to ensure a common platform for all public business support providers and companies.
- Development of a suitable information system is also crucial. The strategy proposes the development of an entrepreneurial portal from both the internal and external aspects.
- Development of other important strategies such as the Innovation Strategy and SME Networking Strategy would help ensure better targetting of foreign aid and a clearer strategic approach to issues which are extremely important for SME competitiveness in the long term.
- The common characteristic of all competitiveness factors described in the Strategy is that their development is pre-conditioned by implementation of a range of training programmes and awareness campaigns across the country.

The proposed institutional framework is envisaged as a flexible virtual platform which allows members to communicate, exchange best practices and share their knowledge, with the aim to improve business services for SMEs and make them more transparent and efficient. Even where the coordinating role for some of the topics from the European Charter for Small Enterprise (and this Strategy) lies with other governmental or public bodies in BiH, MoFTER and SME development and promotion bodies proposed by this strategy must actively participate in those activities to ensure adequate incorporation of all SME-relevant aspects.

In addition to the expected faster development of BiH SMEs, the Strategy itself and its implementation will in the future provide the BiH Government and the responsible ministry with a tool for international promotion of the BiH economy and SME development policy in order to accelerate the EU accession process, increase the interest for foreign direct investments and achieve a better negotiation position with better targeted proposals for foreign aid. However, a future reduction of foreign aid must be anticipated, and the EU programs will become accessible for BiH only gradually and conditionally on the success of the reform process in BiH and on the capacity of BiH to adequately manage and cofinance individual projects. For this reason, it is vital that governments in BiH join their efforts, and pool financial and human resources for SME support.

ABBREVIATIONS used in the Strategy

-	BIH	Bosnia and Herzegovina
-	FBIH	Federation BIH
-	RS	Republic of Srpska
-	DB	District Brčko
-	IFC	International Finance Corporation
-	SEED	Southeast Europe Enterprise Development
-	MoFTER	Ministry of Foreign Trade and Economic Relations
-	SME(s)	Small and medium-sized enterprise(s)
-	UNCTAD	United Nations Conference on Trade and Development
-	EU	European Union
-	EC	European Commission
-	EC – DG Enterprise	European Commission – Directorate General Enterprise
-	EICC	Euro Info Correspondence Centre
-		

GLOSSARY

-	one-stop-shop	“One-stop-shop« is an expression that describes offices for company registration, where a company can be registered in just one office and receive all necessary information.
-	first-stop-shop	»First-stop-shop« is an information point where companies may get all necessary information and general advice on the European business environment or other business issues: depending on the question, the staff of such an office can direct companies to other, specialized business service providers.
-	technology foresight	The term “technology foresight” (TF) includes numerous activities and procedures. Unlike “prognostication”, TF comprises efforts to identify trends, orientations and potential or possible thrusts of action. In brief, TF is a managerial and administrative tool, with a multifactor approach to science and technology. The procedure of participation and interaction is a relatively new method of management, a departure point for building measures and a catalyst for knowledge, through the processes of collective learning.
	Europeanisation	The term »Europeanisation« is in the EU used to stress the single European market with all its features (harmonized technical standards, single currency, standardized public procurement etc.). The process of Europeanisation has not been finished even within the EU. This is a continuous process of harmonization of markets, administrative procedures, standards and regulations of all 25 members. In the BiH context, the term »Europeanisation« means gradual adaptation of administrative procedures, standards and regulations to the European Union and the EU Single Market – primarily in the context of harmonization of the technical legislation and regulation.
	Internationalisation	The term »internationalisation« means the process of internationalisation of individual companies – which means directing individual activities of a company in such a way to ensure successful entry into any foreign market.

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