Small and Medium Enterprises
Bosnia and Herzegovina

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Support to promotion of reciprocal understanding of relations and dialogue between the European Union and the Western Balkans
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Acknowledgement
I. Status of SME sector in the economy of BiH

a) The problem of defining micro, small and medium-sized enterprises

The existing legislation of Bosnia and Herzegovina does not contain a state-level definition of micro, small and medium enterprises (a national definition). The Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina will launch an initiative by the end of 2004 to define the SME concept at the state level, most probably in the form of a framework (umbrella) law which would regulate this issue.

However, different definitions of SME sector are being used at lower levels of administration (entities, Brcko District, cantons and municipalities) and by international organizations.

A more precise definition of SME concept began to appear after 2001 as a result of the shift of the donors’ community’s attention to the economic development and of the Office of the High Representative’s activities in the field of economy in that regard.

There is a preliminary draft Law on Encouragement of the Development of Small Businesses in the Federation of Bosnia and Herzegovina which meets the European Commission’s recommendations with regard to the definition of micro, small and medium enterprises. The draft has not yet been presented to the Parliament for adoption.

The Law on Encouragement of the Development of Small and Medium Sized Enterprises has been applied in the Republika Srpska since 2002. The Law is in line with the European Commission’s recommendations with regard to the size of an
enterprise measured by the number of its employees and the size of an enterprise measured by annual revenues. In the situation in which the privatization process has not yet been completed it will be difficult to apply in practice the company independence criterion.

International organizations working in Bosnia and Herzegovina and the projects funded by donors and from credit lines apply their own criteria in selecting micro, small and medium enterprises.

For instance, the European Union's job creation initiative known as Quick Impact Facility defines potential beneficiaries of aid as:

- Small and medium-sized enterprises which have already been established and employ less than 20 people each
- Businessmen who consider launching a business.

The grant beneficiaries “must have the capacity of employing between 4 and 20 new employees while keeping the existing ones”. The newly formed enterprises formed with the support of EU-QIF grants and technical assistance are obliged to employ the minimum 4 and the maximum 20 new employees.

In this way the donors are introducing the concept of small and medium-sized enterprises which are coming closer to the criteria defined in the European Commission's recommendations from 1996 and 2003.

We shall propose one provisional definition of small and medium enterprises for the purpose of this report, which is based on the nature of ownership and type of organization of business companies. Given that the privatization process is underway in Bosnia and Herzegovina, it is logical that the companies which have not been privatized to the full are excluded from the SME category. It would not be logical for the SME development and encouragement policy (the presumption is that it should exist) to be directed to the business entities in which the state has shares in ownership.

Table 1.1 shows the analysis of the level of privatization per economic activities (only in the Federation of BiH*). In five economic activities the level of privatization exceeds 90%, according to the absolute number of the companies registered for a specific activity (data as of December 2002).

The Table (Ltd.L % box) shows that the Limited Liability Companies accounted for more than 90% in the same activities. The conclusion is that small and medium enterprises should be sought among business corporations which are organized as Limited Liability Companies.
We present the status of small and medium enterprises through the Federation of BiH as an analytical unit. The reason for that is the lack of harmony between the statistical data in the whole territory of BiH.

<table>
<thead>
<tr>
<th>SCEA</th>
<th>Category</th>
<th>Total Entities</th>
<th>Private Ownership</th>
<th>Private O. Ltd.</th>
<th>Ltd. Liability</th>
</tr>
</thead>
<tbody>
<tr>
<td>G</td>
<td>Trade, repair of vehicles, etc.</td>
<td>10.358</td>
<td>10.170</td>
<td>98,2</td>
<td>10.052</td>
</tr>
<tr>
<td>I</td>
<td>Transport, storage, communication</td>
<td>2.028</td>
<td>1.959</td>
<td>96,6</td>
<td>1.957</td>
</tr>
<tr>
<td>F</td>
<td>Construction</td>
<td>1.972</td>
<td>1.885</td>
<td>95,6</td>
<td>1.834</td>
</tr>
<tr>
<td>D</td>
<td>Manufacturing</td>
<td>4.040</td>
<td>3.739</td>
<td>92,5</td>
<td>3.711</td>
</tr>
<tr>
<td>H</td>
<td>Catering</td>
<td>663</td>
<td>607</td>
<td>91,6</td>
<td>623</td>
</tr>
<tr>
<td>K</td>
<td>Real estate, renting, business services</td>
<td>2.338</td>
<td>1.986</td>
<td>84,9</td>
<td>1.986</td>
</tr>
<tr>
<td>B</td>
<td>Fishing</td>
<td>24</td>
<td>20</td>
<td>83,3</td>
<td>20</td>
</tr>
<tr>
<td>C</td>
<td>Mining</td>
<td>143</td>
<td>115</td>
<td>80,4</td>
<td>128</td>
</tr>
<tr>
<td>A</td>
<td>Agriculture</td>
<td>542</td>
<td>397</td>
<td>73,2</td>
<td>404</td>
</tr>
<tr>
<td>E</td>
<td>Electricity, gas and water supply</td>
<td>95</td>
<td>12</td>
<td>12,6</td>
<td>29</td>
</tr>
<tr>
<td>O</td>
<td>Other social and personal services</td>
<td>3.613</td>
<td>403</td>
<td>11,2</td>
<td>403</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>21.293</strong></td>
<td></td>
<td></td>
<td><strong>21.147</strong></td>
</tr>
</tbody>
</table>


** author's estimation

The category of small and medium enterprises should also include manual trades (private businesses). According to the European Commission's recommendation, they would fall under micro enterprises, although they are not considered as enterprises in the Federation of BiH in legal terms. Table 1.2 shows the number of business entities which are included in the limited liability companies and manual trades in the Federation of BiH.

The use of the individuality criterion remains an open issue. The statistical bulletin for the time being shows no indicators for the limited liability companies which operate independently unlike those which operate within larger business entities.

<table>
<thead>
<tr>
<th>Year</th>
<th>Legal entity of l.en.</th>
<th>Parts</th>
<th>Crafts</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>45.609</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td>49.053</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>29.710</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>27.491</td>
<td>15.103</td>
<td>33.610</td>
</tr>
</tbody>
</table>
Provided that these criteria for defining small and medium enterprises are adopted, we can conclude that there were more than 50,000 small and medium enterprises in the Federation of BiH in 2003.

It is about 19 small and medium enterprises per 1,000 citizens of which 7.5 were registered as the limited liability companies and 11.5 as manual trades.

**b) Involvement of SME sector in the economy of the Federation of BiH**

*Employment*

We have combined the statistical data on employment for 2002 with the reports issued by the agencies for privatization on all levels of authority. The business entities in the process of being privatized are grouped in the economic activity for which they were registered. Thus we arrived at a rough number of employees per economic activity (Table 1.3) in 2002.

<table>
<thead>
<tr>
<th>SCEA</th>
<th>SMEs' Employees**</th>
<th>Employees</th>
<th>SMEs' share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>G</td>
<td>50.323</td>
<td>50.323</td>
<td>100</td>
</tr>
<tr>
<td>I</td>
<td>16.630</td>
<td>28.744</td>
<td>58</td>
</tr>
<tr>
<td>F</td>
<td>20.000</td>
<td>24.764</td>
<td>81</td>
</tr>
<tr>
<td>D</td>
<td>69.296</td>
<td>95.952</td>
<td>72</td>
</tr>
<tr>
<td>H</td>
<td>14.306</td>
<td>14.306</td>
<td>100</td>
</tr>
<tr>
<td>K</td>
<td>8.280</td>
<td>9.280</td>
<td>89</td>
</tr>
<tr>
<td>B</td>
<td>196</td>
<td>196</td>
<td>100</td>
</tr>
<tr>
<td>C</td>
<td>2.343</td>
<td>16.443</td>
<td>14</td>
</tr>
<tr>
<td>A</td>
<td>4.495</td>
<td>10.616</td>
<td>42</td>
</tr>
<tr>
<td>E</td>
<td>59</td>
<td>14.973</td>
<td>0</td>
</tr>
<tr>
<td>O</td>
<td>2.661</td>
<td>10.418</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td><strong>Subtotal</strong></td>
<td>276.015</td>
<td><strong>68.3</strong></td>
</tr>
<tr>
<td></td>
<td>Other activities (J,L,M,N) Subtotal</td>
<td>118.477</td>
<td></td>
</tr>
<tr>
<td>EMPLOYEES TOTAL</td>
<td>394.492</td>
<td><strong>47.8</strong></td>
<td></td>
</tr>
</tbody>
</table>

Federation of BiH in figures, 2004
**author's estimation

The overall number of employees in the SME sector was close to 190,000 which is 47.8% of the overall number of employees in the Federation (394,500). The SME sector accounted for 68.3% in the overall number of employees in the non-financial sector.

*Value added*
In order to assess the value added in the small and medium enterprise sector, we started from the presupposition that the performance productivity in private companies and in those in which the state still owns shares is equal. This assessment is rather rough for some of the presented economic activities since many of the partially privatized companies did not work. This means that the inaccuracy of measurement may only be “to the advantage” of private enterprises or that the average indicators (Table 1.4) are smaller than the real situation.

Table 1.4

<table>
<thead>
<tr>
<th>SAEA</th>
<th>Gross value added</th>
<th>SMEs’ Gross v.add.**</th>
<th>SMEs’ share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>G</td>
<td>824.812</td>
<td>824.812</td>
<td>100</td>
</tr>
<tr>
<td>I</td>
<td>714.645</td>
<td>416.462</td>
<td>58</td>
</tr>
<tr>
<td>F</td>
<td>279.711</td>
<td>225.901</td>
<td>81</td>
</tr>
<tr>
<td>D</td>
<td>914.070</td>
<td>660.136</td>
<td>72</td>
</tr>
<tr>
<td>H</td>
<td>132.270</td>
<td>132.270</td>
<td>100</td>
</tr>
<tr>
<td>K</td>
<td>171.599</td>
<td>153.108</td>
<td>89</td>
</tr>
<tr>
<td>B</td>
<td>1.080</td>
<td>1.080</td>
<td>100</td>
</tr>
<tr>
<td>C</td>
<td>179.822</td>
<td>25.623</td>
<td>14</td>
</tr>
<tr>
<td>A</td>
<td>545.071</td>
<td>230.793</td>
<td>42</td>
</tr>
<tr>
<td>E</td>
<td>415.564</td>
<td>1.637</td>
<td>0</td>
</tr>
<tr>
<td>O</td>
<td>161.269</td>
<td>41.192</td>
<td>26</td>
</tr>
<tr>
<td>Subtotal</td>
<td>4,339,913</td>
<td>2,710,014</td>
<td>62.4</td>
</tr>
<tr>
<td>Other activities (J,L,M,N) Subtotal</td>
<td>2,130,488</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FISIM</td>
<td>-188,926</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross value added-TOTAL</td>
<td>6,281,475</td>
<td>43.1</td>
<td></td>
</tr>
</tbody>
</table>

** author's estimation

Small and medium enterprises account for 43.1% of the total gross domestic product of the Federation of BiH. Small and medium enterprises accounted for 62.4% in the total value added created by the non-financial sector (2002).

c) **Access to and use of Internet**

The entity and cantonal governments and municipal administrations are providing ever more information to business entities via Internet. The generators of on-line information are tax authorities, the customs authority, courts, chambers of commerce and associations, the Agency for Statistics and entity Statistics Bureaus, Directorates for Privatization, employment bureaus and funds. The provision of information via Internet is being speedily developed via Internet by the banks and micro-credit organizations and non-governmental organizations.
It is true that the contents of most of the web pages are intended for economic entities in general with only a rare reference to small and medium enterprises or manual trades and handicrafts which is mainly the consequence of the lack of a generally accepted definition.

Many pages which we have seen include the possibility of interactive communication, and many of those which we have tested provide proper and prompt responses to the questions asked by visitors.

Administrative affairs are not yet done via Internet. It is not possible to fill out questionnaires, get registration or other forms or, for instance, file a tax return via the said web pages.

Internet users are on the other side of communication. We have assessed that more than three fourths of the registered companies have e-mail (which means that they have access to Internet). In the Federation, according to an unofficial assessment made by the largest web providers, every fourth registered business company has its own web page. According to an official assessment in the Federation of Bosnia and Herzegovina “the use of services via Internet by small and medium enterprises may be estimated roughly at 30%”.

The laws regulating e-business (in the Republika Srpska) and an electronic signature are adopted in both entities. Financial transactions are becoming a habit of managers especially in large companies. The appropriate laws will also be made in the Brcko District by the end of 2004.
II. Institutions and legislation

a) Responsibilities of the state-level institutions in the area of SME

The Law on Ministries and Other Administrative Bodies of Bosnia and Herzegovina defines the responsibilities of the Ministry of Foreign Trade and Economic Relations, including the following:

- preparation and development of macro-economic relations or strategic documents relating to economic relations,
- competition,
- business environment, a single economic space, and
- development and promotion of entrepreneurship.

In accordance with the responsibilities of the Ministry, there is a Sector for the development of entrepreneurship within the Ministry and its head is at the level of the assistant minister. There is also the Department for promotion and development of entrepreneurship within that sector.

At the level of the Federation of Bosnia and Herzegovina the problems related to the development of small and middle enterprises fall within the responsibility of the Ministry for the Development of Entrepreneurship and Crafts.
The scope of work includes administrative, expert and other activities as established by the laws regulating the responsibilities of the BiH Federation in the following fields:

- encouragement of the development, entrepreneurship and crafts,
- provision of support to the application of innovations and introduction of modern technologies in the area of entrepreneurship and crafts,
- increase of entrepreneurship and crafts’ share in the overall economy,
- organization of institutions for entrepreneurship and creation of entrepreneurial infrastructure,
- training of entrepreneurs and craftsmen through regular education and supplemental training and other activities as established by law.

In the Republika Srpska, the assistant minister in the Ministry for Economy, Energy and Development is in charge of small and middle enterprises and production-related crafts. He/she has the following responsibilities:

- crafts and development of private entrepreneurship,
- elaboration of mid-term and long-term development plans,
- elaboration of SME development strategies,
- elaboration of strategies for the development of the handicraft activity.

At lower levels of administration, i.e. in cantons and municipalities, there are also ministries, divisions or responsible officials and bodies whose scope of responsibility includes advancement of entrepreneurship, business, small and middle enterprises and trades.

A very fragmented scheme of the authorities dealing with the issues of small and middle enterprises is the consequence of the social and legal fragmentation of Bosnia and Herzegovina. There is no doubt that such an institutional framework results in the problems regarding:

- the mode of work and information-sharing,
- coherency of formulated policies and approved development strategies,
- responsibility for implementation of the set goals,
- vertical and horizontal responsibilities of institutions,
- cost-effectiveness of the performance of administrative sub-system.

The presentation of the situation becomes more complex if the local non-governmental organizations and international governmental and non-governmental organizations mandated to deal with the general problems of economic reform and especially the development of small and middle businesses are added to the state-level authorities responsible for the SME sector.*
It was stated at a recent roundtable bringing together most of international organizations and local NGOs dealing with small and middle enterprises and the development of entrepreneurship in BiH that there are 46 ongoing projects from this area and that many project teams were not aware of the activities of other projects before the roundtable was organized.

b) National and regional policies

Bosnia and Herzegovina has approved the Mid-Term Development Strategy (PRSP) which pays much of its attention to the development of small and middle enterprises. The conceptual basis for the defining of the SME development strategic goals is the document entitled The Entrepreneurial Society, drafted by the BiH Ministry of Foreign Trade and Economic Relations in 2001 as a framework for the economic development of Bosnia and Herzegovina.

The Mid-Term Development Strategy sets the harmonization of policies with the recommendations from the European Charter on Small Enterprises as a top priority in strengthening entrepreneurship and SME in BiH. At the same time, “BiH must create a policy that will aim at modernizing and restructuring the industry, as well as strengthening the SME sector”.

The document concludes that it is paramount to adopt the SME development strategy in BiH (plus to harmonize the strategy with the European Charter); it should define the institutions and actions leading to the development of entrepreneurship and SME, “taking into account the specific characteristics of the FBiH, RS and the Brcko District”. The emphasis is also placed on the importance of improving the business environment by way of, among other things, removing administrative barriers, reducing costs of registration and launching initiatives in the area of tax policy and the development of new technologies.

In addition to the preparation of the local strategies supporting the SME development, the said framework sets the following priorities:

- Establishment of a legal and institutional framework for supporting the development of entrepreneurship,
- Creation of a Guarantee Fund for support to medium-sized enterprises,
- Encouragement of training and education of entrepreneurs and managers.

It is assessed that US$ 1.5 billion of aid in the form of credits and donations will be needed for the implementation of the Mid-Term Development Strategy.

c) Consultation with businesses

There is no single body at the state level which would ensure a continued and efficient communication between the authorities and the business. True, the business representatives were invited to take part in the development of the Mid-Term Strategy.
Development of SME sector in BiH, 2004

for Macro-Economic Development, which is currently the core document at the level of BiH which, among other things, covers the issue of entrepreneurship.

The Social and Economic Council began to operate in the Federation in 2002. It includes the representatives of the government, employers and trade unions. Their intention is to secure a dialogue between those who participate in the reform and especially in the reform of the laws covering social and economic issues.

Also the Chamber of Commerce and the Association of Employers take an official part as representatives of businesses in the activities of the Federation authorities.

The Chamber of Commerce, regional chambers of commerce, the Association of Private Employers and the Association of Employers are the organizations which are officially represented in the work of the authorities in the Republika Srpska.

In Brčko District business takes part in the work of the authorities through the Chamber of Commerce which is the association of employers, associated on a voluntary basis.

The cooperation of authorities with the representatives of business is regulated by law. The representatives of the above-mentioned organizations and associations take part on a regular basis in the drafting of the laws and amendments to the existing laws and also in the formulation of policies relevant for the requirements of business operations and economic development.

The businessmen are directly involved in the legislative authority, since some individuals of this social group are often members of the parliaments at all levels either as the representatives of the opposition parties or the ruling parties and often as independent candidates.

However, despite the existence of formal mechanisms for participation in the decision-making process, the practice shows that entrepreneurs are not satisfied with the quality or principles of their participation in the decision-making*

*d) Laws and regulations

Bosnia and Herzegovina

There is no law on business companies or enterprises at the state level although there is the desire that the laws regulating this issue at the entity level be harmonized and brought closer to the compliance with the European Union standard.

The registration of companies is resolved at the BiH level through the Framework Law on Registration of Business Companies which came into force on September 18th, 2004.
It is concluded in one analysis based on interviews conducted with many businessmen that “the quality and regularity of consultation between government and the private sector on SME policy is so poor that it is generally perceived to be non-existent.”

This Law regulates the following issues throughout Bosnia and Herzegovina:

- the principle of registration of business companies,
- the owners and subject of registration,
- the keeping and content of the Register,
- registration costs,
- time of registration,
- mandatory data on owners,
- registration of shares of owners,
- subsidiary companies,
- change of legally important data,
- status-related changes,
- forms and application procedure,
- decision on registration and other issues, and
- access to the register by third parties.

The most important novelty introduced by the Framework Law concern the deadlines for registration. According to the provisions of Article 20: «the responsible registration court shall issue a decision within five days from the day of submission of a proper application».

If the responsible registration court establishes that the application is incomplete in such a way that it prevents the registration in accordance with this law and the entity law and the law of Brcko District the court is obliged to invite the applicants to rectify the flaws within a certain deadline.

It is further stipulated that «the responsible registration court shall issue a decision within five working days from the day on which flaws were removed».

The decision on registration contains the personal identification and tax numbers of the owner (and the customs number, if necessary) which are unique for the territory of Bosnia and Herzegovina.

An important provision of the Framework Law on Registration of Business Companies in BiH refers to the principle of transparency under which «anyone may, without the need to prove legal interest, have access to and obtain statements from the
General Ledger and the Register Data Collection. When legal interest has to be proved for access to the Register can only be prescribed by law.

The provisions of the Framework Law on Registration of Business Companies in Bosnia and Herzegovina regulate that the entities and Brcko District will draft and enact regulations on the registration of business companies within 60 days from the day of entry into force of the Framework Law. The application of the Framework Law «shall commence 180 days from the day of its entry into force at the latest».

In view of this relatively long period for the implementation of the Framework Law, we shall present the existing laws in the entities and in the Brcko District which regulate the establishment and cessation of activity of the business companies and their registration.

Federation of BiH

The establishment, business activities, management and closure of business companies are regulated by the Law on Business Companies which was adopted in 1999. The Law has been amended several times after its adoption. It envisages different forms of organization of business companies:

- Unlimited Joint and Several Liability Companies,
- Limited Partnership,
- Shareholders' Company, and
- Limited Liability Company.

Although the terms small and middle enterprises are not used in the text of the law, the spirit of the law indicates that in this transition phase in Bosnia and Herzegovina SME should be sought among business companies which are organized as the limited liability companies.

The idea of entrepreneurship is incorporated in the Law, as the definition of a company says that it is «a legal entity which carries out an independent economic activity for the purpose of making profit». The status of a legal entity is acquired by «registration in the court register».

The Law on Encouragement of the Development of Small Businesses is in the process of being drafted. The preliminary draft envisages harmonization of the law with the recommendations of the European Commission on the definition of the subjects of micro, small and middle businesses.

In addition to the application for registration of the limited liability company in the court register, the following also needs to be attached:

- a memorandum of association certified by a public notary,
- proof that the founders' shares have been paid,
value assessment report and documents on shares in assets and rights,
list with personal data of the members of management and supervisory board, if it is appointed, including their statements on acceptance of duty.

Limited liability companies may cease to operate in one of the following ways:

- by merging, joining or division,
- by the decision of the assembly of shareholders,
- by a court decision, and
- in case of bankruptcy.

(If it is a limited liability company with only one member, the function of the assembly is done by a member of the company).

Administrative costs of the registration of business companies are 500 euros. The period needed for registration in practice is now twenty days.

Economic or any other activity which is not forbidden by law may also be performed as a craft which implies «independent and permanent performance of legally allowed and registered activities for the purpose of making profit». The craft also includes house industry and handicrafts. The requirements for handicrafts, the establishment and cessation, association and training are regulated in the Law on Trade and Crafts enacted in 2002. It was amended in 2003.

A license for crafts is issued by the responsible authority, defined at the cantonal level, within fifteen days. A special group of crafts defined by law is the responsibility of the Federation ministries, while the deadline for issuance of licenses is thirty days. Just as business companies, the craftsmen have their firms under which they carry out business.

Republika Srpska

In the Republika Srpska a legal form of realizing entrepreneurship is defined as an enterprise and a private entrepreneur. This conceptual approach is not important for the main objective of our consideration, which is the position of small and middle enterprises in the economy of Bosnia and Herzegovina.

In the Republika Srpska, keeping in mind the level of privatization, small and middle enterprises should be sought in the limited liability companies and sole proprietorships. We should add to this the business companies which are established and work in accordance with the Law on Craftsmen and Entrepreneurial Activity.

The problem regarding the management of development policy is different administrative levels defined for the registration of business companies and the location of a statistical monitoring of the number of employees and economic performances of small and middle enterprises.
The set of the documents needed for a new limited liability company to start working is the same like in the Federation of Bosnia and Herzegovina. The sole proprietorship is different because there is no need for a contract between the founders. The costs of establishment of a new limited liability company are an average of one thousand euros.

The cessation of operation of the limited liability company in the Republika Srpska is regulated in a way which is similar to the way which exists in the Federation of Bosnia and Herzegovina. The only important difference is that the company may be deleted from the register also if the company concerned does not carry out its activity for a period exceeding two years, without cessation.

The Republika Srpska Law on Small and Middle Enterprises is in the process of being harmonized with the European Commission Directives regarding the definition of SME in the European Union.

Brcko District

The Brcko District Government has proposed that the law on small and middle enterprises be adopted by the end of 2004. That law would regulate the establishment, development, business operations and support to the development of small and middle enterprises.

How many days does one need to start up a business?
Various sources say that an average period of time needed to launch a business in Bosnia and Herzegovina is incomparably longer than in other transition countries. We are of the view that the polls conducted mainly among entrepreneurs should take into account the date as from the days are calculated as the law stipulates that the days are counted as from the «day of submission of a complete application and the registration documents».
A special problem is the activity for which the law prescribes that the approval from the responsible ministry is needed beforehand. In calculating an average number of days the duration of registration of special businesses should not be taken into consideration.
III. Access to sources of financing

a) Introduction: Situation in the baking sector

The Central Bank of Bosnia and Herzegovina was established in 1997. Its main objectives and tasks are prescribed by the law in compliance with the General Framework Agreement for Peace in BiH. The Central Bank of Bosnia and Herzegovina maintains the monetary stability in accordance with the currency board arrangement (1 KM : 0,51129 EURO), which means that the bank issues the domestic currency under the full coverage of convertible foreign currencies per fixed exchange rate.

In accordance with the law, the Central Bank:

- defines and controls the monetary policy implementation in Bosnia and Herzegovina,
- manages official foreign currency reserves from issuance of domestic currency,
- assists and maintains the appropriate payment and accounting systems,
- coordinates the activities of the Banking Agencies at the entity level which are responsible for issuance of licenses and bank supervision.

The Banking Agencies at the entity level are responsible for regulatory activities and supervision over the banking system as well as for the issuance of implementing regulations in the banking sector.
The bank network in Bosnia and Herzegovina consists of 27 banks registered in the Federation of BiH and 10 banks registered in the Republika Srpska. Some of these banks operate in both entities via their branch offices. 10 banks registered in the Federation of BiH have 21 branch offices in the Republika Srpska and 9 branches in the Brcko District. 3 banks registered in the RS have 7 branch offices in the Federation; 7 banks registered in the RS have 10 branches in the Brcko District. This data indicates an ever increasing confidence of the financial sector in the institutions of the system and a positive trend of spreading activities to the whole territory of the state of BiH.

The banking system was almost completely privatized in 2003 with high foreign capital shares. The general requirement of the macro-economic strategy is a unification of the banking system.

Out of 37 banks in Bosnia and Herzegovina 28 are qualified for the membership in the deposit insurance program. Of that number, 23 are insured while 5 banks have the status of potential candidates. Potential members have already prepared action plans for removing irregularities, in compliance with the requirements of the entity Banking Agencies.

The Deposit Insurance Agency of BiH expects that the process of granting banks access to the insurance program will be completed by the end of this year. The Deposit Insurance Agency is continually monitoring the fulfillment of the insurance criteria by the insured banks.

Out of the remaining 9 banks, under Article 31 of the Law on Insurance of Deposit in the Banks in Bosnia and Herzegovina, 6 banks – all of which are under receivership - may not apply for the membership. The bank insurance is a continued process. Accordingly, if the trustee orders a financial rehabilitation, provided that it is possible, it means that upon completion of the financial rehabilitation the bank may produce an action plan for the fulfillment of the insurance criteria and become a potential insurance deposit program member.

b) The situation in the Federation of BiH

The BiH Federation Banking Agency applies the existing law in a consistent manner. The legal framework governing supervision is largely harmonized with the Basel principles and some elements contained in the European Directives are also incorporated.

The census about the paid shareholders' capital is the problem facing a number of banks and they are currently under receivership by the Agency. During the receivership the progress toward the financial consolidation of these banks is evident, although they continue to fail to meet the prescribed census. This is why privatization or another way of solving their status will be a challenge in the near future, in accordance with the special program issued by the Federation Government.
The amendment to the Decision on the Minimal Standards for the Bank Foreign Exchange Risk Management, which the Agency issued in June 2003, includes the items related to the financial derivatives in the calculation of an open foreign exchange position. The Decision is being implemented as from September of this year.

Up until now, 16 banks in the Federation of BiH have met the deposit insurance requirements. Practically, out of the privately owned banks, only 2 banks have failed to meet the deposit insurance requirements.

c) The situation in the Republika Srpska

10 banks are operating in the Republika Srpska, of which 1 is under receivership. All the banks except that one operate under the existing law. The banks are in the majority private ownership and 6 banks have been issued the deposit insurance license. The remaining three banks have entered the deposit insurance program.

d) The banking sector indicators (30 June 2004)

The overall capital of commercial banks (initial plus additional) was 1.1 billion KM, which is 8% more than it was by the end of 2003. The capital structure and dynamics over the last three years is shown in Table 3.1. The rise of state capital share from 10% to 16% resulted from directing the Federation deposit to the Investment Bank. Foreign capital accounts for 65% in the overall capital and 77% in private capital.

The assets of the banks have reached the amount of 8.1 billion KM, which is an increase by 15% in comparison to 2003. The structure of the assets is as follows: cash accounts for 35% and credits for 57%. The funds have increased by 17% from the last year to the absolute amount of 414 million KM. The credits have increased by 16%. The overall amount of the funds which the banks keep abroad has slightly decreased.

The bank liabilities consist of 13% of capital and 87% of liabilities. Deposits account for 73% in the overall liabilities. Normally, deposits have increased by 706 million KM or 13% from 2003.
The total deposits amount to 5.9 billion KM, which is an increase by 706 million KM or 13% in comparison to 2003. Deposits of citizens account for 38%, banking institutions account for 17%, public companies 13%, private companies and corporations 14%, state institutions 12%. The structure of deposit per currency is shown in Table 3.2.

<table>
<thead>
<tr>
<th>Table 3.2</th>
<th>Deposits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum</td>
<td>4,158</td>
</tr>
<tr>
<td>Share</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL KM</td>
<td>1,749</td>
</tr>
<tr>
<td>Share</td>
<td>42%</td>
</tr>
<tr>
<td>Foreign</td>
<td>2,409</td>
</tr>
<tr>
<td>Share</td>
<td>58%</td>
</tr>
</tbody>
</table>

In the overall deposit, short-term deposits account for 68%, and long-term ones 32%, which is a mild decrease by one index point of the short-term deposit in comparison to 2003. The citizen savings are growing, although foreign currency savings continue to dominate (Table 3.3).

<table>
<thead>
<tr>
<th>Table 3.3</th>
<th>Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sum</td>
<td>1,556</td>
</tr>
<tr>
<td>Share</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL KM</td>
<td>358</td>
</tr>
<tr>
<td>Share</td>
<td>23%</td>
</tr>
<tr>
<td>Foreign</td>
<td>1,208</td>
</tr>
<tr>
<td>Share</td>
<td>77%</td>
</tr>
</tbody>
</table>

**Banks and business funding**

It may be concluded that the banking infrastructure has developed to the level which is sufficient for the needs of a small economy such as the economy of Bosnia and Herzegovina. The results which the bankers publish periodically are very good. According to the latest information, the savings have continually increased in the several consecutive years so that the scope of deposit in the beginning of 2004 reached the level of almost 6 billion Convertible Marks. Most of the banks are solvent and profitable.

However, the structure of deposit is unfavorable from the aspect of access to capital, since a vista savings by citizens form a predominant part of the deposit. This is why small and middle enterprises are granted by the banks mainly short-term credits.

The amount of credits granted in the first six months is 4.8 billion KM, which is an increase by 16% in comparison to 2003. The credits granted to citizens accounted for 48%, credits granted to private companies 44% and to public companies 5%.
Small and middle enterprises are in an unfavorable position with regard to credits. In early 2004 less than one fifth of the cumulative amount of granted credits, in the amount of around 20 billion KM, was offered to small and middle businesses.

The structure of sources of investment (gross fixed capital formation) in 2002 confirms an unfavorable position of SME with regard to access to loans and credits. Table 3.4 shows the data about the business activities which are predominant in small and middle businesses, according to our findings.

The investment funds originated mainly from private sources (2002). In eight selected activities the total credits used for investments reached only 20%. In the same period the funds for procurement of the basic capital from private sources reached 69%. The total level of granted credits is still low and confirms the unwillingness of the banks to grant loans and credits to businesses, notably to small and middle enterprises.

<table>
<thead>
<tr>
<th>SCEA</th>
<th>Activity</th>
<th>Total 000 KM</th>
<th>From own financial assets 000 KM</th>
<th>%</th>
<th>From financial credits 000 KM</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>G</td>
<td>Trade, repair of vehicles, etc.</td>
<td>290.164</td>
<td>209.891</td>
<td>72</td>
<td>66.813</td>
<td>23</td>
</tr>
<tr>
<td>I</td>
<td>Transport, storage, communication</td>
<td>284.957</td>
<td>214.428</td>
<td>75</td>
<td>22.159</td>
<td>8</td>
</tr>
<tr>
<td>F</td>
<td>Construction</td>
<td>81.411</td>
<td>63.234</td>
<td>78</td>
<td>13.129</td>
<td>16</td>
</tr>
<tr>
<td>D</td>
<td>Manufacturing</td>
<td>429.028</td>
<td>255.142</td>
<td>59</td>
<td>124.183</td>
<td>29</td>
</tr>
<tr>
<td>H</td>
<td>Catering</td>
<td>15.663</td>
<td>11.716</td>
<td>75</td>
<td>3.858</td>
<td>25</td>
</tr>
<tr>
<td>K</td>
<td>Real estate, renting, business services</td>
<td>128.816</td>
<td>100.709</td>
<td>78</td>
<td>19.970</td>
<td>16</td>
</tr>
<tr>
<td>C</td>
<td>Mining</td>
<td>32.005</td>
<td>17.093</td>
<td>53</td>
<td>7.871</td>
<td>25</td>
</tr>
<tr>
<td>A</td>
<td>Agriculture</td>
<td>40.272</td>
<td>25.842</td>
<td>64</td>
<td>5.708</td>
<td>14</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>1.302.316</td>
<td>898.055</td>
<td>69</td>
<td>263.691</td>
<td>20</td>
</tr>
</tbody>
</table>


The requirements for granting credits and the loan service deadlines for small and middle enterprises offered by commercial banks are unfavorable from the point of view of businesses (Table 3.5). A mean difference between interest rates charged on deposits and interest rates charged on short-term loans and credits granted to small businesses in the past several years amounts to almost ten index points and does not yet show a declining tendency. A huge difference in the existing interest rates is the consequence of an error in the market in terms of the absence of a reasonable risk assessment.

<table>
<thead>
<tr>
<th>max. Amount</th>
<th>Interest rate</th>
<th>Period</th>
<th>Comm.fee</th>
</tr>
</thead>
</table>

20
A huge difference in the existing interest rates is the consequence of an error in the market in terms of the absence of a reasonable risk assessment. One of the major problems concerns the amount and nature of collaterals which the banks are willing to accept.

The amount of collaterals is unreasonably high in comparison to the developed market economies. The percentage of a granted credit as against collateral continues to range between thirty and fifty percent. The methodologies of assessment of the value of the properties placed as collateral are different from one bank to another and are not sufficiently developed.

The businesses are interested in the commercial banks’ adopting and implementing the practice of a modern assessment of value of properties which they are willing to accept as a guarantee from the other side, while the banks are interested in using the money, which obviously exists, and in making profit. However, the position of the banks in terms of using of collaterals is similar to that of the tax authorities in the situation of an enforced tax collection. The equipment taken over in case of bankruptcy in exchange for borrowed moneys can hardly find a buyer in a poor market. The costs of storage often reach the level at which the efforts invested in an enforced tax collection are devalued.

e) Micro-credit organizations

The micro-credit program in BiH was initiated by the World Bank in 1996. According to an official assessment, the total amount of donations reimbursed via micro-credit organizations (The World Bank and 27 other donor organizations) exceeds 100 million KM. The loan service rates exceed 98% (Ref…).

The conditions granted to small and middle enterprises by micro-credit organizations are more or less equal throughout Bosnia and Herzegovina, which is related to the origin of primary credits granted by these banks (Table 3.6).

<table>
<thead>
<tr>
<th>Assets</th>
<th>KM</th>
<th>per year (%)</th>
<th>(months)</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>500.000</td>
<td>12-14</td>
<td>12-30</td>
<td>1-1,5</td>
</tr>
<tr>
<td>Real</td>
<td>8.000.000</td>
<td>EURIBOR+7,7</td>
<td>60</td>
<td></td>
</tr>
</tbody>
</table>

An unfavorable circumstance is that the existing law limits the overall amount of credit granted to a client to 30,000 KM. (Commercial banks are interested in granted credits in the minimum amount of 50,000 KM). For the time being this gap remains
uncovered, which is quite unfavorable for small and middle enterprises the needs of which often range between these two amounts. The legislation is in the process of being reformed with the aim to improve the performance and the much needed stability of micro-credit organizations.

IV. Access to information and consulting

a) Sources of services

The government institutions at the level of Bosnia and Herzegovina play the role of a coordinator in making and implementing the policies for the development of small and middle businesses. With regard to such a function of the central authorities, the direct communication between the ministries and other authorities at the state level and beneficiaries, i.e. small and middle enterprises has not been envisaged at all.

Business information and specifically business consulting is the task of the authorities at the entity, cantonal and municipal levels. In addition to the general services ensured via Internet (Chapter I), the quantity and quality of information generated by the authorities for small and middle businesses are mainly insufficient and poor.

The situation thus emerged in which business consulting of small and middle enterprises is shifted to various associations and chambers of commerce or to various projects launched by the non-governmental sector and international organizations. In the last few years more than twenty business centers and agencies were formed with the task to provide assistance to SME sector. The number of private companies dealing with consulting has already increased. All of them provide support to businesses, which includes:
• Business consulting,
• Establishment of companies,
• Business planning,
• Approach to credits and investments,
• Market survey,
• Marketing.

The European Commission has focused its efforts to the development of the network of Regional Development Agencies, RDA. This initiative differs from the previous efforts in terms of a well-considered and long-term approach to addressing the problems. Typical services which the development agencies provide are intended for all those who are taking part in the economic development:

• promotion of investment activities,
• support to public administration,
• economic development strategy,
• development of a «one-stop-shop» business registration
• business support centers
• info centers
• employment centers
• strengthening of coordination (intra- and inter-regional)

USAID, DFID, EC/Quick Impact Facility and many other organizations, which are operating at the regional and local levels, have been active in the business consulting.

Most of these projects report on the lack of will on the part of entrepreneurs to accept the obligation to pay for business consulting services upon expiration of the period of provision of services for free. There is another problem which concerns the overlapping of projects both regionally and thematically.

b) Views of entrepreneurs

According to the results of various polls, the businessmen believe that the quality of business services is unsatisfactory with the exception of legal consulting and bookkeeping which have reached a high level of reliability. They also believe that the consulting services are mainly theoretical and that there is a serious lack of knowledge and awareness about real problems that entrepreneurs are facing in practice.

The consulting services provided within various donor-funded projects are provided only once or have a short-term vision. Assistance is not available upon completion of
the project and entrepreneurs who are used to getting services from a specific project become victims of the project's financial unsustainability.

There is an obvious need on the part of SME (small and medium enterprises) for business information and consulting with regard to specific problems. There is a lack of appropriate solutions, particularly when it comes to sophisticated and technically complex requests from businesses. This opens up the problem of capacities of the providers of consulting services. The introduction of accreditations and certification in this area would inevitably be helpful.

c) Business incubators

Business incubators in Bosnia and Herzegovina have been initiated and funded by the international community. In the light of the specific problem of development, the ideas about business incubators are mainly related to certain goals such as returns and economic sustainability of returns, employment of women, employment of young people etc.

Gradacac has the best experience with regard to refugee returns. There is one business incubator in the field of processing industry. Since its establishment in 2000, several dozens of businesses and several hundreds of beneficiaries have been assisted by the business incubator. According to the reports, there is a high level of sustainability of businesses after they have left the incubator.
V. Entrepreneurial education

a) Introduction

The problem of image of entrepreneurs in the society of Bosnia and Herzegovina has its historical background. During the period of a socialist economy, an entrepreneur or a private businessman was a citizen who ran his or her private business under the rules of economy based on the concept of self-management. In the broadest terms, the segment of economy in which entrepreneurs were active, especially in production activities, was very much dependent on the social economy as a whole.

In Bosnia and Herzegovina this group of entrepreneurs was dependent on huge industries that they often were manufacturing associates or sub-contractors of, and complied with established rules of conduct and requirements of cooperation which remained unchanged for a long period of time. The position of this group of private businessmen, i.e. entrepreneurs involved in production activities, ceased with the war and has not yet been restored, with almost no future prospects.
The other group of private businessmen was the group of entrepreneurs involved in catering activities. They had certain continuity in terms of a social status (without material or financial damages caused to this group by the war!). We are of the view to any future consideration of the position of entrepreneurship should be related to the above historical context especially when it comes to the research which includes comparative analyses of the transition countries.

The problem of entrepreneurial education should necessarily be related to family education, due to the historical background. Family education encouraging entrepreneurship is rare, except for the heritage of a successful family business. This is why the school curricula are being changed so slowly.

b) Primary and secondary school education

There is no teaching unit at the level of primary education in Bosnia and Herzegovina which would be directly related to the notion of entrepreneurship and entrepreneurs.

The situation at the level of secondary school education is somewhat better. In the Federation, entrepreneurship is taught as a compulsory subject in secondary schools teaching under the Croatian curriculum. In the Republika Srpska the subject The Basics of Entrepreneurship is introduced in all secondary schools as from 2004/2005 school year. In the Brcko District the subject Entrepreneurship is compulsory for the students of the third and fourth grades of the secondary school of economics.

The situation is similar in trade schools in which entrepreneurship is taught as a mandatory segment of the curriculum: it is called Economy or the Basics of Entrepreneurship.

It may be concluded that the young people in Bosnia and Herzegovina, aged between 15 and 17, are starting to receive the first thematic knowledge about entrepreneurship.

c) Higher education

At the university level in the Federation of BiH it is not possible to study entrepreneurship as one's major. Nevertheless, there are university programs known as business or even management the content of which is related to entrepreneurship. The Management of Small and Middle Enterprises is being studied at the School of Economics, Sarajevo University, for six years already.

In the Republika Srpska a one-year specialist studies were introduced at the School of Economics in Banja Luka in 2004. The students will be awarded a diploma from entrepreneurial management. Entrepreneurship is studied as a separate course in both schools of economics. Entrepreneurial Economics and Management of Small and Middle Enterprises is a mandatory course studied at the fourth year. There is also a separate course known as Entrepreneurial Management at the post-graduate studies in Banja Luka.

Entrepreneurship is studied as a teaching unit at the School of Economics in Brcko District for several years already.
d) Advanced training

Informal education and advanced training in entrepreneurship, often referred to as business and management, is widespread in Bosnia and Herzegovina. The content of the curricula is limited to the following:

- Development of start-up schemes,
- Writing, monitoring and realization of a business plan,
- Marketing and promotion techniques,
- Legal problems regarding imports and experts,
- Functions of guarantee funds and credit lines

High quality courses are mainly supported by donations and implementation is entrusted with chambers of commerce, business centers and non-governmental organizations. The media campaigns implemented in parallel to these events are mainly good, especially when it comes to print materials. A wide distribution of information via broadcasters is localized and intended for urban centers.

The most active organizations and projects providing advanced training for entrepreneurs are:

- CARE/Business development service program,
- Business Support Center,
- GTZ/ Incentives to Small and Middle Enterprises in Northern Bosnia,
- SEED,
- EU/Quick Impact Facility,
- CIPE/Centre for International Private Entrepreneurship,
- Chamber of Foreign Trade and Chambers of Commerce.

A positive indicator in the field of education is undoubtedly the interest which the private organizations - some of which are growing into very good networks – are showing for education and consulting in entrepreneurship. We have no information about social or business recognition of diplomas and certificates issued upon a successful completion of the seminars and courses.
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