



# Creating a Business Enabling Environment: In-depth Analysis

Center of Excellence for Evaluation and Policy Research

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UNIVERSITY OF SARAJEVO



**School of Economics  
and Business**



**The Center of Excellence  
for Evaluation and Policy Research**



## ABBREVIATIONS

BiH	Bosnia and Herzegovina
BD	Brčko District
CAB	Conformity Assessment Bodies
FBiH	Federation of Bosnia and Herzegovina
EEN	European Entrepreneurship Network
EU	European Union
EBRD	European Bank for Reconstruction and Development
EPO	European Patent Office
FGD	Focus Group Discussion
FMRPO	Federal Ministry of Development, Entrepreneurship and Crafts
ICT	Information and Communications Technology
ISO	International Standard Organization
LGU	Local Government Unit
LPD	Land Productivity Dynamics
MCO	Microcredit Organization
MSME	Micro, Small and Medium-Sized Enterprises
NACE	Statistical Classification of Economic Activities in the European Community
NGO	Non-Governmental Organization
OECD	Organization for Economic Co-operation and Development
R&D	Research and Development
RS	Republic of Srpska
RARS	Republic Agency for the Development of Small and Medium-Sized Enterprises
SEBS	School of Economics and Business, University of Sarajevo
SME	Small and Medium-Sized Enterprises
SBA	Small Business Act
SPOC	Single Point of Contact
SWOT	Strengths, Weaknesses, Opportunities and Threats
USAID	United States Agency for International Development
VAT	Value-Added Tax
WBT	Western Balkans and Turkey
WBIF	Western Balkans Investment Framework

## **CENTER OF EXCELLENCE FOR EVALUATION AND POLICY RESEARCH**

The Center of Excellence (CoE) for Evaluation and Policy Research was established in March 2021 as part of the United States Agency for International Development (USAID) funded Monitoring and Evaluation Support Activity II (MEASURE II) Partnering for Excellence in Evaluation and Research grant awarded to SEBS. The CoE strives to serve as a centralized training facility and thought leader to support the sustainability of efforts to build research and evaluation capacity and provide monitoring and evaluation services in Bosnia and Herzegovina (BiH). Specifically, working closely with experts in social science research and program evaluation from across BiH, the CoE will:

1. Conduct surveys in relevant social and economic policy fields
2. Conduct data analyses and develop survey reports
3. Develop conceptual, methodological, and policy models and presenting them to relevant ministries, employment bureaus, chambers of commerce, and industry leaders
4. Design and produce policy papers to identify key social and economic issues
5. Assist BiH government institutions in designing and conducting rigorous evaluations of programs and initiatives

Through these activities, the CoE will build close cooperation with key stakeholders, private and public sectors, and academia and promote collaboration and evidence-based decision making at all government levels in BiH.

### **DISCLAIMER**

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## EXECUTIVE SUMMARY

### PURPOSE

Improving and reforming the Business Enabling Environment (BEE) will result in cultivating a business environment that enables economic growth and development. The benefits that reforming BEE brings are a more rapid economic growth and a decrease in unemployment, poverty and corruption. The research report represents an in-depth analysis of the “business enabling environment” in Bosnia and Herzegovina (BiH). The report is based on secondary sources (strategic documents, legislation, and policy analysis) as well as on focus group discussions (FGDs) – with the aim of reviewing the current state of the field. More particularly, this report aims to answer what current practices in monitoring and evaluation are used and how evidence informs the decision-making processes, i.e., practices regarding current approaches in designing measures that support SMEs and entrepreneurial activity and the current state of the SMEs landscape and the entrepreneurial ecosystem in BiH in the context of “creating a business enabling environment”. The ultimate goals of creating such an environment are related to an accelerated economic development measured in terms of a GDP growth rate and an employment rate, with a special focus on the increase of entrepreneurial activity, the competitiveness of SMEs in global value chains, the digitalization of the economy, and the stimulation the creation of higher-value-added activities.

### METHODS

Findings and recommendations are derived based on extensive desk research analysis of strategic policy documents (strategy and action plans); and two focus groups with government and employers’ representatives.

### FINDINGS

The following conclusions were made:

- Programs and measures implemented by different government levels are typically monitored, but evaluations are rarely conducted. No impact evaluation has been identified.
- Evaluations of policy documents or strategic documents are not available publicly.
- Strategic and policy documents and legislative changes are considered through public discussion and presentations, various councils, the involvement of chambers of commerce and employers' associations as members of workgroups, focus groups with employers and expert opinions.
- Monitoring and evaluation practices are typically planned in the strategic documents.
- The process of designing policy documents or strategic documents is not well supported by statistical data, analysis, and reports.
- Priorities and measures in strategic documents are broadly defined, while various incentives offered at different levels (cantons, entities, and BD) are more specific.
- Indicators in strategic documents are typically defined for strategic goals, priorities, and projects/measures. In some cases, the difference between project-level and program-level indicators is rather unclear, whereas? Outcome and impact indicators are well-defined in most documents. However, in some cases, outcome or impact indicators are used for the project/measure, even though all projects are grouped under higher categories

(programs/priorities and strategic goals). Specifying such broad indicators for a project-level activity diminishes the possibility to actually observe the expected results.

- BiH underperforms in almost all policy dimensions compared to the Western Balkans and Turkey. The most recent assessment indicates that BiH has significant gaps between the current state and the (a) ideal standard and (b) in comparison with countries across the region in all policy dimensions, suggesting that all SME policies and/or legislative frameworks could benefit from a certain level of improvement or modifications, in terms of both design and delivery.

## **RECOMMENDATIONS**

The following recommendations are made:

- Recommendation 1: Strengthening evaluation processes in the policy cycle would allow for informed SME policy making, contributing to an increase in evidence and, when utilized, would allow for more informed policy making.
- Recommendation 2: Strengthening the capacity of government representatives to conduct and utilize monitoring and evaluation throughout the policy cycle would further promote evidence-based policy making.
- Recommendation 3: Encourage government representatives to make reports publicly available to promote transparency and accountability.
- Recommendation 4: Continue the effort to improve the efficiency of administrative procedures and to decrease the fiscal burden of businesses.
- Recommendation 5: Harmonize policies and measures across BiH.
- Recommendation 6: Further improve the legal framework for bankruptcy and second chance policies.
- Recommendation 7: It is necessary to work on building a more efficient public-private dialogue.
- Recommendation 8: Regularly monitor and evaluate tax simplification measures.
- Recommendation 9: Strengthen the monitoring and evaluation of the business support services program in both entities and in BD.
- Recommendation 10: Non-banking instruments should be further developed as the most dominant way of financing comes from banks, which have very strict criteria for getting a loan.
- Recommendation 11: Improve MSMEs skills, innovation, internationalization, and access to standardization.
- Recommendation 12: Financial and non-financial support regarding environmental protection and export certification should be provided for enterprises across BiH.



## INTRODUCTION

This report provides a detailed analysis of current monitoring and evaluation practices to support the policy cycle, the SME landscape and the entrepreneurial ecosystem in BiH in the context of “creating a business enabling environment”. This research report contributes to evidence-based decision making in understanding the business environment but also promotes the importance of an evidence-based decision-making process. This report should serve as a framework for developing conceptual, methodological and policy models in the specified social and economic field, i.e., creating a business-enabling environment in BiH. The report’s findings are drawn from secondary sources and two FGDs. Overall, evaluation practices are not included policy cycle created to support SMEs and entrepreneurial activity. The SME landscape and the entrepreneurial ecosystem in BiH should be improved in many aspects, including building a more responsive government, improving the efficiency of administrative procedures and decreasing the fiscal burden of businesses, improving the legal framework for bankruptcy and second chance policies, increasing access to finance, improving MSMEs skills, innovation, internationalization and access to standardization, and nurturing entrepreneurial human capital.

### Research objectives

The research report represents an in-depth analysis of the “business enabling environment”. The report is based on secondary sources (strategic documents, legislation, and policy analysis) as well as on focus group discussions, to review the state of the social and economic field, identified in the preliminary analysis report as a priority area. More particularly, this report aims to answer which current monitoring and evaluation practices are used, i.e., practices regarding current approaches in designing measures that support SMEs and entrepreneurial activity; the current state of the SMEs landscape and the entrepreneurial ecosystem in BiH in the context of “creating a business enabling environment”. The first question assesses the state of monitoring and evaluation among decision-makers (government), whereas the second focuses more on the current state in the business environment, providing an important guideline on possible modifications in the design and delivery of specific policies. The preliminary report identified the topic of “creating a business enabling environment” as a priority. The report made the following recommendations: improving the efficiency of administrative procedures; the harmonization and customization of policies and measures; decreasing the fiscal burden of businesses; improvement of the technological infrastructure and innovativeness of businesses and a proactive approach in attracting new investments in the domain of advanced technologies and knowledge-based services.

### Overview of the report

The report has four key sections: Methodological Framework, Socio-Economic and Reform Context Analysis, Findings and Conclusions and Recommendations.

The first section contains a detailed description of the methodological framework for primary and secondary research. The first method of drawing conclusions is based on an extensive desk review of primarily strategic documents related to the improvement of the SME landscape and entrepreneurship ecosystem in BiH. Another method of drawing conclusions includes focus group

discussions (FGDs). The first focus group included six representatives from government institutions, and the second FGD included a total of four representatives from employers' associations.

The second part provides a socio-economic and reforms context analysis. In this section, a brief field overview and map of the institutional setup are provided. This section identifies responsibility for SMEs development at different (total 14) levels of government. Further, the legislative/strategic framework and reforms are presented, with a special focus on three laws that deal with the development of SMEs. Finally, reforms from the three most relevant strategic documents for the period 2021-2027 are analysed, as they contain the most pressing issues that are planned to be addressed in the upcoming period.

In the third part, the main findings, based on an in-depth analysis of the aforementioned data, are presented, showing the current state of the SME environment. In order to ensure a better understanding of the field, separate boxes representing extracts from used strategic documents are introduced.

Findings are organized around two research questions:

- What is the current state of the SME landscape and the entrepreneurial ecosystem in BiH in the context of “creating a business enabling environment”?
- What is the current state regarding monitoring and evaluation, i.e., whether or not monitoring and evaluation practices are rooted in the policy cycle to support SMEs and entrepreneurial activity?

Finally, in the last section, a brief overview of the key findings, conclusions and recommendations in the field are presented.

## METHODOLOGICAL FRAMEWORK

In this section, PEER provides a detailed description of the methodological framework used to inform the in-depth analysis of the “business enabling environment”, drawing on both primary (qualitative research) and secondary research. This report seeks to assess the current state of the social and economic field, a priority area for BiH, drawing on primary data collected from FGDs, as well as secondary research garnered from strategic documents, legislation, and policy analysis.

The report seeks to assess two research questions. The first one is related to the current state regarding monitoring and evaluation, i.e., whether monitoring and evaluation practices are rooted in the policy cycle to support SMEs and entrepreneurial activity. The second question aims to understand the current state of the SME landscape and the entrepreneurial ecosystem in BiH in the context of “creating a business enabling environment”.

This report employs a mixed-method approach:

- An extensive desk review of primarily strategic documents related to the improvement of the SMEs landscape and entrepreneurship ecosystem in BiH;
- Two focus groups with the relevant stakeholders (government representatives and employers’ representatives);
- A mini online survey of a sample of enterprises in Bosnia-Herzegovina. However, due to the low response rate, the results of the survey were not analysed as part of this research report.

Table 1 summarizes the number of resources used in the desk research, as well as the number of respondents in the FGDs.

*Table 1. Research methods*

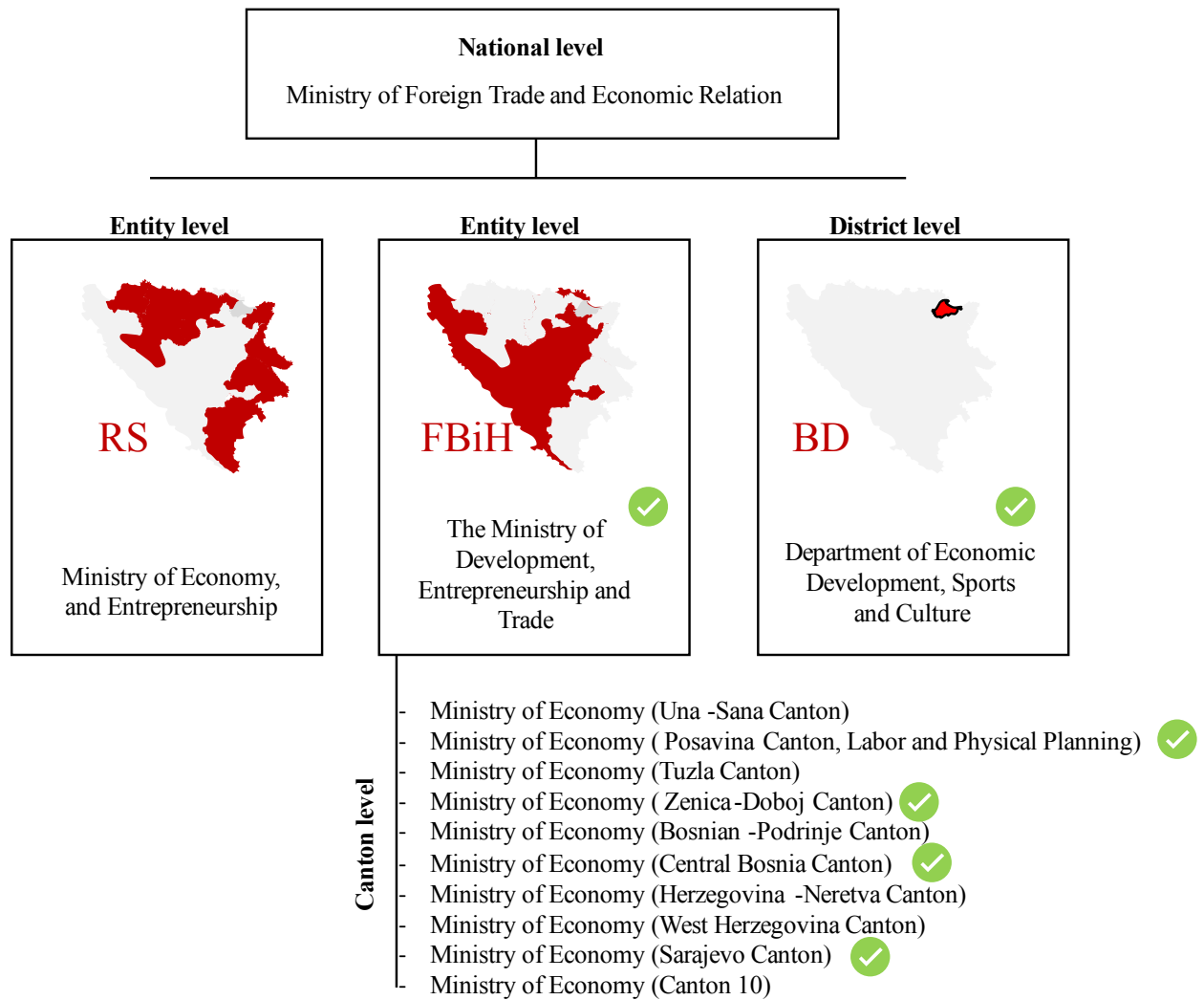
Research method	Number of resources or respondents
Desk Research	18 documents
FGD with government representatives	Six participants
FGD with employers’ representatives	Four participants

In order to address all issues related to a business environment, we were guided by two frameworks presented in Annex 1. These frameworks have been used as a guideline in preparing and conducting the FGDs as well as to ensure that all important topics are covered under the findings section.

### Desk research

The first method of drawing conclusions is based on an extensive desk review of primarily strategic documents related to the improvement of the SME landscape and entrepreneurship ecosystem in BiH. In order to conduct an in-depth analysis of the SME landscape and the entrepreneurial ecosystem in BiH, the first step was to identify relevant stakeholders and their strategic documents. The strategic documents were identified at the country, entity, BD and cantonal levels, i.e., a total of 14 different levels (see Figure 1 below).

Figure 1. BiH's levels of government and corresponding stakeholders



Note: A stakeholder with the green checkbox (✓) indicates an active participation in the FGD with government representatives

However, in order to optimize the effort, both in terms of efficiency but also effectiveness to produce this report, three key strategic documents were identified as the most relevant for the purpose of this research report:

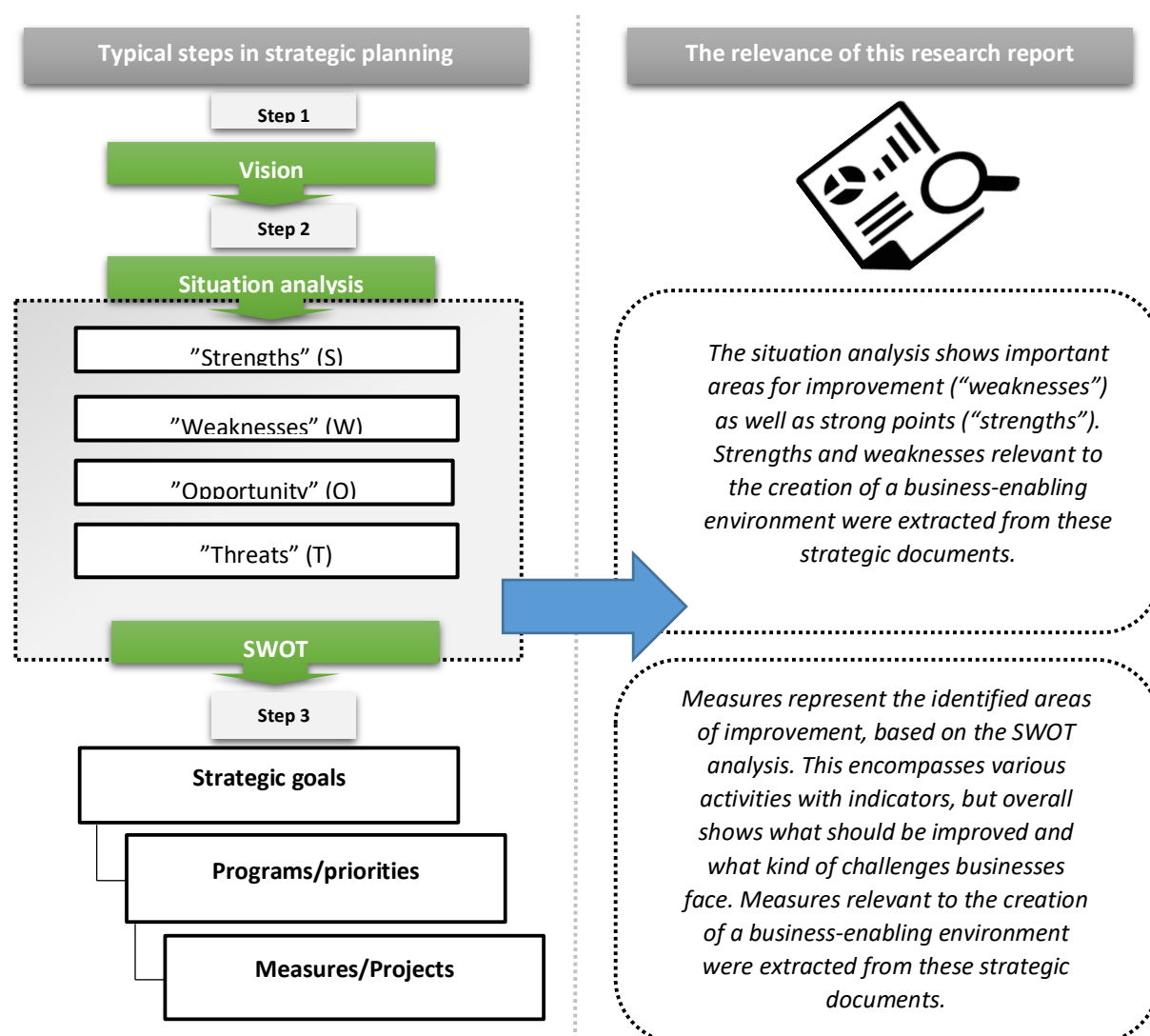
- Development Strategy of the FBiH 2021-2027;
- Strategy for the development of small and medium enterprises in the RS for the period 2021-2027;
- Development Strategy of the BD 2021-2027.

Since the base year of strategic documents is the most recent year, these documents provided the most recent situational analysis and measures for improvement. Strategic planning in these documents typically starts with the vision of the sector and the situational analysis. The situation analysis shows important areas for improvement (“weaknesses”) as well as strong points (“strengths”). Strengths and weaknesses relevant to the creation of a business-enabling environment were extracted from these strategic documents (see Annex 4). Based on the SWOT analysis, strategic documents typically identify strategic goals, programs/priorities and measures/projects. Measures represent the identified areas of improvement based on the SWOT analysis, while the situation analysis shows the most recent state in the field. It encompasses various activities but also shows what should be improved overall and what the main challenges are. Measures relevant to the creation of a business-enabling environment were extracted from these strategic documents. In addition to that, we visited all official websites of previously identified stakeholders (ministries and governments) in search of evaluation reports and other important strategic documents. It is worth noting that reports are available at various institutions.

The desk research framework is shown in

*Figure 2.* For the purposes of this report, strategic programs and priorities are used interchangeably and are defined as a specific group of related goals - a further level of operationalization of strategic goals. Activities, projects or measures are also used interchangeably and represent a part of programs that can be fully operationalized, i.e., fully identified and detailed in terms of scope, deadlines, duration and responsibilities.

Figure 2. A desk research framework



### Focus groups

The aim of the focus group was to gain a better understanding of the SMEs landscape and the entrepreneurial ecosystem in BiH, as part of a broader effort to conduct an in-depth analysis of the selected field - "creating a business enabling environment" - from the preliminary analysis report.

On July 14, 2021, SEBS conducted two FGDs. The first focus group included six representatives from government institutions (Department of Economic Development, Sports and Culture of Brčko District (BD); the Ministry of Development, Entrepreneurship and Crafts of the FBiH; the Ministry of Economy, Labor and Physical Planning of Posavina Canton; the Ministry of Economy of Zenica-Doboj Canton; the Ministry of Economy of Central Bosnia Canton; the Ministry of Economy of Sarajevo Canton). The FGD lasted an hour and a half. The second FGD included a total of four representatives from employers' associations (RS Chamber of Commerce, BD Chamber of Commerce, the Association of Employers of the FBiH and the BD Employers' Association). The FGD lasted two hours. The FGD was conducted online by using the Big Blue Button platform. Both FGDs were analysed with qualitative methods. This includes the preparation of data for analysis (transcribing qualitative data), as well as summarizing of meanings, grouping (categorization) of meanings; and structuring (ordering) of meanings using narrative. Respondents' gender characteristics are presented in Table 2.

Table 2. Respondents' gender characteristics

FGD	Number and percentage of FGD's participants	
	Male	Female
FGD with government representatives	3 (50%)	3 (50%)
FGD with employers	4 (100%)	0 (0%)

### A mini online survey of a sample of enterprises in Bosnia-Herzegovina

In addition to the previous methods, a mini online survey of a random stratified sample of enterprises in BiH was conducted in a period between July 15 and July 30, 2021. However, due to the low response rate, the results of the survey were not analysed as part of this research report. In addition to the basic demographic characteristics of the enterprises, the survey aimed to collect data on the topic discussed in the FGDs, as well as to collect the answers to the following questions<sup>1</sup>:

- Please describe, in as much detail as possible, what should be changed in the current business environment to achieve a more business-friendly environment, i.e., to create a business enabling environment?
- Please identify, in as much detail as possible, the most pressing challenges and/or constraints limiting a business-friendly environment.

### Limitations

One of the limitations is the lack of content available at official websites of ministries at different levels. The documents are either completely lacking, or it is very difficult to locate them. As there are 14 different ministries at different levels directly responsible for the business environment development (even more are indirectly involved), the search for the right information appeared to be a challenge. However, as all three entities websites do contain recent strategic documents, they ensured that the process is appropriately finalized.

In the first focus group, representatives from FBiH, BD, and several cantons participated actively. Government representatives from the RS did not show interest in the first FGD, nor did some ministries of the economy at the cantonal level. However, the RS Ministry of Economy and Entrepreneurship (established under this name in 2019) produced a dedicated strategy for the development of small and medium enterprises in the RS for the period 2021-2027, which provided quite a detailed overview of the situation in this sector. However, inputs regarding monitoring and evaluation practices in the RS were not obtained through the FGD. Nevertheless, participants in the second FGD including a representative from the RS, as well as strategic documents, and the OECD's (2019) report provided some information that compensated for the lack of involvement of RS government representatives. Another limitation that should be noted in the context of the FGD with employers is of the failure to include perspectives of female employers.

<sup>1</sup> Only 24 responses were collected, mostly aligned with the opinion of the focus group participants. However, due to the low response rate, the results of the survey were not analyzed as part of this report.



## SOCIO-ECONOMIC AND REFORM CONTEXT ANALYSIS

In this section, socio-economic and reform context analyses are presented. The socio-economic and reform context analyses were based mostly on current strategic documents at the national, entities and BD level, and the analysis was additionally supplemented by the results of the focus group discussions.

### FIELD OVERVIEW

The sector is categorized by the involvement of many levels (national, entity, cantons, and municipalities). The RS and BD have a more centralized approach in regulating the business environment, whereas programs and measures in the FBiH are implemented by cantons too. In the context of SME policies, they are underdeveloped at the national level and mainly exist at the FBiH, RS and BD levels. All strategic documents emphasize the need to build a more responsive government, improve administrative procedures efficiency and to decrease the fiscal burden of businesses, improve the legal framework for bankruptcy and second chance policies, increase access to finance, improve MSMEs skills, innovation, internationalization and access to standardization, and nurture entrepreneurial human capital. Employers' representatives in the FGD agree that overall strategic documents are well defined, but the main issue is their implementation, with a large number of participants in the decision-making process being the main issue for the slow decision-making process.

Overall, entrepreneurial framework conditions in 2017 could be rated as low, compared to the regional average, income level average and global average<sup>2</sup>. BiH is ranked below all averages in the following categories: entrepreneurial finance, governmental policies: support and relevance, government policies: taxes and bureaucracy, R&D transfer, cultural and social norms. Commercial and legal infrastructure, internal market dynamics and entrepreneurial education at school level rank BiH above regional and global averages.

The nature of the unsupportive environment, as well as indices that present data on human capital, markets and innovation ecosystem, with various sub-indexes, are presented in the Global Competitiveness Report<sup>3</sup> for 2019. The report ranks BiH as the worst performer in the Europe and North America Region. BiH is ranked 92<sup>nd</sup> out of 141 economies in the world. In the context of the "Future orientation of government", a sub-index component of the Institution index, BiH is ranked between 132<sup>nd</sup> and 139<sup>th</sup> position in all sub-index components: governmental ensuring of policy stability; the government's responsiveness to change; the legal framework's adaptability to digital business models; governmental long-term vision, energy efficiency regulation, renewable energy regulation and environment-related treaties in force.

### MAP OF THE INSTITUTIONAL SETUP

At the national level of BiH, the Ministry of Foreign Trade and Economic Relations oversees economic development and entrepreneurship. Similarly, the Ministry of Development, Entrepreneurship and Trade oversees the conducting of tasks related to SMEs at the FBiH level. As the FBiH consists of ten cantons, every canton has a dedicated ministry of economy. In the RS, the development of entrepreneurship and SMEs are under the authority of the Ministry of Economy and Entrepreneurship

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<sup>2</sup> Source: <https://www.gemconsortium.org/economy-profiles/bosnia-and-herzegovina>.

<sup>3</sup> World Economic Forum (2019). The Global Competitiveness Report 2019. Available at: [http://www3.weforum.org/docs/WEF\\_TheGlobalCompetitivenessReport2019.pdf](http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf).

since 2019. In the BD, the Department of Economic Development, Sports and Culture oversees economic development and entrepreneurship.

Table 3. Map of the institutional setup

Level	Level	Responsibility
1. Bosnia and Herzegovina	National	Ministry of Foreign Trade and Economic Relations
1.1. Brčko Distrikt	District	Department of Economic Development, Sports and Culture
1.2. Republic of Srpska	Entity	Ministry of Economy and Entrepreneurship
1.3. Federation of BiH	Entity	The Ministry of Development, Entrepreneurship and Trade
1.3.1. Una-Sana Canton	Canton	Ministry of Economy
1.3.2. Posavina Canton	Canton	Ministry of Economy, Labor and Physical Planning
1.3.3. Tuzla Canton	Canton	Ministry of Economy
1.3.4. Zenica-Doboj Canton	Canton	Ministry of Economy
1.3.5. Bosnian-Podrinje Canton	Canton	Ministry of Economy
1.3.6. Central Bosnia Canton	Canton	Ministry of Economy
1.3.7. Herzegovina-Neretva Canton	Canton	Ministry of Economy/Entrepreneurship and crafts sector
1.3.8. West Herzegovina Canton	Canton	Ministry of Economy
1.2.9. Sarajevo Canton	Canton	Ministry of Economy
1.3.10. Canton 10	Canton	Ministry of Economy

#### LEGISLATIVE/STRATEGIC FRAMEWORK AND REFORMS

Table 4 presents the most important strategic documents relevant for the development of a business enabling environment. As strategic documents are the result of larger working groups involving different stakeholders in the process (experts, employers, chambers of commerce, employers' associations, etc.), they also offer a good overview of the state-of-play and the necessary direction and reforms in the field.

Table 4. The most relevant documents

Level	Responsibility	Strategic documents	Period
<b>1. BiH</b>	<i>Ministry of Foreign Trade and Economic Relations.</i>	Medium-term work plan of the Ministry of Foreign Trade and Economic Relations of BiH for the period 2020-2022.  Report on the work of the Ministry of Foreign Trade and Economic Relations of BiH for 2020.  BiH - Development Report, Annual Report 2019.	2020-2022  2020
<b>1.1. Brčko District</b>	Department of Economic Development, sports and culture.	Development Strategy of the BD 2021-2027.  Law on Encouraging Economic Development.	2021-2027
<b>1.2. Republic of Srpska</b>	Ministry of Economy, and Entrepreneurship	Strategy for the development of small and medium enterprises in the RS for the period 2021-2027.  RS Women's Entrepreneurship Development Strategy for the period 2019-2023.  RS cluster promotion and development program.	2021-2027  2019-2023

Level	Responsibility	Strategic documents	Period
		<p>Strategy for Encouraging Foreign Investments in the RS from 2016 to 2020 with the Action Plan for Implementation.</p> <p>Guidelines for the development of the economy of RS.</p> <p>Law on Development of Small and Medium Enterprises.</p> <p>Rulebook on conditions and manner and method of establishing business zones.</p>	2016-2020
<b>1.3. FBiH</b>	The Ministry of Development, Entrepreneurship and Trade.	<p>Development Strategy of the FBiH 2021-2027.</p> <p>Law on Encouraging the Development of Small Business.</p> <p>Law on Encouraging the Development of Small Business and the Action Plan for the Development of SMEs 2019-2020.</p> <p>Law on Entrepreneurial Infrastructure</p>	<p>2021-2027</p> <p>2019-2020</p>
1.3.1. Una-Sana Canton	Ministry of Economy	Una-Sana Canton Development Strategy 2021-2027 (DRAFT).	2021 – 2027
1.3.2 Posavina Canton	Ministry of Economy, Labor and Physical Planning	Development Strategy of Posavina Canton 2021-2027 – DRAFT.	2021 – 2027
1.3.3. Tuzla Canton	Ministry of Economy	<p>Tuzla Canton Development Strategy for the period 2021-2027.</p> <p>Guidelines for economic and fiscal policy of Tuzla Canton for the period 2022 – 2024.</p> <p>Invest in Tuzla Canton – Guide for investors in Tuzla Canton (2017).</p>	<p>2021 – 2027</p> <p>2022 – 2024</p>
1.3.4. Zenica-Doboj Canton	Ministry of Economy	<p>Development strategy of Zenica-Doboj Canton for the period 2021 – 2027.</p> <p>Situational analysis of the Development Strategy of Zenica-Doboj Canton for the period 2021 – 2027.</p>	<p>2021 – 2027</p> <p>2021 – 2027</p>
1.3.5. Bosnian-Podrinje Canton	Ministry of Economy	Bosnian-Podrinje Canton Development Strategy 2021-2027.	2021 – 2027
1.3.6. Central Bosnia Canton	Ministry of Economy	<p>Action Plan 2020-2022 for the Central Bosnia Canton Development Strategy for the period 2016-2020.</p> <p>SBK Development Strategy 2016-2020</p>	<p>2016 – 2020</p> <p>2016 – 2020</p>

Level	Responsibility	Strategic documents	Period
1.3.7. Herzegovina-Neretva Canton	Ministry of Economy / Entrepreneurship and crafts sector.	Law on Encouraging the Development of Small Business and Protection of Traditional Activities (Crafts).  SME Development Strategy in HNC for the period 2012-2020.  Small Business Development Program of Hercegovina-Neretva Canton 2016-2020.  HNC Development Strategy for the period 2017-2020.	2012-2020  2016-2020  2017-2020
1.3.8. West Herzegovina Canton	Ministry of Economy.	Development Strategy of the West Herzegovina Canton for the period 2021-2027.  Investment brochure.	2021 – 2027
1.2.9. Sarajevo Canton	Ministry of Economy.	Sarajevo Canton Development Strategy 2021-2027..  Annual plan for the implementation of the small business development program for 2021  Small economy development program for the period 2020 – 2023.  Law on incentive for small business development in the Sarajevo Canton.  Invest in Canton Sarajevo – Canton Sarajevo Investment Profile.	2021 – 2027  2021  2020 - 2023
1.3.10. Canton 10	Ministry of Economy.	Action Plan 2020 - 2022 for the implementation of the Development Strategy of Hercegbosna County 2016-2020.	2020 - 2022

### *The laws on development of small and medium-sized enterprises*

In this section, special attention is given to the laws dealing with the development of small and medium enterprises since it is of particular interest to this research report. These laws were adopted at lower levels of government (entities and BD). However, there is no law on the development of small and medium enterprises at the national level. At the level of BiH, the following relevant laws have been adopted<sup>4</sup>:

- Law on Value Added Tax
- Law on the Indirect Taxation Procedure
- Law on the Indirect Taxation System in BiH
- Law on the Procedure for Compulsory Collection of Indirect Taxes of BiH
- Framework Law on the Registration of Business Entities in BiH
- Law on Classification of Activities in BiH
- BiH Law on Industrial Design
- Law on Industrial Property in BiH

<sup>4</sup> <http://www.mvteo.gov.ba/Content/Read/zakoni> and <https://www.paragraf.ba/besplatni-propisi-bih.html>

- BiH Competition Law
- Law on Customs Policy in BiH
- Law on Customs Tariff
- Law on Free Zones in BiH
- Law on Foreign Trade Policy
- Law on Foreign Direct Investment Policy in BiH
- Law on Control of Foreign Trade in Dual-Use Goods
- Law on Production of Weapons and Military Equipment
- Law on Agriculture, Food and Rural Development of BiH
- Law on Consumer Protection in BiH
- Law on Technical Requirements for Products and Conformity Assessment

These laws are generally not directly related to the area of support for SMEs but mostly to tax collection and foreign trade policy.



In the **FBiH**, the current Law on Encouraging the Development of Small Business was adopted in 2006. However, the new Law on Encouraging the Development of Small Economy is in the process of adoption. The current law provides a definition of MSMEs<sup>5</sup>, small business development measures and actions that development funds can be used to:

- Achieve an encouraging business environment, where the effect of the development measures are reflected on all small business entities. An encouraging business environment for small businesses is a regulatory and institutional framework characterized by clear and stable laws, the application of which ensures the right of ownership, compliance with and fast execution of contracts, equal legal conditions of operation, adequate administrative costs of operations and other legal protection of small businesses, financial and other development funds available under favourable conditions, availability of general and specialized services (administrative, financial, scientific, consulting and other services) and the existence of agencies, funds and other institutions to support the development of small businesses; and
- Support for the implementation of development projects important for the realization of the development plan and strengthening the competitiveness of small businesses. The support is realized through co-financing or other assistance for the implementation of pre-investment research, harmonization of quality management methods with European regulations, staff training, access to programs financed by European and other funds, preparation for export goods and services, the realization of patents, innovation of technological processes, transfer of knowledge and technologies, development of cooperation and association and realization of other similar projects.

Further, the law creates a Development Program. The framework for programming the development of small businesses is based on the economic policy of the Government of the FBiH and the European

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<sup>5</sup> Micro-enterprises (less than 10 employees, annual turnover or annual balance sheet less than BAM 3,911,600); small-sized enterprises (less than 50 employees, annual turnover or annual balance sheet less than BAM 19,558,000) and medium-sized enterprises (between 50 and 250 employees, annual turnover less than BAM 97,790,000 or annual balance sheet less than BAM 84,099,400).

Charter for Small and Medium Enterprises. Supervision of the application of this Act is carried out within the prescribed powers and in a manner determined by the regulations governing administrative supervision: FMRPO, Federal Ministry of Finance and competent authorities of cantons, cities, and municipalities.

The new Law on Encouraging the Development of Small Economy, which is in the process of adoption, provides guidelines for MSMEs development, which closely correspond to SBA's principles. The intention is to create a business environment that will have a positive impact on encouraging the creation of new and the development of existing small businesses and ensuring stable and successful operations of existing businesses. The benefit of the new Law is that the FMRPO establishes an information system of small business entities and incentive management for planning, implementation, monitoring and evaluation of measures and instruments for encouraging small business development and assessing economic impacts. The law also envisages the adoption of the Strategy for the Development of Small Business in the FBiH as a comprehensive document with basic goals, measures and risks of the long-term development of small businesses. Based on the Strategy and the three-year action plan for its implementation, and in accordance with the analysis of the situation in the field of small business, the FMRPO proposes, and the Government of FBiH adopts the Incentive Program for Small Business Development in FBiH for each calendar year in January of the current year. One of the expected changes is related to the establishment of the Council for Encouraging the Development of Small Business as an advisory body to the Federal Ministry. The Council consists of four representatives, one of whom is nominated by the FBiH Chamber of Commerce, the FBiH Chamber of Crafts, the FBiH Employers' Association and the municipalities and cities. It is specified that the members of the Council do not receive compensation for their work.



In 2013, **The Law on Development of Small and Medium Enterprises in the RS** was adopted. The law defined principles of MSMEs development (the principle of synchronization, the principle of equal development of local self-government units, the principle of equal opportunities, the principle of partnership, the principle of publicity, the principle of control, the principle of rationality, the principle of sustainable development, the principle of compliance with EU rules), the classification criteria on MSMEs<sup>6</sup>, and it defined entrepreneurial infrastructure. The law introduces and defines the terms, such as entrepreneurship (an innovative process of creating and developing business ventures or activities and creating business success in the market), business zone, technological park, entrepreneurial incubator and clusters. The law also provides guidelines for MSMEs development, which closely correspond to the Small Business Act's (SBA)<sup>7</sup> principles:

- Integration of entrepreneurship into the education system and educating entrepreneurs with the aim of improving the business of SMEs and supporting the development of women's and social entrepreneurship.

<sup>6</sup> Micro-enterprises (less than 10 employees, annual turnover or annual balance sheet less than BAM 3,911,600); small-sized enterprises (less than 50 employees, annual turnover or annual balance sheet less than BAM 19,558,000) and medium-sized enterprises (between 50 and 250 employees, annual turnover less than BAM 97,790,000 or annual balance sheet less than BAM 84,099,400).

<sup>7</sup> Commission of the European Communities (2008). *"Think Small First", a "Small Business Act" for Europe*. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52008DC0394&from=EN>.

- Creating conditions for SMEs especially, when starting a new business.
- Enacting regulations that first consider SMEs, to contribute to more economical operations of SMEs and constant growth of SMEs.
- Establishing a quick and easy way of registration, as well as enabling electronic communication with the competent authorities.
- Simplification of procedures related to public procurement and awarding incentives, as well as easier access to information necessary for SME operations.
- Improving access to funds of financial institutions and organizations.
- Developing awareness of the need to harmonize operations with standards in order to raise the competitiveness of SMEs in foreign markets.
- Encouraging the business of SMEs based on knowledge, innovation, modern scientific and technological achievements and management organization.
- Encouraging SMEs to establish an environmental protection system through the rational use of natural resources.
- Encouraging SMEs to participate in the market more.

Furthermore, the Law defines various subjects involved in the improvement of SMEs, including financial institutions, educational and research institutions, statistical offices, associations, chambers, government and others. Incentives funds for the development of SMEs and their competitiveness, as well as for establishing and strengthening entrepreneurial infrastructure are specified, defining possible purposes:

- Establishment of international standards concerning the business of SMEs.
- Development and establishment of information technologies for the needs of business activities.
- Application of business and technical innovations in SMEs.
- Provision of professional services and education to business start-ups, employees in SMEs, entrepreneurs, youth, and others.
- Participation in fairs and exhibitions, organization of conferences, electronic promotion of SMEs and other forms of promotion of SMEs.
- Education, promotion and assistance in the procurement of equipment and tools for the activities of old and artistic crafts and handicrafts.
- Preparation of project documentation for the business zone, construction of infrastructure and promotion of business zones.
- Adaptation or reconstruction of premises for business incubators, procurement of equipment for the needs of incubators and education of users of incubator services.
- Preparation of feasibility studies for a cluster establishment, support for cluster product development and education and promotion of cluster members.

The Law also established the Council for Development of Small and Medium Enterprises and Entrepreneurship of the RS, with the aim of analysing the business environment, evaluating the measures and providing proposals and suggestions during the process of enacting the regulations regarding SMEs and on the necessary financial incentives. In addition to the Council, the Law recognizes SME and entrepreneurship development agencies, i.e. RS' Agency for the Development of Small and Medium Enterprises and local development agencies, defining their roles and members.



**BD**

In the **BD**, the Department of Economic Development, Sports and Culture, established in 2006, adopted the Law on Encouraging Economic Development. The law regulates the status, among other, of foreign companies and entrepreneurs on the territory of BD. The Law promotes equal rights, obligations and privileges of foreign investors, removing any form of discrimination. The Law has given the foreign investor the rights to transfer the profit abroad and to employ foreign employees in accordance

with the existing laws in BD. The Law also protects foreign investors from being nationalized or expropriated. Foreign investments are approved by the Government of the BD (initially the Major) with the consent of the Assembly. Furthermore, the Law specifies facilities intended for improving the business environment, including:

- Decreasing the fiscal burden of businesses (exclusion from paying registration and court fees, participation in employee health insurance up to 50% in the first three years, salary compensation during maternity leave, reimbursement of new investments up to the amount of paid profit, etc.)
- Doing business within industrial zones (in order to achieve the preconditions for development on the territory declared an industrial zone by the decision of the Assembly of the Brčko District of BiH (BD), the District will provide infrastructure up to the border of the industrial zone with roads, water supply? and a high voltage electricity network).

The Law on Encouraging Economic Development provides fewer rules and guidelines than similar laws in FBiH and BD. However, the legal and regulatory framework in BD supports MSMEs in many aspects, which will be elaborated on in the findings section.

**Other relevant laws**

In addition to previous laws, the following laws are also relevant for businesses to operate in BiH. However, the list is not finite. One of the challenges are amendments to the law. Amendments to the law are presented as separate documents, whereby the employer must link the original text of the law with the amendments. Amendments are usually made by stating in a separate document which articles are to be added, or which parts of an existing article of the law are being amended.

*Table 5. The laws relevant for business environment*

Law	Description	Levels		
		FBiH	RS	BD
Law on enterprises.	This law regulates the establishment, operation, management and termination of companies.	(√)	(√)	(√)
The law on profit tax.	This law defines: corporate taxpayer, methodology for determining the tax base, payment and collection of corporate income tax, elimination of double taxation, tax incentives, penalties provisions, etc.	(√)	(√)	(√)



Law on registration of business entities.	This law regulates the rules of non-litigious procedures on the basis of which the competent registration court acts and decides on entry in the court register of business entities.	(√)	(√)	(√)
Law on Court Fees.	This Law regulates the manner of payment of court fees, the procedure and conditions for exemption from payment of fees, the manner of determining the value of a court dispute, the procedure for the collection of unpaid fees and other issues related to fees.	(√) and at cantonal levels	(√)	(√)
Law on administrative fees (It exists at the BiH level too).	This law prescribes and determines administrative fees in the procedure for administrative bodies, local self-government units and holders of public authority who are entrusted by law with resolving administrative matters on certain rights and obligations.	(√) and at cantonal levels	(√)	(√)
Law on communal taxes.	This law determines and regulates the basic elements of the system of communal taxes, the subject of tax obligations, the person liable to pay the communal tax, as well as the exemptions from the payment of the communal tax.	At cantonal levels	(√)	(x)

In order to provide a more comprehensive socio-economic and reform context analysis, we prepared the following three annexes: “Overview of key strategic reforms and challenges” (Annex 2), “Strengths and Weaknesses of FBiH, RS and BD, according to their strategic plans” (Annex 3), “Strategic goals, priorities and measures in the strategic documents of FBiH, RS and BD” (Annex 4).

## FINDINGS

**Research question 1. What is the current state of the SME landscape and the entrepreneurial ecosystem in BiH in the context of “creating a business enabling environment”?**

**Finding 1. BiH underperforms in almost all SBA’s policy dimensions as compared to the Western Balkans and Turkey, and falls short of the ideal standards.** The most recent assessment indicates that BiH has significant gaps between the current state and (a) the ideal state (b) regional standard in all policy dimensions, suggesting that all SME policies and/or the legislative framework could benefit from a certain level of improvement or modifications, in terms of both design and delivery.

According to OECD (2019), SME policy assessment of 10 SME policy index dimensions, BiH underperforms in all policy dimensions, compared to the Western Balkans and Turkey, and from an ideal standpoint. The gaps between the current state in areas of innovation policy for SMEs, operational environment for SMEs, and SMEs in a green economy are significant, making these issues most pressing. However, the gaps between current and the ideal, or regional states in areas of bankruptcy and second change, internationalization, the institutional and regulatory framework for SME, enterprise skills and standards and technical regulations are evident and should be in the focus of possible modifications in the designing and delivering of SME policies.

Table 6. SME Policy Index Assessment

SME Policy Index dimension	BiH	Western Balkans and Turkey average	% of Western Balkans and Turkey average	Ideal assessment	% of ideal assessment
Public procurement.	3.57	3.84	93%	5	71%
Business support services for SMEs.	3.41	3.89	88%	5	68%
Access to finance for SMEs.	3.26	3.53	92%	5	65%
Entrepreneurial learning and women’s entrepreneurship.	3.24	3.31	98%	5	65%
Standards and technical regulations.	2.78	3.83	73%	5	56%
Enterprise skills.	2.70	2.87	94%	5	54%
Institutional and regulatory framework for SME policy.	2.62	3.79	69%	5	52%
Internationalization of SMEs.	2.57	3.43	75%	5	51%
Bankruptcy and second chance for SMEs.	2.55	2.87	89%	5	51%
SMEs in a green economy.	2.40	2.61	92%	5	48%
Operational environment for SMEs.	2.34	3.45	68%	5	47%
Innovation policy for SMEs.	1.86	2.86	65%	5	37%

Source: Author

Data Source: OECD et al. (2019), SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en>.

***Finding 2. The lack of willingness of entrepreneurs to start and run an enterprise is pronounced, indicating the need for improving entrepreneurial human capital. However, the entrepreneurial activity across BiH differs and some regions show a higher level of entrepreneurial activity.***

In the most recent Global Entrepreneurship Monitor's report (2017)<sup>8</sup>, BiH does not rank high in terms of willingness to start and run an entrepreneurial activity:

- total early-stage entrepreneurial activity<sup>9</sup> (BiH: 4.0; global average: 12.5),
- established business ownership rate<sup>10</sup> (BiH: 1.4; global average: 8.6),
- entrepreneurial employee activity rate<sup>11</sup> (BiH: 0.5; global average: 3.3),
- motivation index<sup>12</sup> (BiH: 1.2; global average: 3.3), and
- Female/Male TEA Ratio<sup>13</sup> (BiH: 0.5; global average: 0.7).

In terms of entrepreneurial activity, BiH is ranked below global and regional average values. The need to address this issue is recognized in the strategic documents, as several measures/initiatives support creating a business-enabling environment and define economic growth as a goal. More specifically, these goals are oriented toward increasing entrepreneurial activity and improving the competitiveness of SMEs.

In terms of MSMEs companies per 1,000 people, BiH is below the average of all countries and ranked at the near end, with only Denmark, the UK, Romania, Croatia, Turkey and North Macedonia having a lower total number of MSMEs per 1,000 people<sup>14</sup>.

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<sup>8</sup> Global Entrepreneurship Monitor (2017). Entrepreneurial Behaviour and Attitudes. <https://www.gemconsortium.org/economy-profiles/bosnia-and-herzegovina>.

<sup>9</sup> Percentage of population aged 18-64 who are either a nascent entrepreneur or owner-manager of a new business

<sup>10</sup> Percentage of population aged 18-64 who are currently an owner-manager of an established business, i.e., owning and managing a running business that has paid salaries, wages or any other payments to the owners for more than 42 months.

<sup>11</sup> Rate of involvement of employees in entrepreneurial activities, such as developing or launching new goods or services, or setting up a new business unit, a new establishment or subsidiary.

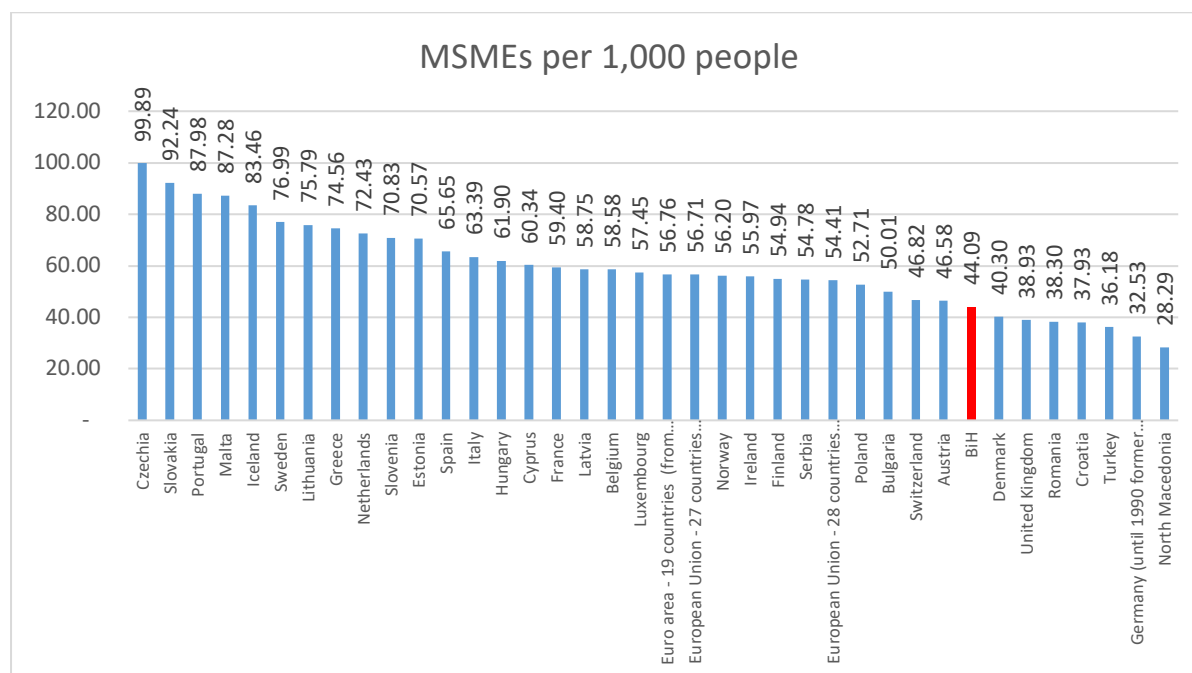
<sup>12</sup> Percentage of those involved in TEA that are improvement-driven, opportunity motivated, divided by the percentage of TEA that is necessity-motivated.

<sup>13</sup> Percentage of female population aged 18-64 who are either a nascent entrepreneur or owner-manager of a 'new business', divided by the equivalent percentage for their male counterparts.

<sup>14</sup> These numbers should be interpreted with caution as different laws in European countries might not include sole proprietorship or a single trader in their official statistics.

Figure 3 shows the number of MSMEs per 1,000 people in BiH in relation to other European countries.

Figure 3. MSMEs per 1,000 people in BiH in relation to other European countries



Source: Author's own calculation

Data sources: Eurostat (Population of active enterprises in 2018; population in 2018)

Note: Data for BiH includes enterprises in all sectors (all economic activities according to NACE)

North Macedonia is the worst-ranked among all observed countries. One of the potential reasons is related to the formal education system. As noted by Dimitrova (2020), “the current formal education system is hindering the economic growth and requires immediate reforms to encourage entrepreneurial spirit at all education levels starting from an early age.”<sup>15</sup> Certainly, BiH would also benefit from such a reform.

**Finding 3.** *There is an uneven regional distribution of MSMEs, which may indicate that certain regions have better policies or socio-economic advantages in terms of supporting entrepreneurial activity and a business-enabling environment.*

Table 7 shows the number of business entities in FBiH, the RS and BD, with the data derived from the official statistics agencies. Enterprises are not evenly distributed across BiH, indicating that there are more enterprises (in absolute numbers and per 1,000 people) in FBiH. When comparing with the number of MSMEs per 1,000 people, FBiH and BD have a similar number (slightly above 50), while the RS is far below their average values.

<sup>15</sup> Dimitrova, M. (2020). *Entrepreneurship Ecosystem in North Macedonia: Market Assessment*. ILO, p. 43.

Table 7. Number of business entities (including single traders/entrepreneurs)

Variable	FBiH (2019)	RS (2019)	BD (2020)	BiH
<b>Number of business entities (including single traders/sole proprietorship)</b>	112,955	33,447	4,181	<b>150,583</b>
<b>Population</b>	2,190,098	1,142,495	83,159	<b>3,415,752</b>
<b>Enterprises per 1,000 people</b>	51.57	29.28	50.27	<b>44.09</b>

Source: Author's own calculation

Data sources: Statistics Agency of BiH, Federal Office of Statistics FBiH, RS Bureau of Statistics, EUROSTAT

The uneven territorial distribution of MSMEs is also evident in the case of FBiH. Around 72% of business entities (including sole proprietorships) are found in four cantons: Canton Sarajevo (28.2%), Tuzla Canton (18.4%), Zenica-Doboj Canton (12.8%) and Herzegovina-Neretva Canton (12.4%). The other six cantons account for 28.1% of total business entities. Table 8 shows that Sarajevo Canton, Herzegovina-Neretva Canton and West Herzegovina Canton have an above-average number of MSMEs per 1,000 people, ranking them even above EU averages. However, Posavina Canton and Una-Sana Canton have a very low number of MSMEs per 1,000 people.

Table 8. MSMEs per 1,000 people in FBiH

Canton	Single traders	Legal entities	Total business entities	Population	MSMEs per 1,000 people
Sarajevo Canton.	12,387	20,061	32,448	421,555	76.97
Herzegovina-Neretva Canton.	6,739	7,463	14,202	216,248	65.67
West Herzegovina Canton.	2,228	3,369	5,597	93,213	60.05
Tuzla Canton.	11,408	9,740	21,148	437,607	48.33
Bosnian-Podrinje Canton.	476	584	1,060	22,778	46.54
Canton 10.	1,375	2,232	3,607	79,448	45.40
Central Bosnia Canton.	5,467	5,318	10,785	249,062	43.30
Zenica-Doboj Canton.	8,065	6,684	14,749	357,275	41.28
Posavina Canton.	544	1,045	1,589	40,959	38.79
Una-Sana Canton.	3,998	5,684	9,682	266,535	36.33
Total (FbiH).	52,687	62,180	114,867	2,184,680	52.58

Source: Author's own calculation

Data Source: Development Programming Institute of FBiH (2020). Macroeconomic indicators by cantons of FBiH 2020. Available at: <https://fzpr.gov.ba/bh/publikacije/makroekonomski-pokazatelji-po-kantonima>.

Also, of the total number of SMEs that operated in the RS in 2019, 44.55% operated in the economic area of Banja Luka. Comparing the number of SMEs between 2019 and 2015, the share of the number of SMEs increased in the economic areas of Banja Luka and Trebinje, while in other economic areas

(Bijeljina, Doboj, East Sarajevo and Prijedor) the share of SMEs in the total number of SMEs in RS decreased<sup>16</sup>.

***Finding 4. Entrepreneurial learning, support and mentorship are not sufficiently developed.***

Gimnazije (the local equivalent of grammar schools in B/H/S) in BiH, often do not offer entrepreneurial courses. However, the conclusion of the participants of the workshop "Challenges and priorities of strengthening the systemic competitiveness of SMEs" is that the interest of high school students (especially craft occupations) in entrepreneurial learning is low<sup>17</sup>. The new law on higher education in the RS provides for the possibility of the introduction of dual education and greater synergy between the economy and higher education institutions. A similar conclusion can be found in the Report on the Development of the FBiH for 2019, where one recommendation is to "expand existing training and entrepreneurial training programs for young people in secondary schools and universities through special subjects and teaching modules and extracurricular activities for all pupils and students"<sup>18</sup>.

*Table 9. Assessment of the SBA policy dimension: Entrepreneurial learning and women's entrepreneurship*

No	Sub-dimension	BiH	Western Balkans and Turkey (WBT) average	Percent of WBT average	Ideal assessment	Percent of ideal assessment
1.1.	Entrepreneurial learning.	3.23	3.43	94.2%	5	64.6%
1.2.	Women's entrepreneurship.	3.26	3.31	98.5%	5	65.2%

*Data Source: OECD et al. (2019), SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/q2q9fa9a-en>.*

OECD's (2019) assessment confirms that there is a smaller gap between BiH's current state in entrepreneurial learning and women's entrepreneurship and the Western Balkans and Turkey (WBT) average. However, significant improvements are required in order to reach the ideal state (Table 9). These results are in line with the existing report, especially BiH's SBA profile, where the recommendation is to continue to embed entrepreneurial learning into school curricula: "As of 2018, only 10% of all primary and secondary schools had embedded entrepreneurship as a key competence in their curricula. All educational authorities should cross-reference their curriculum with the European Entrepreneurship Competence Framework and teachers should be trained to meet the revised pedagogical requirements, which will foster a more entrepreneurial culture."<sup>19</sup>

<sup>16</sup> Strategy for the development of small and medium enterprises in the RS for the period 2021-2027.

<sup>17</sup> Strategy for the Development of Small and Medium Enterprises in the RS 2021-2027.

<sup>18</sup> Development Programming Institute of FBiH (2020). Report on the Development of the FBiH for 2019. Available at: <https://fzzpr.gov.ba/bh/publikacije/izvjestaj-o-razvoju>.

<sup>19</sup> OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the SBA for Europe*, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en>.

The lack of entrepreneurial learning, support and mentorship are confirmed in both FGDs. The participants E3 (M) and E2 (M) noted that it is necessary to work on educating entrepreneurs and breaking down prejudices, but also raising awareness about what it means to be an entrepreneur, in addition to financial support.

*"When I talk to young people who have started businesses. It is more complicated to close a company than to register one. And everyone is scared. You can hear: "Don't do it, it's hard to close it later. They might take your house." And then many entrepreneurs are scared to get involved in the business. If an entrepreneur wants to do something, he/she works illegally. Very unsupportive environment. And not to mention [mentality of] our people [prejudices] if an entrepreneur fails." (E3, M)*

*"I don't think anything should be happening ad hoc, especially when it comes to supporting start-ups. But also, those who are not start-ups. At the beginning of the conversation, we stated that funds exist. However, in order to receive those funds, an entrepreneur needs to meet certain conditions, such as making a business plan. Banks require a business plan too. [Investors] want an idea on the paper and not just the attitude "Give me money." No, you need to put the idea on paper. I think that our people are generally insufficiently trained, they do not have enough knowledge to make a business plan. [...] That's us. I think that is also one of the problems." (E2, M)*

Representatives of the government mostly agree with the statements that changing the perception is a key challenge in the future and that education/training is necessary:

*"I have to say that education is the most important thing because we have huge changes today. We do not have formal quality education in certain areas and informal education is very difficult to achieve. A couple of years ago, I had the opportunity to participate in an IPA project related to entrepreneurship education. The result of the analysis of 300 companies was that the entrepreneur is ready to invest in his venture if someone pays him/her and if he/she works outside his/her working hours. I think these results were devastating." (G4, F)*

*"What we have noticed in our work - we provide the training for self-employment, i.e., entrepreneurs. And of 100 applicants, 50 will continue to the next stage and get the funds. When we explain to them what awaits them along the way, registrations, accounting, what the taxes are, contributions. It's more than just the desire to be an entrepreneur. And many give up. But they are grateful because they learn much. And that is why this type of education is very important." (G2, F)*

#### **Finding 5. Entrepreneurs who have faced bankruptcy do not quickly get a second chance**

The important sub-dimensions that should be considered regarding improving bankruptcy are preventive measures, bankruptcy procedures and promoting second chances. Table 10 assesses this dimension based on OECD's (2019) report indicating that improvements in terms of design and



delivery of second-chance recovery are necessary. BiH is ranked very low in terms of preventive measures (1.14) and promoting second chances (1.94)<sup>20</sup>, indicating that “a draft or pilot framework exists, with some signs of government activity to address the policy area concerned”. On the other hand, bankruptcy procedures are ranked 2.93<sup>21</sup>, indicating a position between “a draft or pilot framework exists” and “a solid framework”. The legislative framework for bankruptcy proceedings is regulated at the entity level. However, on average it took 3.3 years to resolve an insolvency case in BiH in 2018, according to data from the World Bank<sup>22</sup>. The time limit for resolving insolvency is not defined for the FBiH and BD, and in the case of the RS, bankruptcy procedures should be resolved within one year<sup>23</sup>. The cost of insolvency procedures was 9% of the debtor’s estate in 2018<sup>24</sup>. There are no initiatives to promote second chances among entrepreneurs in the FBiH and in BD. As indicated in the Strategy for the Development of Small and Medium Enterprises in the RS 2021-2027, a project entitled "Accepting failure to facilitate the provision of a second chance to entrepreneurs in the Danube region" (DanubeChance2.0) is implemented by the RS Development Agency. The project aims to develop “second chance” policies for entrepreneurs and to develop practical solutions to improve entrepreneurial learning and culture to avoid "loss of entrepreneurial potential" and overcome the "stigmatization" of bankrupt entrepreneurs. RS Agency for the Development of Small and Medium Enterprises has prepared a "Support Program for Entrepreneurs with Business Difficulties" intended for beginners in business, entrepreneurs with difficulties, as well as those who want to start a business again after failure. In the Development Strategy, BD also designed a special group of activities related to the improvement of the regulatory framework for bankruptcy, with the aim of speeding up procedures and reducing their cost, and to prepare and promote targeted support measures to provide second chances to entrepreneurs, in the form of appropriate training and exchange of experiences, as well as appropriate financial incentives for a fresh start. In this sense, financial incentives to provide a second chance are planned to be explicitly introduced as dedicated public calls for subsidies to the economy<sup>25</sup>.

Table 10. Assessment of the SBA policy dimension: Bankruptcy and second chance for SMEs

No	Sub-dimension	BiH	WBT average	Percent of WBT average	Ideal assessment	Percent of ideal assessment
2.1.	Preventive measures.	1.14	2.39	47.7%	5	22.8%
2.2.	Bankruptcy procedures.	2.93	3.21	91.3%	5	58.6%
2.3.	Promoting second chance.	1.94	1.93	100.5%	5	38.8%

Data Source: OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/q2q9fa9a-en>.

<sup>20</sup> OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the SBA for Europe*, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en>, p. 544.

<sup>21</sup> Ibid., p. 544.

<sup>22</sup> World Bank (2018), *Doing Business 2019: Training for Reform*, World Bank Group, <https://openknowledge.worldbank.org/handle/10986/30438>.

<sup>23</sup> OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the SBA for Europe*, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en>, p. 545.

<sup>24</sup> Ibid, p. 545.

<sup>25</sup> Development Strategy of the Brčko District 2021-2027.

As our results from FGDs show (

Table 11), representatives of SMEs (40%) more often than representatives of government institutions (0%) perceive that getting a second chance after facing bankruptcy is a pressing issue. 66% of Government Representatives displayed a neutral opinion on whether or not second chances should be given after facing bankruptcy, indicating that the situation in these matters is not ideal.

Table 11. Getting a second chance after bankruptcy (FGDs results)

Statement	Group	Number of participants	% of participants/respondents		
			Disagree	Neither agree nor disagree	Agree
Honest entrepreneurs who have faced bankruptcy should quickly get a second chance.	Government representatives	3	0%	66%	33%
	Employers' representatives	5	40%	40%	20%

**Finding 6. SME policies only exist at the entity level, with a lack of vertical coordination. Legislative simplification is being undertaken, removing unnecessary formal procedures for business, but the quality of the regulatory impact analysis is not satisfactory.**

BiH's overall score for the category "Institutional and regulatory framework for SME policy making" is 2.62, which indicates that a draft or pilot framework exists, with some signs of government activity to address the policy area concerned<sup>26</sup>. As OECD's (2019) report shows, SME policies only exist at the entity level with a lack of vertical coordination. Legislative simplification is being undertaken, removing unnecessary formal procedures for business, but the quality of the regulatory impact analysis is not satisfactory with employers still reporting many obstacles in terms of the institutional and regulatory framework. Table 12 summarizes three sub-categories of the institutional and regulatory framework for SME policymaking. A recent EC report (2020) indicates that "limited progress was made in the area of electronic registration of companies in the RS and the BD. However, there was no progress made towards the establishment of a central registry of businesses, linking business registers with each other throughout the country, or towards ensuring an equal level of harmonization in these fields across the country."<sup>27</sup>

Table 12. Institutional and regulatory framework for SME policy making

Sub-dimension	Institutional and regulatory framework for SME policy making: Key findings
Institutional framework.	<ul style="list-style-type: none"> <li>• SME policies only exist at the entity level.</li> <li>• Lack of vertical co-ordination.</li> </ul>

<sup>26</sup> OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the SBA for Europe*, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en>, p. 549.

<sup>27</sup> European Commission (2020), *Bosnia and Herzegovina 2020 Report Accompanying the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions 2020 Communication on EU Enlargement Policy*. Available at: [https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/bosnia\\_and\\_herzegovina\\_report\\_2020.pdf](https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/bosnia_and_herzegovina_report_2020.pdf), p. 65.

	<ul style="list-style-type: none"> <li>• Alignment of SME policy objectives across the entities and policy coordination remains weak.</li> <li>• Lack of measures to combat informal economy, except for the RS through the reform of the fiscal system.</li> </ul>
Legislative simplification and regulatory impact analysis.	<ul style="list-style-type: none"> <li>• Legislative simplification is being undertaken.</li> <li>• RS: Since 2009, it has eliminated 25% of unnecessary formal procedures for businesses and 60% of redundant inspection procedures; FBiH: simplification of business permits (65% of the total number identified for simplification).</li> <li>• The intensity of the reviews and simplification efforts has decreased in BiH.</li> <li>• Requirements to conduct a regulatory impact analysis (RIA) have been rooted in the policy-making systems of both the FBiH (since 2014) and the RS (since 2015), but the quality of the RIA process is not satisfactory.</li> <li>• 27% of draft laws in the FBiH were actually supported by RIA or another type of analysis.</li> <li>• The main challenges in the FBiH are a lack of planning within the RIA process, limited involvement of the GS in the RIA development process and the absence of proper enforcement mechanisms that would enable the GS to return low-quality RIA reports to the drafting ministry.</li> </ul>

Based on: OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe*, *SME Policy Index*, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en>, p. 549-552.

OECD's (2019) assessment confirms that the institutional and regulatory framework for SME policy is one of the most pressing issues, although recent changes (in both entities and the BD) introduced simplified procedures for registering a business, but also support sole proprietorship. There is a significant gap between BiH's current state in all sub-categories, the WBT average and the ideal state (Table 13).

Table 13. Assessment of the SBA policy dimension: Institutional and regulatory framework for SME policy

No	Sub-dimension	BiH	WBT average	Percent of WBT average	Ideal assessment	Percent of ideal assessment
3.1.	Institutional framework.	2.97	4.03	73.7%	5	59.4%
3.2.	Legislative and regulatory simplification and RIA application.	2.06	3.47	59.4%	5	41.2%

Data Source: OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe*, *SME Policy Index*, OECD Publishing, Paris, <https://doi.org/10.1787/q2q9fa9a-en>.

The online survey among participants at two FDGs (Table 14) confirms previous findings, i.e., policy-makers do not give full consideration to SMEs at the early policy development stage: rules impacting business are not fully created from the SMEs point of view; and SMEs are not considered by public authorities as being their "prime customers" as far as business regulation is concerned.

Table 14. SMEs' consideration at the early policy development stage

Statement	Group	Number of participants	Percent of participants		
			Disagree	Neither agree nor disagree	Agree
Policy makers give fully consideration to SMEs at the early policy development	Government representatives	6	16%	66%	16%

stage: rules impacting on business are fully created from the SMEs point of view; SMEs are considered by public authorities as being their “prime customers” as far as business regulation is concerned.	Employers’ representatives	4	75%	25%	0%
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***Finding 7. Even though public-private consultation exists, in practice, it is assessed as being poor and inconsistent***

This finding is closely related to the previous one as public-private consultations are a needed practice for designing SMEs measures. However, even though public-private consultation exists, in practice, it is assessed as being poor and inconsistent<sup>28</sup>. The OECD (2019) report also shows that an urgent procedure is mostly used for the adoption of laws in BiH. Table 15 summarizes the most important findings in the context of public-private consultations.

*Table 15. Public-private consultations*

Sub-dimension	Public-private consultations: Key Findings
Public-private consultations (PPCs).	<ul style="list-style-type: none"> <li>• In practice, PPCs are assessed as being poor and inconsistent (with some signs of improvement in RS).</li> <li>• The evidence shows that the majority of laws in BiH is adopted through an urgent procedure, without consulting interested parties. In 2016, 58% of legislation was adopted in this manner.</li> <li>• In particular, in 2016 a centralized e-consultation portal was introduced at the national level, however, the efficiency and effectiveness of the portal are not regularly monitored or evaluated.</li> </ul>

In line with the results of the secondary sources, employers that participated in the second FGD noted that the bargaining power of chambers and associations is not strong, the quality of the program does not meet the needs of employers and that programs/measures are mostly copied from year to year. The extent to which the submitted comments are considered is also problematic. These problems are vividly described by the following comments:

*"We get every law to comment on. We send our comments. Unfortunately, these comments are often not taken into account because politicians have some other interests of their own." (E4, M)*

*"What we have noticed is that these programs are only copied from year to year, so it is a 'copy-paste' practice. Something is foreseen in the budget, they [the government] have the funds and it is only being further distributed. They [the government] don't care what the effects are and they [the government] don't care how to make the most of those programs, i.e., how do these programs affect us." (E3, M)*

<sup>28</sup> OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the SBA for Europe*, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-e> n, p. 550.

Table 16. Assessment of the SBA policy dimension: Public-private consultations

No	Sub-dimension	BiH	WBT average	Percent of WBT average	Ideal assessment	Percent of ideal assessment
3.3.	Public-private consultations (PPCs).	2.71	3.79	71.5%	5	54.2%

Data Source: OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/q2q9fa9a-en>.

**Finding 8. Public administration and the operational environment are making some minor improvements, but are not as responsive to SMEs as they should be.**

BiH's overall score for the category "Operational environment for SMEs" is 2.34, which indicates that a draft or pilot framework exists, with some signs of government activity to address the policy area concerned<sup>29</sup>. OECD's (2019) assessment, presented in Table 17, confirms that there is a gap between BiH's current state in digital government services for enterprises and company registration and the WBT average. In terms of business licenses, this dimension is slightly above the WBT average, but improvements are necessary.

Table 17. Assessment of the SBA policy dimension: Operational environment for SMEs

No	Sub-dimension	BiH	WBT average	Percent of WBT average	Ideal assessment	Percent of ideal assessment
4.1.	Digital government services for enterprises.	1.81	3.29	55.0%	5	36.2%
4.2.	Company registration.	2.78	3.97	70.0%	5	55.6%
4.3.	Business licenses.	3.51	3.43	102.3%	5	70.2%
4.4.	Tax compliance procedures for SMEs.	N/A	N/A	N/A	5	N/A

Source: Author

Data Source: OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/q2q9fa9a-en>.

Table 18 summarizes three sub-dimensions of the operational environment for SMEs. Overall, public administration is improving in both entities and the BD.

Table 18. Operational environment for SMEs

Sub-dimension	Operational environment for SMEs: Key Findings
Digital government services for enterprises.	<ul style="list-style-type: none"> <li>No centralized portal and no central co-ordination body to oversee the services offered across BiH.</li> <li>The Law on Electronic Signature and the Law on Electronic Documents has been adopted, but their implementation is still ongoing in RS.</li> <li>Electronic submission of tax forms through the Tax Administration, which has become possible in both entities.</li> </ul>

<sup>29</sup> OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the SBA for Europe*, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en>, p. 549.

	<ul style="list-style-type: none"> <li>• An electronic cadastre has been established at the entity level (only available for viewing data).</li> <li>• No substantial collaboration over data exchange among public institutions of the different entities.</li> <li>• There are no initiatives in either the RS or the FBiH to monitor and evaluate digital services.</li> </ul>
Business registration and licensing	<ul style="list-style-type: none"> <li>• It acts as a one-stop shop, with all necessary registration and notification procedures handled in one place.</li> <li>• In the BD, business registration can only take place in the BD Court of BiH.</li> <li>• A company registered in the FBiH, for example, cannot operate directly in the RS without obtaining additional permits and vice versa.</li> <li>• The cost of starting a business has increased from 13.5% of income per capita in the 2016 assessment to 14.9% in 2019.</li> <li>• Obtaining licenses and permits remains a complex and fragmented process for SMEs in BiH.</li> <li>• Applicants in the FBiH have to seek professional assistance to get detailed information or else have to check the law by themselves, whereas applicants in RS can get information on all licenses and permits from the newly established (2018) Registry of Authorizations/Approval.</li> </ul>
Tax compliance procedures for SMEs	<ul style="list-style-type: none"> <li>• BiH offers a presumptive tax regime for micro-businesses, administered at the national level for indirect taxes (VAT) and at the entity level for direct taxes.</li> <li>• Enterprises with an annual turnover below BAM 50.000 are not obliged to register in the VAT system.</li> <li>• Only businesses operating in the RS are able to benefit from lower income tax rates.</li> </ul>

Based on: OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe*, *SME Policy Index*, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en>, p. 554-55.

Participants in both FGDs agree that the operational environment should be improved in many aspects.

An issue raised by a representative of employers (E3, M) is related to the informal economy which distorts the rules of fair competition and the labour market. Participant E3 (M) explained the issue in detail:

*"You see, small and medium enterprises, or enterprises in general, face many challenges, but the growing informal economy and undeclared work represent the biggest challenge and danger. Indeed, as an employer who tries to work transparently and respect all laws, this significantly affects me. I normally make furniture here, and let's say I make an offer of BAM 100,000, and I'm planning to pay VAT to the state, salaries to workers and all contributions. And then, a client comes and says that he has a better offer somewhere 'out there' where he does not need to pay VAT. [...] When you open OLX.ba or Facebook, there are thousands of companies that advertise furniture selling. These are companies that do not exist anywhere in statistics or tax administrations. So, such an informal economy and undeclared work threaten even these few companies that are struggling. And that will be an increasing challenge in the coming period - how can we fight against unfair competition. [...] This gives us a great deal of uncertainty, where I do not see the possibility of further investment, further expansion, etc. [Estimation] As much as 50% of furniture produced in the Sarajevo Canton is in the informal zone." (E3, M)*

Another important issue raised by both FGDs is related to electronic signatures and electronic forms of communication. E-services in general have not been developed. During the corona pandemic, electronic communication was rapidly introduced, but with the easing of measures, its use ceased very quickly.

*“Currently, at least here in the FBiH, there is no institution where you can email someone or get information via email. Indeed, it is a prehistoric environment. The electric power industry, water management, utilities, these various tax administrations, there is absolutely no possibility that you can communicate by email.” (E3, M)*

*“My company is engaged with a foreign partner from Italy. And he came to our customs, the seal was not stamped somewhere. And when we don’t have a seal, we don’t believe in anything. [...] I was at a panel in Berlin, as part of the action group of cooperation between BiH and Germany. And a German investor made a joke: “They [Bosnians] will give you everything, they just don't give you a stamp. He keeps the seal in his bag and protects it with his life”. I don't think we're ready to change this.” (E4, M)*

The problems related to e-signatures and e-services, in general, could be found in “the lack of harmonization of legislative solutions and misalignment between the legal frameworks of the state and entities”<sup>30</sup>. The lack of harmonization and misalignment “have created gaps in the support of e-signature, e-document and e-archive services”<sup>31</sup>.

Both FGDs agree that continuous work is being done to improve the length of time, simplify the procedure and reduce the total cost of business registration, but it is necessary to continue working on building an environment that will facilitate the SME registration process from the employer's point of view. Participants highlighted in particular:

- The complexity of procedures and the need to oblige? Institutions that have the same data.

*“We should avoid situations in which a businessman comes to an institution and gets a certificate in office number 7 and in order to conclude that process, he must take it to office number 8 on the same floor of the same institution.” (E3, M)*

- The duration and complexity of the process of obtaining a construction permit;

*“The geodetic administration is the biggest problem when starting new businesses. You can register a company very quickly, in one day, but only then do problems arise if you want to enter the realization phase: from the start, from the construction of the facility to the purchase of equipment.” (E1, M)*

- The length of time to obtain certificates from the Indirect Taxation Authority and the lack of will or vision to reach simple and quick solutions;

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<sup>30</sup> MEASURE-BIH (2018), *Assessment of Bosnia and Herzegovina E-Governance and E-Administration. Final Report*, p.10.

<sup>31</sup> *Ibid*, p.10.

*“For example, a confirmation from the Indirect Taxation Authority that taxes have been paid is required to apply for a tender. This whole region has to go to the Tuzla regional center, losing almost the whole day to get that confirmation, even though we have the infrastructure to introduce these services in BD.” (E2, M)*

- One-stop business registration is implemented at almost all levels; however, the implementation is not at the same level among the entities and it is necessary to continue working on improving the one-stop registration process.
- A large number of regulations.
- Adherence to payment deadlines. Legal solutions exist but they are not respected even by the authorities.

*“The problem for employers is illiquidity. In my opinion, we must move towards the state being the first to adopt and respect a payment deadline. Whether it's 30, 60 or 90 days, it doesn't matter. It is important that it is respected. [...] A business partner from Serbia shared his experience: Elektroprivreda pays on the 45th day and they strictly respect this deadline. Imagine how lucky it would be for us if a public company or anyone has to pay in the same manner, respecting deadlines.” (E2, M)*

- Fiscal and parafiscal levies are high, the method of VAT payments is unsatisfactory and current wage contributions do not motivate entrepreneurs to increase workers' wages, which has a negative impact on preserving jobs and preventing the departure of young staff.

*“VAT is obligatorily to pay in our country. You must pay VAT for the previous month regardless of your own situation. The state doesn't care. Ok, the state doesn't care whether I charged it, but the state should allow an entrepreneur to charge it, with some legal deadline that should not be longer than 60 days. Or make courts more efficient, to make everything faster. Currently, if you sue someone, you can 'die three times.'” (E2, M)*

*“In my opinion, a serious problem is huge contributions on? Salaries. That must be reduced. Now, to give an engineer a decent salary of 1,500 KM, you must plan BAM 2,500 gross. [...] Tax reform, parafiscal levies, that is something that needs to change”. (E3, M)*

- Tax incentives do not encourage companies to reinvest. Legal solutions exist, but it is necessary to continue working on improving tax incentives in order to stimulate the reinvestment of profits, and the growth and development of companies.

*“The conditions and the incentive that the BD gives, the FBiH and the RS can only dream of now. For example, if you export more than 50% you are exempt from income tax. The incentive for the first employment - when you employ a highly educated person, for two years the Government of BD finances his/her net salary of 700 BAM. Previously, I worked in the FBiH [...]. And there you get 150 KM and you only receive this financial support after a year or longer.” (E4, M)*



- Corruption is present in almost all spheres of business and the authorities devote most of their time inspecting those who work most honestly.

The previously listed issues are also recognized as business killers in the case of Montenegro, including an inadequate regulatory framework, a high share of informal economy and the existence of corruption at all levels and in all areas.<sup>32</sup> Compared to EU practices, “European SMEs experience legislation as complex and burdensome, especially due to different procedures in the Member States. These barriers deter many from doing cross-border business and scaling-up”.<sup>33</sup> In order to improve the environment for business, EC systematically screens existing EU legislation to reduce burdens and simplify legislation, with the aim to introduce the “one-in, out-out” principle.

Recent improvements in the Proposal of the Law on Crafts and Related Activities FBiH is expected to: enable foreign trade business of sole proprietorship; freelancers could easily register a trade in order to export services and pay contributions; the licensing for trades registration will be abolished; the registration procedure needs to be simplified and shortened; the deadline for issuing registration decisions will be limited; the property necessary for life and business cannot be part of the execution; the owner of the service business will be able to legally procure a spare part and will be able to sell it to you and issue a fiscal invoice resulting in the reduction of informal economy that craftsmen are forced into by an illogical law; all retired persons will be able to register an additional activity and an improved trade register is envisaged<sup>34</sup>.

***Finding 9. A small portion of SMEs benefits from publicly funded or co-financed business support services***

BiH’s overall score for the dimension “Support services for SMEs” is 3.41, which indicates that a solid framework, addressing the policy area concerned, is in place and officially adopted.<sup>35</sup> Business support services for SMEs are assessed in

Table 19.

*Table 19. Assessment of the SBA policy dimension: Business support services for SMEs*

No	Sub-dimension	BiH	WBT average	Percent of WBT average	Ideal assessment	% of ideal assessment
5.1.	Business support services provided by the government.	2.98	3.63	82.1%	5	59.6%
5.2.	Government initiatives to stimulate private business support services.	3.85	4.14	93.0%	5	77.0%

<sup>32</sup> Employers' Association of Montenegro (2013), *Five Business Killers – Strategic Policy Framework for Enabling Business Environment in Montenegro*.

<sup>33</sup> European Commission (2020), *Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: An SME Strategy for a sustainable and digital Europe*. COM/2020/103 final, <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1593507563224&uri=CELEX:52020DC0103>, p. 6-7.

<sup>34</sup> Klix (2021), *Koja sve unapređenja u poslovanju donosi novi Prijedlog zakona o obrtu i srodnim djelatnostima*. Available at: <https://www.klix.ba/biznis/privreda/koja-sve-unapredjenja-u-poslovanju-donosi-novi-prijedlog-zakona-o-obrtu-i-srodnim-djelatnostima/210728080>.

<sup>35</sup> OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the SBA for Europe*, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en>, p. 559.

Data Source: OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/q2q9fa9a-en>

Table 20 summarizes two sub-dimensions of support services for SMEs. According to the available data, only 1.97% of SMEs in the FBiH and 7.73% of SMEs in the RS used publicly funded or co-financed business support services in 2017<sup>36</sup>, compared to 23.1% of SMEs in Turkey, 18.8% of SMEs in Serbia and 7.6% of SMEs of seven economies (Albania, Kosovo, Montenegro, North Macedonia, Serbia and Turkey)<sup>37</sup>.

Table 20. Support services for SMEs

Sub-dimension	Support services for SMEs: Key Findings
Business support services provided by the government and government initiatives to stimulate private business support services	<ul style="list-style-type: none"> <li>• Business support systems are designed and implemented at the entity level.</li> <li>• Previous action plans in the FBiH and the RS aimed to improve the visibility of business support systems through promotional events and the media to inform more SMEs about available services.</li> <li>• BiH participated in the second phase of the Establishment and Promotion of Mentoring Service for SMEs in the Western Balkans project.</li> <li>• FBiH: no entity-level public agency to provide training or mentoring to SMEs. This task is carried out by the FMRPO and regional development agencies in some cantons.</li> <li>• In the FBiH, the FMRPO provides co-financing of 50% of eligible costs for SMEs under the Strengthening the Competitiveness of SMEs program. This covers three areas: technological improvement, improvement of product quality and standardization of business and production processes; training; and market access and product promotion.</li> <li>• The Sarajevo Economic Region Development Agency (SERDA) in the FBiH trained 16 mentors and about 100 SMEs benefitted from its mentoring support over three years between 2013 and 2016.</li> <li>• In 2018, the FMRPO trained 17 new mentors in co-operation with SERDA. The FMRPO publishes calls on its website for SMEs to participate in this free-of-charge mentoring program. In the RS, RARS is in the process of training future mentors.</li> <li>• In the FBiH, SMEs which benefitted from co-financing under the Strengthening the Competitiveness of SMEs program need to report on the use of the grants, but are not asked to detail how satisfied they were with the scheme in general. Similarly, the RS has no formal mechanisms to collect the feedback of public business support services beneficiaries comprehensively and to use this information to adapt business support services provisions accordingly.</li> <li>• 387 SMEs benefitted from the FMRPO's BSSs in 2017 and 722 SMEs benefitted from publicly co-founded BSSs in the RS. This means that only 1.97% of SMEs in the FBiH and 7.73% of SMEs in the RS used publicly funded or co-financed business support services in 2017. In comparison, 23.1% of SMEs in Turkey and 18.8% of SMEs in Serbia used publicly (co-)financed business support services, while the average for the seven WBT economies was 7.6% of SMEs.</li> <li>• RS: provides information on how to register a business; periodically delivers one-day training courses on how to develop a business plan, 14 local development agencies across the RS are coordinated;</li> <li>• RARS provides co-financing for consultancy support within the Consultant Network program;</li> <li>• Both the FMRPO and RARS monitor their BSS provision and compile annual monitoring reports. However, these reports are not publicly available.</li> </ul>

<sup>36</sup> Ibid., p. 562.

<sup>37</sup> Ibid.

	<ul style="list-style-type: none"> <li>The RS Development Agency and the Ministry of Industry, Energy and Mining established a single web portal (<a href="http://www.preduzetnickiportalsrpske.net">www.preduzetnickiportalsrpske.net</a>) for the RS in 2017. The portal provides information on business practices, legislation and government institutions, associations and international financial institutions.</li> </ul>
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Based on: OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe*, *SME Policy Index*, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en>, p. 559-563.

***Finding 10. The legal framework for secured creditors is well regulated, with bank lending being the dominant form of financing across BiH. The financial market for SMEs is characterized by the lack of newer financial arrangements such as venture capital, business angels and crowdfunding, with a relatively low level of financial literacy and low general information about SME financial support arrangements.***

BiH’s overall score for the dimension “Access to finance for SMEs” is 3.26, which indicates that a solid framework, addressing the policy area concerned, is in place and officially adopted.<sup>38</sup>

Table 21 and Table 22 summarize five sub-dimensions of access to finance for SMEs. Among seven economies (Albania, Kosovo, Montenegro, North Macedonia, Serbia, Turkey), BiH is the worst performer<sup>39</sup>. Overall, the legal framework for secured creditors is well regulated, with bank lending being the dominant form of financing across BiH. Microfinance, leasing, and factoring are established as well. However, the situation on the financial market for SMEs is characterized by the lack of newer financial arrangements such as venture capital, business angels and crowd funding, with a relatively low level of financial literacy and low general information about SME financial support arrangements.

*Table 21. Assessment of the SBA policy dimension: Access to finance for SMEs*

No	Sub-dimension	BiH	WBT average	Percent of WBT average	Ideal assessment	Percent of ideal assessment
6.1.	Legal and regulatory framework	3.87	4.14	93.5%	5	77.4%
6.2.	Bank financing	2.51	2.67	94.0%	5	50.2%
6.3.	Non-bank financing	2.94	2.95	99.7%	5	58.8%
6.4.	Venture capital ecosystem	1.44	2.22	64.9%	5	28.8%
6.5.	Financial literacy	1.31	2.19	59.8%	5	26.2%

Data Source: OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe*, *SME Policy Index*, OECD Publishing, Paris, <https://doi.org/10.1787/q2q9fa9a-en>

*Table 22. Access to finance for SMEs*

Sub-dimension	Access to finance for SMEs: Key findings
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<sup>38</sup> OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the SBA for Europe*, *SME Policy Index*, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en>, p. 567.

<sup>39</sup> Ibid.

Legal and regulatory framework.	<ul style="list-style-type: none"> <li>• The legal framework for secured creditors is well regulated across BiH.</li> <li>• Both entities have had capital markets available since 2001 through the Sarajevo and Banja Luka stock exchanges.</li> </ul>
Sources of external finance for SMEs (bank financing, non-bank financing and venture capital).	<ul style="list-style-type: none"> <li>• Bank lending continues to be the dominant form of financing across BiH.</li> <li>• Government financial support schemes for SMEs are limited.</li> <li>• Credit guarantee schemes in the FBiH are administered at an additional level of administration between the cantons and the entity, with no strategy, monitoring or evaluation at any higher administrative level – neither entity nor state.</li> <li>• Credit guarantee schemes that SMEs have access to in the FBiH vary widely in size and terms depending on their location, and there are no reliable statistics on their uptake.</li> <li>• The RS Government has a centralized credit guarantee scheme (through the RS Guarantee Fund).</li> <li>• Both entities provide publicly funded lending to SMEs. In the RS, the Investment and Development Bank provides only specialized loans. In the FBiH, public sector lending is provided at the cantonal level with no known involvement by the entity or state.</li> <li>• There are 12 microfinance institutions in both entities, mainly self-funding with limited donor involvement.</li> <li>• Leasing is available and well-regulated across both entities while dedicated factoring legislation was introduced in the FBiH with the 2016 Law on Factoring.</li> <li>• It is difficult to assess the actual uptake of these instruments in the absence of any state-level statistics. Only the RS makes any data on the uptake of non-bank financing available and this shows an increase in microfinance and a decrease in leasing levels (reportedly due to high fees). No such information has been provided by the FBiH or a national body and it remains unclear to what extent it is collected.</li> <li>• The ecosystem to support the establishment of venture capital operations remains rudimentary.</li> <li>• There are no business angel networks operating in BiH, despite previous (donor-funded) attempts to create them.</li> </ul>
Financial literacy.	<ul style="list-style-type: none"> <li>• Mechanisms to support financial literacy in BiH show some promising signs, although the overall implementation is hindered by the lack of a centralized strategy, monitoring or evaluation either at the entity or the national level.</li> </ul>

Based on: OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe*, *SME Policy Index*, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en>, p. 567-570.

The participants from both FGDs agree that financial support to finance all employers' projects is lacking. Start-ups/entrepreneurs have special difficulties in seeking financial support, but bank policies prevent start-ups from applying for loans. In that regard, some problems are addressed by E3 (M) and E1 (M):

*"Let's say you go and start a business and then take a loan, 20,000-30,000 BAM. And then the banks require [...]: the guarantor and for the borrower to guarantee the loan with his property. You are now liable for any damages that your business can cause with all that you own. You risk everything being taken: house, company, neighbours, you... [laugh]" (E3, M)*

*"We can see that the problem of bank loans is evident. Banks have money and they borrow it to those companies that don't really need it. They are lucky. And for those who really need funds, to renew and to survive... They simply ignore you." (E1, M)*

## Box 1. Access to finance – extract from the strategic documents

### **The Development Strategy of the FBiH 2021-2027**

In the credit-deposit system of the FBiH, banks have a legal monopoly because no one but them can collect deposits and approve loans. Thus, the dominant role of banks prevents the emergence of competition, more efficient transfer of free funds and further development of the economy. In order for the FBiH to reach comparators (higher middle-income countries), it is necessary to increase domestic savings to a minimum of 25-30% of GDP and to reduce interest rates on loans to the economic sector. This is not possible without greater competition and that is why it is necessary to introduce non-bank deposit financial institutions.

The FBiH Development Bank should be organized as a market institution in terms of fundraising (securities issues) and placement of funds. The Development Bank should make a full contribution to maintaining the stability of the financial and real sector, especially in crisis situations, and be a promoter of domestic investment opportunities, attracting foreign capital and joint investments with foreign investors, including international financial institutions. Further development of the financial system implies the formation of a guarantee fund and a venture capital fund within the FBiH Development Bank, which would support SMEs with growth potential, as well as women's and youth entrepreneurship. Ensuring credit co-financing is particularly important in the process of withdrawing EU funds dedicated to innovation and green growth. The focus should be on the further development of the capital market, which presupposes further harmonization with EU legislation. The capital market will be supported by the development of payment services that will enable the independent participation of digital payment service providers in the payment system and the development of digitalization of payment transactions and payment systems. Training in cantons and municipalities and for other stakeholders (public and private companies) on how the capital market functions can lead to a greater use of financial instruments and a reduction of public debt.

*Source: Modified from the Development Strategy of the FBiH 2021-2027*

### **Strategy for the Development of Small and Medium Enterprises in the RS 2021-2027**

The RS Investment and Development Bank has contributed to the attractiveness of banking products for SMEs, especially in terms of interest rates and repayment terms. The Bank product range includes four credit lines relevant to SMEs: (i) for start-ups, (ii) for microbusiness in agriculture, (iii) for agriculture and (iv) for entrepreneurs and businesses. In the period from 2016 to 2019, 435 loans were approved to the SME sector in the total amount of BAM 244 million, while BAM 1.1 billion was the cumulative amount to the SME sector at the end of 2019.

The RS Guarantee Fund facilitates access to finance for SMEs that meet creditworthiness criteria but do not have sufficient collateral, providing them with the necessary guarantees to secure part of the loan obligation. The RS Guarantee Fund has signed agreements on business and technical cooperation with 12 banks, 3 MCOs and 2 funds. The percentage of individual guarantees, in exceptional cases, can go up to 70% of the loan amount.

In order to ensure greater financial inclusion of SMEs, the Law on Factoring was adopted in early December 2020. The SMEs' participation in the Unified System for Multilateral Compensations and Assignments also contributes to better liquidity of SMEs, which enables all overdue undisputed financial obligations to other

participants to be settled through multilateral compensation or assignment and transferred to another creditor through multilateral assignment or realized sale of receivables.

In order to improve information on financial services, the RS Ministry of Finance has published information and educational brochures on the use of financial services on its website.

*Source: Modified from the situational analysis in Strategy for the Development of Small and Medium Enterprises in the RS 2021-2027.*

**Finding 11. Standards and technical regulations differ across entities, the BD and the state. Overall, a mechanism for the overall coordination of quality infrastructure pillars is yet to be implemented.**

BiH's overall score for the dimension "Standards and technical regulations" is 2.78, which indicates that a draft or pilot framework exists, with some signs of government activity to address the policy area concerned.<sup>40</sup> Table 23 and Table 24 summarize three sub-dimensions of Standards and technical regulations. Among seven economies (Albania, Kosovo, Montenegro, North Macedonia, Serbia, Turkey), BiH is the worst performer in this dimension<sup>41</sup>.

Table 23. Assessment of the SBA policy dimension: Standards and technical regulations

No	Sub-dimension	BiH	WBT average	Percent of WBT average	Ideal assessment	Percent of ideal assessment
7.1.	Overall co-ordination and general measures.	1.83	3.12	58.7%	5	36.6%
7.2.	Harmonization with the EU <i>acquis</i> .	3.09	4.15	74.5%	5	61.8%
7.3.	SME access to standardization.	2.30	3.07	74.9%	5	46.0%

Data Source: OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/q2g9fa9a-en>

Table 24. Standards and technical regulations

Sub-dimension	Standards and technical regulations: Key Findings
Overall co-ordination and general measures.	<ul style="list-style-type: none"> <li>• BiH is yet to implement a mechanism for the overall co-ordination of its quality infrastructure pillars.</li> <li>• The RS has established its own co-ordination body and has adopted a draft strategy for Quality Infrastructure of Products and Services for the period 2018-22.</li> <li>• SMEs need to formally register in both entities to be able to place their products on the market and are audited by market surveillance authorities in each entity.</li> <li>• A designated portal and a contact point have not been established at the national level to assist SMEs in placing their products on the EU Single Market.</li> <li>• In the RS, the Export Info Centre provides information on standards and technical regulations and on how to comply with them, but SMEs in the FBiH</li> </ul>

<sup>40</sup> OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the SBA for Europe*, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/q2g9fa9a-en>, p. 571.

<sup>41</sup> Ibid.

	<p>can only access the relevant information from the websites of different ministries and government agencies.</p>
<p>Harmonization with the EU <i>acquis</i>.</p>	<ul style="list-style-type: none"> <li>• EU legislation has not been aligned in a uniform manner throughout the economy.</li> <li>• The BiH Institute for Standardization is the national body responsible for standardization, including adopting international and national standards.</li> <li>• As of August 2017, BiH had adopted 20.093 European standards as national ones – an adoption rate of about 87%. Of these, 19.904 standards were adopted by the endorsement method, i.e. issuing an endorsement notice, which makes it difficult for SMEs to trace the relevant standards, understand their content or apply them correctly.</li> <li>• In the area of accreditation and conformity assessment, national-level legislation is only partially aligned with the EU <i>acquis</i> and the RS develops and implements its own legislation in this area. The BiH Institute for Accreditation (BATA) is responsible for implementing BiH’s overall accreditation system. Its operations are in line with Regulation (EC) No.765/2008. All accredited CABs are easily accessible to SMEs through an online register on BATA’s website, which provides detailed information on the type of activities they undertake.</li> <li>• The current BiH legislation on metrology is not fully aligned with the EU <i>acquis</i>.</li> <li>• BiH’s market surveillance system consists of the BiH Market Surveillance Agency and inspection authorities in the FBiH, the RS and the BD. Co-operation among all these authorities is ensured through the National Co-ordination Board.</li> <li>• In the RS, the Bureau for Standardization and Metrology participates in the preparation of national standards but can also issue RS standards as entity standards.</li> <li>• No RS standard has been issued and only national and international standards are in place.</li> </ul>
<p>SME access to standardization.</p>	<ul style="list-style-type: none"> <li>• BiH has only basic measures in place to facilitate SME access to standardization.</li> <li>• There are no practical guides on implementing standards or local case studies on the benefits of using them.</li> <li>• Training to support the SME implementation of standards and general awareness-raising events are rare.</li> <li>• The BiH Institute for Standardization has established a standardization helpdesk for SMEs through its website.</li> <li>• BiH is yet to introduce financial or other measures to encourage SME involvement in Technical Committees, such as covering their travel costs or introducing digital tools to ease their participation.</li> <li>• There are no financial support programs at the national level.</li> <li>• In 2017, the FBiH supported 12 SMEs to introduce international quality standards (HACCP, HALAL, introduction of CE marking). In the same year, 11 companies from the RS benefited from sector-specific grants (e.g., wood processing and textiles).</li> <li>• In the BD, SMEs can benefit from subsidies to introduce international quality standards, based on the BD Law on Subsidies from 2016.</li> </ul>

Based on: OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe*, *SME Policy Index*, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en>, p. 571-574.

***Finding 12. The development of SME skills is not fully facilitated nor supported.***

BiH's overall score for the dimension "Enterprise skills" is 2.70, which indicates that a draft or pilot framework exists, with some signs of government activity to address the policy area concerned<sup>42</sup>.

Table 25 summarizes this dimension. BiH is below the regional average<sup>43</sup>.

Table 25. Enterprise skills

Sub-dimension	Enterprise skills: Key Findings
Enterprise skills.	<ul style="list-style-type: none"> <li>• A number of policy instruments identify poor technology and skills weaknesses in the agriculture sector, and concerns have been raised about the underinvestment in skills for the services sector.</li> <li>• Good efforts, particularly by the Chamber of Commerce for Foreign Trade, have been made in providing training for SMEs to access international markets.</li> <li>• Training on digital skills among SMEs, including more developed online access to training, is weak.</li> <li>• Brain drain raises concerns.</li> <li>• A more developed discussion at national and entity levels is required and should include: 1) the role of universities in local, regional and national level economic reforms; 2) interfacing medium- to higher-level vocational skills with innovation in targeted sectors; and 3) the potential for engagement and contribution of existing incubators.</li> <li>• Training services should more clearly distinguish between new start-ups, early-phase businesses and those with growth potential, which also requires more differentiated financial support. In particular, services need to meet the specific needs of women entrepreneurs.</li> </ul>

Based on: OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe*, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en>, p. 575-576.

Challenges and priorities that should be addressed related to supporting the development of professional and business skills are: "inadequate interaction of the economy, education system and support institutions, underdeveloped human resource management function in SMEs, the importance of improving formal and non-formal education and training programs, motivating children to enrol in deficient occupations."<sup>44</sup>

Participants from both FGDs agree that enterprise skills should be better supported. A special focus was given to education. One of the conclusions is that the workforce is not adapted to the needs of employers, the education system is not adapted to the needs of the economy and workers often leave BiH after the employer invests in their development. All participants agree that brain drain raises concerns.

*"The current way of education is focused more on the theoretical part and less on the practical part." (E1, M)*

<sup>42</sup> OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the SBA for Europe*, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en>, p. 575.

<sup>43</sup> Ibid.

<sup>44</sup> Strategy for the development of small and medium enterprises in the RS for the period 2021-2027.



*"Here is an absurd situation, that the Banja Luka high school educated an aircraft mechanic until last year. I don't know if we have one or two... we just misdirected the children. This is one problem and we have entered the process of creating occupation profiles. We reduced the number of occupations that were useless by 50-60. [...] We used a focus group discussion with entrepreneurs (10-15) for certain sectors and created an example for occupational profiles in the metal industry... we went through that profile and identified what that student should know through that occupation profile and what he/she should get out of high school. And what we have noticed through this work is that in our high schools, 80% of teachers who teach practical classes have never worked in practice." (E1, M)*

A dual education system is necessary but participants from the second FGD find it impractical. More precisely, it is difficult to lose worker for half of the day, when you need someone to do the work, as noted by M3 (M):

*"It will be difficult for the employer to hire someone part-time. For one reason, this is because we lack a quality workforce. If the capacities of the company were filled, then it would not be a problem to hire someone for four hours. But in the absence of [quality labour] you cannot hire someone for four hours." (E3, M)*

As concluded by OECD's (2019) study, "a more developed discussion at state and entity levels is required and should include: 1) the role of universities in local, regional and state level economic reforms; 2) interfacing medium- to higher-level vocational skills with innovation in targeted sectors; and 3) the potential for engagement and contribution of existing incubators."

***Finding 13. The policy framework for innovation is not developed, several business incubators and science and technology parks exist across BiH, with limited financial support services for innovative SMEs.***

BiH's overall score for the dimension "Innovation Policy for SMEs" is 1.86, which indicates that innovation policy for SMEs can be described descriptively as between "no framework (e.g. law, institution) exists to address the policy topic concerned" and "a draft or pilot framework exists, with some signs of government activity to address the policy area concerned."<sup>45</sup> Overall, the policy framework for innovation is not developed, however, several business incubators and science and technology parks exist across BiH, with limited financial support services for innovative SMEs. Overall, the policy framework for innovation is not developed, several business incubators and science and technology parks exist across BiH, with limited financial support services for innovative SMEs. However, integration of digital technologies into SMEs' businesses IT networks is also one of the challenges in the EU. As noted in the EC's 2020 report, only "17% of SMEs have successfully integrated digital technologies into their businesses, compared to 54% of large companies".

Table 26 summarizes four sub-categories of "Innovation policy for SMEs". BiH has the lowest score in the region for this<sup>46</sup>.

<sup>45</sup> OECD et al. (2019), SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the SBA for Europe, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en>, p. 575

<sup>46</sup> Ibid., p. 577

Table 26. Assessment of the SBA policy dimension: Innovation for SMEs

No	Sub-dimension	BiH	Percent of WBT average	WBT average	Ideal assessment	Percent of ideal assessment
8.1.	Policy framework for innovation.	1.89	60.0%	3.15	5	37.8%
8.2.	Government institutional support services for innovative SMEs.	1.74	69.9%	2.49	5	34.8%
8.3.	Government financial support services for innovative SMEs.	1.92	68.3%	2.81	5	38.4%
8.4.	SME and research institution collaboration and technology transfer.	1.83	67.8%	2.70	5	36.6%

Data Source: OECD et al. (2019), *SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the SBA for Europe*, *SME Policy Index*, OECD Publishing, Paris, <https://doi.org/10.1787/q2q9fa9a-en>

Table 27. Innovation Policy for SMEs

Sub-dimension	Description
Policy framework for innovation.	<ul style="list-style-type: none"> <li>• R&amp;D and innovation policy is dealt with at the entity level.</li> <li>• FBiH: SME Development Action Plan (2016-18)</li> <li>• RS: Strategy for Scientific and Technological Development (2017-20)</li> <li>• Neither RS nor the FBiH have any formal co-ordination mechanisms for innovation policy and no implementing agencies focusing solely on innovation</li> <li>• Private sector actors are not systematically consulted when innovation policies are developed and there are no evaluation practices in place.</li> <li>• The institutional set-up for innovation policy is highly decentralized across the various levels of government and there is no mechanism to co-ordinate these actors.</li> </ul>
Government institutional support services for innovative SMEs.	<ul style="list-style-type: none"> <li>• Both the FBiH and RS have business incubators.</li> <li>• There are 10 active incubators in the FBiH, which are directly supported by the government, despite a declining budget for this.</li> <li>• There are only five incubators in RS: The Innovation Centre in Banja Luka, the Entrepreneurship Centre Banja Luka, Innovation Centre East Sarajevo and business incubators in Prijedor and Trebinje.</li> <li>• There are no technology extension services in BiH.</li> </ul>
Government financial support services for innovative SMEs.	<ul style="list-style-type: none"> <li>• BiH's new Challenge to Change project, which started running in November 2016, has for the first time, secured EUR 3.2 million for innovation enterprises</li> <li>• Companies that meet the established criteria can receive a co-funding grant amounting to a maximum of 30 000 EUR, up to 50% of the investment costs</li> <li>• During the first call for proposals in 2017, 701 applications were submitted.</li> <li>• Foreign direct investment (FDI), at around 2% of GDP, is one of the lowest in the WBT region, remaining a weak source of investment in the country. Investors are discouraged by fragmented and poorly functioning product and labour markets, the weak rule of law and a continuing poor business environment.</li> </ul>
SME and research institution collaboration and technology transfer.	<ul style="list-style-type: none"> <li>• There have been no innovation vouchers or collaborative grants implemented in BiH so far except within EU projects.</li> <li>• There are four science and technology parks in the FBiH – Zenica, Mostar, Tuzla and Sarajevo.</li> <li>• There is no legislation in BiH to encourage technology transfer and commercialization by defining the ownership of intellectual property and royalty split for publicly funded research.</li> </ul>

Based on: OECD et al. (2019), SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the SBA for Europe, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en> , p. 577-579.

***Finding 14. SMEs do not invest enough effort to battle environmental challenges, nor do they find environmental challenges important to tackle right now.***

BiH’s overall score for the dimension “SMEs in a green economy” is 2.4, a status which indicates that “a draft or pilot framework exists, with some signs of government activity to address the policy area concerned”<sup>47</sup> but no real progress exists. Table 28 and Table 29 summarize this dimension. Overall, the performance of BiH regarding ‘SME-greening’ is still low<sup>48</sup>.

Table 28. Assessment of the SBA policy dimension: Innovation for SMEs

No	Sub-dimension	BiH	WBT average	Percent of WBT average	Ideal assessment	Percent of ideal assessment
9.1.	Framework for environmental policies targeting SMEs.	2.69	2.85	94.4%	5	53.8%
9.2.	Incentives and instruments for SME greening.	2.16	2.42	89.3%	5	43.2%

Data Source: OECD et al. (2019), SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the SBA for Europe, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/q2q9fa9a-en>

Table 29. SMEs in a green economy

Sub-dimension	SMEs in a green economy: Key Findings
Framework for environmental policies targeting SMEs.	<ul style="list-style-type: none"> <li>• SME greening policies are devised and implemented at the entity level, with no national-level institutions in charge of promoting the green economy.</li> <li>• The Strategy for Rural Development (2018-21) is the only national-level strategy that includes some environmental protection measures that could be relevant for SMEs - promoting and certifying organic production, as well as reducing the carbon footprint of agricultural production.</li> <li>• In the FBiH, environmental policies are separated from SME policies, so there are no clearly defined environmental policies targeting SMEs.</li> <li>• The FBiH’s comprehensive Environmental Protection Strategy, which runs until 2030, does not contain SME-specific actions or targets, but it does indirectly promote eco-efficiency and eco-innovation among businesses, and by extension among SMEs.</li> <li>• FBiH’s Waste Management Strategy (2008-18) also includes environmental policy elements that are relevant to SMEs, such as promotional activities on</li> </ul>

<sup>47</sup> OECD et al. (2019), SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en> , p. 580

<sup>48</sup> Ibid., p. 580

	waste prevention and recycling, and guidance regarding cleaner production actions.
Incentives and instruments for 'SME-greening'.	<ul style="list-style-type: none"> <li>Both entities have operational environmental protection funds which have increased the scope and outreach of their programmes and activities since the last assessment - mostly focus on large – mainly infrastructural – projects.</li> </ul>

Based on: OECD et al. (2019), SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the SBA for Europe, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en> , p. 575-576.

Employers who participated in the FGD believe that environmental protection should not be a priority in the current phase of MSMEs development, as more pressing issues exist. However, they agree that protecting the environment is important, but also the correct and 'harmonized' support from all levels of government are required.

**Research question 2. What is the current state regarding monitoring and evaluation, i.e., whether monitoring and evaluation practices are rooted in the policy cycle to support SMEs and entrepreneurial activity?**

**Finding 15. Historically BiH has not defined MSMEs consistently across its regulatory and legal frameworks. However, efforts are underway to harmonize the definition of MSMEs as part of the new draft law in FBiH.**

The Law on the Development of Small and Medium Enterprises in RS, and a similar draft of the law in FBiH, provides the same definitions of MSMEs. However, the current laws differ in terms of annual turnover or annual balance sheet, but not regarding the number of employees. **Error! Reference source not found.** shows different definitions of MSMEs, according to the two laws most commonly used at different levels (FBiH, RS, BD): laws on the development of small and medium enterprises and laws on accounting and audit. The purpose of defining the SME is to provide an instrument for the targeting of policy and to direct support to SMEs, so that they can overcome the consequences of market failures in access to finance<sup>49</sup>. As this support is typically provided at lower levels (entities and district), and the support is typically provided from these levels, the different definitions do not impact the policies and support, but a unified definition could provide clarity when reporting.

Table 30. Different definitions of MSMEs				
Level	Criteria	Micro enterprises	Small-sized enterprises	Medium-sized enterprises
RS <sup>50</sup>	Employees	<10	< 50	50 - 250
FBiH <sup>51</sup>	Annual turnover	< BAM 3,911,600	< BAM 19,558,000	< BAM 97,790,000
	Annual balance sheet	< BAM 3,911,600	< BAM 19,558,000	< BAM 84.099.400
FBiH <sup>52</sup>	Employees	Up to nine	Up to 50	Up to 249
	Revenues	< BAM 700,000	< BAM 8,000,000	< BAM 40,000,000
	Annual balance sheet	< BAM 350,000	< BAM 4,000,000	< BAM 20,000,000

<sup>49</sup> Center for Strategy & Evaluation Services (2012). Framework Service Contract for the Procurement of Studies and other Supporting Services on Commission Impact Assessments and Evaluations Interim, final and ex-post evaluations of policies, programs and other activities.

<sup>50</sup> Law on Development of Small and Medium Enterprises ("Official Gazette of RS", No. 50/2013, 56/2013 - corr. 84/2019).

<sup>51</sup> Law on Encouraging the Development of Small Economy (DRAFT, 2019).

<sup>52</sup> Law on Accounting and Audit in the FBiH ("Official Gazette of FBiH", No. 15/2021).

RS <sup>53</sup>	Employees	< 5	< 50	< 249
	Annual turnover	< 500,000	< BAM 2,000,000	< BAM 8,000,000
	Annual balance sheet	< 250,000	< BAM 1,000,000	< BAM 4,000,000
BD <sup>54</sup>	Employees	Not defined	≤ 50	≤ 250
	Annual turnover		≤ BAM 2,800,000	≤ BAM 11,000,000
	Annual balance sheet		≤ BAM 1,400,000	≤ BAM 5,500,000
EU <sup>55</sup>	Employees	< 10	< 50	< 250
	Annual turnover	≤ EUR 2 million	≤ EUR 10 million	≤ EUR 50 million
	Annual balance sheet	≤ EUR 2 million	≤ EUR 10 million	≤ EUR 43 million

Source: Author

***Finding 16. Programs and measures implemented by different government levels are typically monitored, but evaluations are rarely conducted. Evaluations of policy documents or strategic documents are not available publicly. No impact evaluation has been identified.***

The review of the official websites showed that annual progress reports and medium-term three-year progress reports are typically produced by the Ministry of Foreign Trade and Economic Relations of BiH (at the national level), containing detailed descriptions of what has been completed. Monitoring and evaluation of the medium-term plan of the Ministry of Foreign Trade and Economic Relations of BiH are explicitly specified processes in their document. The evaluation of the medium-term plan is planned to be performed every three years internally and, if necessary, by an external organization<sup>56</sup>. However, no previous reports are available for a detailed examination, nor did the participants refer to any evaluation during the FGD. At the entity level and the BD level, no reports and evaluations have been found. The participants during FGDs also confirmed the lack of evaluation practice. In the FBiH, ministries of economy at the cantonal levels are responsible for a specific program and they produce reports related to budget execution, with a detailed description of how the budget has been allocated to a different program and what has been implemented.

Table 31. Publicly available reports at official websites

Level	Website	Publicly available reports at official websites	Contains indicators
1. BiH <sup>57</sup>	Ministry of Foreign Trade and Economic Relation.  (Directorate for economic planning)	Annual progress report, specifying what has been completed in a specific year; Medium-term work plan with most important strategic elements (vision, mission, strategic framework, participants, resources and capacities, action plan, etc.) BiH Development Report, Annual Report 2019 (produced by Directorate for Economic Planning).	Yes
2. BD <sup>58</sup>	Department of Economic Development, sports, and culture.	Report on grants, transfers, and subsidies for a specific year; list of beneficiaries of funds under the program of measures to help economic entities.	No

<sup>53</sup> Law on Accounting and Audit in RS ("Official Gazette of RS", No. 94/2015).

<sup>54</sup> Company Law ("Official Gazette of Brčko District", No. 11/2011).

<sup>55</sup> European Commission (2015). Used as a guide to the SME Definition. ISBN 978-92-79-45301-4 CHECK this

<sup>56</sup> Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina (2020). Medium-term Work Plan 2020-2022. Available at: <http://www.mvteo.gov.ba/Content/Read/Programi-i-izvjestaji>

<sup>57</sup> <http://www.mvteo.gov.ba/Content/Read/Programi-i-izvjestaji>

<sup>58</sup> [http://prsk.bdcentral.net/Content/Read/izvjestaji\\_o\\_dodjelama\\_grantova\\_i\\_subvencija](http://prsk.bdcentral.net/Content/Read/izvjestaji_o_dodjelama_grantova_i_subvencija)

Level	Website	Publicly available reports at official websites	Contains indicators
3.FBiH	The Ministry of Development, Entrepreneurship and Trade.	No publicly available reports; Situation analysis available within the Development Strategy of the FBiH 2021-2027; the Development Report is prepared by Federal Institute for Development Programming which is used as a basis for strategic planning.	-
4. RS	Ministry of Economy, and Entrepreneurship.	No publicly available reports; Situation analysis available within Strategy for the Development of Small and Medium Enterprises.	-

The SBA report also concluded that “government services are monitored internally, but the results are not widely used to improve provision.”<sup>59</sup> Compared to seven other economies (Albania, Kosovo, Montenegro, North Macedonia, Serbia, Turkey), only Albania and BiH do not make these reports publicly available<sup>60</sup>.

The lack of evaluation practices is also confirmed during the two FGDs from two perspectives: participants directly involved in designing (government) and users (employers). Participants in the FGD conducted by SEBS concluded that programs and measures implemented by different government levels are typically monitored, but evaluations are rarely conducted. About 66% of participants in the first FGD agreed with that statement, and only 33% neither agreed nor disagreed. Evaluations are understood as a systematic assessment of the worth (effectiveness, efficiency) of a program or intervention, or as a systematic assessment of information and evidence to provide feedback about a program and intervention. However, evaluations are typically not conducted, as noted by participants:

*“In our country, we constantly implement something. But evaluation and monitoring have failed, that is my opinion.” (G6, W)*

*“As for evaluation and monitoring, that’s something we all struggle with. [...] Well, monitoring and follow-up reports somehow work, but evaluation as evaluation in the true sense of the word has failed in everyone.” (G1, W)*

***Finding 17. Strategic and policy documents and legislative changes are considered through public discussion and presentations, various councils, the involvement of chambers of commerce and employers' associations as members of workgroups, focus groups with employers and expert opinions.***

One of the conclusions in the FGD was that SMEs are involved in the design of strategic documents and specific policies. Strategic and policy documents and legislative changes are considered through public discussion and presentations; various councils; the involvement of chambers of commerce and employers' associations -as members of workgroups and focus groups with employers and expert opinions. Government representatives observe changes in the market and adapt their programs and

<sup>59</sup> OECD et al. (2019), SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en>, p. 219

<sup>60</sup> Ibid., p. 219

measures to the needs of employers, but no deeper analysis is conducted to support the need for change or improvement. As noted by a participant:

*"But what we do. We see what we have done well, we analyse reports, and then we try to make some improvements. For example, we noticed that in our self-employment programs that we have a lot of requirements in the field of agriculture, so we designed programs in agriculture too." (G1, W).*

*"We implemented activities that included the involvement of the companies in the discussion, to help them in their work. And to try to solve their open questions, that is, the problems that they encounter in the course of their work. Based on that research, we created a list of all problems that employers face." (G7, W).*

Participants in the FGD also noted that economic-social councils are a good way to involve employers in designing a new program, as well as the application of good practices from similar countries. Other participants mentioned that their approach to designing programs and measures to support SMEs and entrepreneurial activities, is guided by previously established programs for the use of funds, as well as reports and current strategic documents. As noted by a participant:

*"Design is done on the basis of previous analyzes and established strategic planning documents of the Government of FBiH and the Ministry. The evaluation of the implemented measures is regularly done in a way that monitors the effects in terms of increasing income, new employment or maintaining the existing base values. We present our support programs through public presentations where we invite all relevant factors with whom we have a constructive discussion on the basis of which we create the final proposal of the support program. After that, the proposal is sent to the Government for adoption." (G2, M).*

However, employers that participated in the second FGD noted that the bargaining power of chambers and associations is not strong, the quality of the program does not meet the needs of employers and that programs/measures are mostly copied from year to year. The extent to which the submitted comments are considered, is also problematic. While the legal and regulatory environment and subsequent procedures for monitoring change exist, data is not being utilized to inform program design. This finding is vividly described by the following comments:

*"We get every law to comment. We send our comments. Unfortunately, these comments are often not taken into account because politicians have some other interests of their own." (E4, M)*

*"What we have noticed is that these programs are only copied from year to year, so it is 'copy-paste' practice. Something is foreseen in the budget, they [government] have the funds and it is only being further distributed. They [government] don't care what the effects are, and they [government] don't care how to make the most of those programs, i.e., how do these programs affect us." (E3, M)*

During the FGDs a short set of questions was distributed. The results (Table 32) confirm previous findings, i.e., policymakers do not give full consideration to SMEs at the early policy development stage: rules impacting on business are not fully created from the SMEs point of view; and SMEs are not considered by public authorities as being their "prime customers" as far as business regulation is

concerned. Most government representatives at the first FGD (66%) disagree with the statement that they regularly evaluate the programs and measures, to observe if the defined goals have been achieved. While the majority of interviewed representatives of SMEs (80%) perceive that policy makers do not acknowledge comments provided by SMEs when designing new policies, only about 16% of government representatives share their opinion. However, as noted earlier, the majority of interviewed government representatives neither agree nor disagree with the statement.

Table 32. SMEs' considerations at the early policy development stage

Statement	Group	Number of participants	% of participants/respondents		
			Disagree	Neither agree nor disagree	Agree
Policy makers give full consideration to SMEs at the early policy development stage: rules impacting on business are fully created from the SMEs point of view; SMEs are considered by public authorities as being their "prime customers" as far as business regulation is concerned.	Government representatives	6	16%	66%	16%
	Employers' representatives	5	80%	20%	0%
We regularly evaluate the programs and measures we implement to see if the defined goals have been achieved.	Government representatives	6	66%	33%	0%

***Finding 18. Monitoring and evaluation practices are typically planned within strategic documents.***

The Development Strategy of the FBiH, for 2021-2027 describes the planned activities of monitoring, reporting and evaluation. Two types of evaluations are prescribed according to the Law<sup>61</sup>: ex-ante (preliminary evaluation, in the phase of drafting strategic documents) and progress evaluation in the penultimate year of implementation. Ex-ante evaluation<sup>62</sup> aims to determine the degree of implementation of strategic documents, and the effectiveness and efficiency of planned measures and results according to the set goals and expectations, as well as summarizing the results and to providing input elements for the next planning cycle's strategic documents. The Development Progress Report is a document that reviews the level of implementation, general development trends as well as progress in achieving the strategic goals from the strategic documents in the FBiH on an annual basis. However, this report is not an evaluation report. The development report for the Federal government is prepared by the Federal Institute for Development Programming. The latest available report for

<sup>61</sup> Decree on Evaluation of Strategic Documents in the FBiH ("Official Gazette of the FBiH", No. 74/19)

<sup>62</sup> Ex-ante evaluation of FBiH Development Strategy has been completed. The report is available online: <https://cpa-bih.org/cpa-ex-ante-evaluacija-razvojne-strategije-fbih-2021-2027/>.



2019<sup>63</sup> contains different chapters (macro-stability, competitiveness, employment, sustainable development, social inclusion), with a detailed statistical description of the most important fields of competitiveness. After the presentation of the hard data, recommendations are made. The FBiH also plans to implement the specific measure of “Strengthening the system and coordination of development policy development, implementation and reporting”. As part of the measure, cooperation and coordination of different levels of government will be strengthened, horizontally and vertically with the possibility of creating councils for different sectors including industry, agriculture, social policy, tourism, etc. within the FBiH Development Planning Council. The measure further notes that:

*“In order to promote and support cooperation and active participation of civil society in the development and implementation of public development policies, it is necessary to improve the legal framework that will strengthen the role of civil society in decision-making, design and monitoring of reform processes, including better cooperation with the business community, social innovation and job creation. Furthermore, it is necessary to ensure that the legal framework for public consultations is improved and consistently applied in practice, and that proposed policy proposals are checked for compliance with standards and consultation requirements.”<sup>64</sup>*

The 2021-2027 strategy for the development of small and medium enterprises describes planned monitoring and evaluation practices. The purpose of evaluation, as described in the document, is to determine the degree of the strategy’s implementation, and the effectiveness and efficiency of the planned measures and priorities, according to defined goals and indicators, as well as summarizing the results and providing input elements for the strategic document for the next planning period. However, a monitoring and evaluation system that will include all objectives, priorities and measures is expected to be gradually built, on the basis of which, a medium-term and final evaluation will be performed. This system will contain: an interactive database for the monitoring and evaluation of the Strategy and reporting on the implementation of the SBA; development of monitoring and evaluation instruments for selected measures; capacity building by the Ministry of Economy and Entrepreneurship and holders of measures for the implementation of systems and instruments for monitoring and evaluation and the preparation of reports upon the implementation of the Strategy. The first midterm evaluation of the Strategy is planned in 2024/2025, and the second in 2027/2028. The first monitoring activity, named “Specifying the initial value of the indicator for 2020”, is planned for 2021.

Like strategic documents of FBiH and RS, the Development Strategy of the BD 2021-2027 prescribes reporting, monitoring and evaluation. As explained in the document, in the monitoring process in the BD, electronic records of indicators of the achievement of strategic goals, priorities and measures from strategic documents, and indicators from the annual work plan should be established and regularly updated. These records will be the basis for the preparation of work reports and development reports. Each organizational unit in the BD is planning to monitor the implementation of the three-year work plan and the annual work plan. The aim of the evaluation of the implementation of the Development Strategy to be based on the following criteria: relevance (compliance), efficiency, performance,

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<sup>63</sup> Development Programming Institute of FBiH (2020). Report on the Development of the FBiH for 2019. Available at: <https://fzzpr.gov.ba/bh/publikacije/izvjestaj-o-razvoju>

<sup>64</sup>Development Programming Institute of FBiH (2021). Development Strategy of the FBiH 2021-2027. Available at: <https://fzzpr.gov.ba/bh/info/dogadjaji/usvojena-strategija-razvoja-fbih-2021---2027> , p. 80

impact, and sustainability. It is recommended that the evaluation of the development strategy be performed on two occasions (1) in the form of a mid-term evaluation after half of the deadline (in the second half of 2024) to assess the effects and recommendations for revising the strategy and improving implementation in the remaining period; and (2) a final evaluation, to obtain an assessment of the achieved effects and recommendations for the next strategic period.

The SBA report provides an assessment of main policy dimensions and related sub-dimensions, validating the findings that there is a lack of attention given to monitoring and evaluating progress. The final score for the related sub-category is calculated as a weighted average of different thematic blocks, “monitoring and evaluation” being one of thematic blocks in most sub-categories. In that context, **Error! Reference source not found.** presents monitoring and evaluation scores with a description of score levels, based on SBA methodology<sup>65</sup>. As it can be observed, monitoring and evaluation are being rated as weak. The monitoring and evaluation block is rated as the lowest in digital government services for enterprises, venture capital ecosystem, financial literacy, SME access to standardization, integration of SMEs into global value chains and promoting the use of e-commerce. The most successful assessment of the monitoring and evaluation thematic block is given to government initiatives to stimulate private business support services, entrepreneurial learning, and business licenses.

Table 33. Assessment of the monitoring and evaluation of different SBA dimensions

Code	SBA sub-dimension	Monitoring and evaluation thematic block score	Description of score levels <sup>66</sup>
5.2.	Government initiatives to stimulate private business support services.	3.50	A solid framework, addressing the policy area concerned, is in place and officially adopted.
1.1.	Entrepreneurial learning.	3.33	
4.3.	Business licenses.	3.32	
3.1.	Institutional framework.	2.94	A draft or pilot framework exists, with some signs of government activity to address the policy area concerned.
5.3.	Public procurement.	2.85	
1.2.	Women’s entrepreneurship.	2.60	
2.2.	Bankruptcy procedures.	2.45	
9.2.	Incentives and instruments for SME greening.	2.25	
10.1.	Export promotion.	2.19	
5.1.	Business support services provided by the government.	2.12	
8.1.	Enterprise skills.	2.00	
9.1.	Framework for environmental policies targeting SMEs.	2.00	
4.2.	Company registration.	1.91	
3.2.	Legislative and regulatory simplification and RIA application.	1.71	
3.3.	Public-private consultations (PPCs).	1.67	
4.1.	Digital government services for enterprises.	1.00	
6.4.	Venture capital ecosystem.	1.00	
6.5.	Financial literacy.	1.00	
7.3.	SME access to standardization.	1.00	

<sup>65</sup> It should be interpreted with caution, as the description of score levels are for main dimensions.

<sup>66</sup> OECD et al. (2019), SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the SBA for Europe, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en>, p. 219

10.2.	Integration of SMEs into global value chains.	1.00	
10.3.	Promoting the use of e-commerce.	1.00	

Source: Author

Compared to other Eastern European countries, monitoring and evaluation of SME support programs in Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine “are being carried out mostly on an ad hoc basis across the region; regular evaluation of their efficiency and effectiveness, including setting and analysing result-oriented key performance indicators, has yet to become embedded into the policy cycle.”<sup>67</sup> The report concludes that an impact assessment should become a necessary precondition for scaling up government support measures. Such results for Eastern European countries are similar to the findings of this research report, regarding monitoring and evaluation practices in BiH.

***Finding 19. Measures in strategic documents do not necessarily align with the evidence produced from the situation analysis.***

While strategic documents most often contain a situation analysis; subsequent goals, key priorities, and corresponding indicators do not necessarily align with the evidence produced from the situation analysis. All strategic documents typically follow a similar logic: situation analysis supported by macro statistical data and SWOT analysis and defined vision and/or mission. Afterwards, strategic goals, priorities/programs and measures/projects are derived. However, while these strategic documents are grounded in common sense, good practices, and a good theoretical framework. In some cases, projects/measures describe more a “wish list” rather than projects/measures that aim to seize the opportunity (“O”) with available resources and capacities (“S”).

Ex-ante evaluation of FBiH Development Strategy has found that “...SWOT analysis and TOWS matrix were used as a tool for change theory and based on that, measures were defined. According to the information received from the FZZPR, growth diagnostics were performed, but more like brainstorming, and it was not documented in an electronic form and not included in the document.”<sup>68</sup> While it is out of the scope of this report, we want to point out the potential problem in development strategies. For example, in the FBiH Development Strategy of 2021-2027, the measure “Accelerate the digital transformation of small and medium-sized enterprises” aims to raise the competitiveness of SMEs with the concept of e-business and e-commerce, to develop partnerships with logistics companies, financial institutions, and other potential partners in the value chain. However, we were not able to find a situation analysis in the document that provides a description of the current state in this field.

The missing link between analysis and recommendation can be observed in The Development Report for the Federal government, prepared by the Federal Institute for Development Programming and used as a basis for strategic documents in FBiH. One of the recommendations is “the partial privatization of BH Telecom, with the aim of increasing competitiveness”. However, in the analysis section, there is no mention of the situation of BH Telecom. Other recommendations are rather broad,

<sup>67</sup> OECD et al. (2020), SME Policy Index: Eastern Partner Countries 2020: Assessing the Implementation of the SBA for Europe, SME Policy Index, European Union, Brussels/OECD Publishing, Paris, <https://doi.org/10.1787/8b45614b-en>, p.28

<sup>68</sup> Kokorović Jukan, M., Okičić, J., Huseinspahić, A., Đidelića, I., Omerčević, E., Memić, F. (2020). Ex-ante evaluation of FBiH Development Strategy, available at: <https://cpa-bih.org/cpa-ex-ante-evaluacija-razvojne-strategije-fbih-2021-2027/>. EP4.3.

such as: “Unburden the economy by reducing labour taxation with increased taxation of consumption and property of citizens (neutral principle)”, but with very little attention paid to this important topic in the analysis section.

The FBiH also envisions a specific measure to implement in the period 2021-2027, titled “Strengthening the statistical base as a basis for policy-making”. As it is noted in the strategic document, “further development of the statistical system is necessary so that future policies can be created on the basis of facts and appropriate analyzes.” The measure aims to achieve fully harmonized statistics with the European Statistical System to allow comparison, evaluation and valid decisions, and to improve the efficiency of FBiH statistics by modernizing statistical processes using modern techniques, technologies and advanced IT solutions. The strategic document further emphasizes:

*“It is necessary to intensify the use of administrative, judicial and other secondary data sources, and to consider the development of a plan for the establishment of a population register. It is necessary to promote and strengthen public confidence in statistics, which will consequently strengthen cooperation with data providers and users. It is necessary to promote the wider use of statistics among users, with simplified access and retrieval of statistics and information. Quality reporting is an integral part of quality assurance policy in statistical institutions. It is necessary to enrich the existing and create and design new dissemination bases for statistical research. Process and task optimization in the statistical production process are also required. The reorganization of the current traditional ways of collecting and processing statistical data and the introduction of a new centralized and user-friendly system through "stand-alone" and web applications will lead to efficient use of resources (technical, human and financial). It is very important to develop our own system of indicators for monitoring the achievement of goals defined in the Strategy based on European standards.”<sup>69</sup>*

Evaluation of the strategy for the development of small and medium enterprises in RS for the period 2021-2027 has never been conducted.

**Finding 20. While strategic documents define broad “size-blind” measures for enterprises, incentives and grant schemes focus on specific segments of the economy.**

All strategic documents provide a situation analysis for different sectors (according to NACE classification) and sizes. However, when it comes to measures, they are all “size-blind”, i.e., they do not reflect the different needs of the different companies in terms of size. The only differentiation is made between start-ups and existing SMEs. Some measures target different types of entrepreneurs, such as women and diaspora. Almost all strategic documents analyzed in this research report consider these groups as important. Strategic documents often emphasize different measures for different sectors, such as the creative sectors, tourism, and agriculture (FBiH), old crafts and handicrafts (RS) and tourism and agriculture (BD). On the other hand, incentives that support small business development specify clear criteria for the application of employers, such as the minimum number of employees (size) and these incentives can be used by enterprises in all sectors (incentives such as self-employment or interest rate subsidy), or the selection of a sector can be very narrow (for example, an incentive for produced and delivered milk). Box 6 contains a list of current public calls for Sarajevo

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<sup>69</sup> Development Programming Institute of FBiH (2021). Development Strategy of the FBiH 2021-2027. Available at: <https://fzpr.gov.ba/bh/info/dogadjaji/usvojena-strategija-razvoja-fbih-2021---2027> , p. 82

Canton. Participants in the FGD confirmed that enterprises are generally classified by size, revenue, economic activity, and geographical area in documents that review the situation or make recommendations for the development of micro, small and medium enterprises.

#### Box 2. Annual implementation plan of the Small Business Development Program for 2021 of the Government of Sarajevo Canton

This year's plan for the implementation of the Small Business Development Program for 2021 in the Sarajevo Canton envisages the incentive funds of BAM 8.49 million. The programs for which public calls will be announced are:

1. Lending to small businesses under more favourable conditions.
2. Subsidizing / refund of interest on loans taken out from commercial banks.
3. Incentives for technological modernization, application of quality standards and digitalization of business.
4. The incentive for new investments in technological modernization and application of quality standards to improve competitiveness and/or new employment.
5. Encouragement of craft promotion projects.
6. Incentives for the training of young people for crafts and employment.
7. Incentives for the improvement of IT entrepreneurship.
8. Incentives for the improvement of entrepreneurship in the field of providing administrative services of predominantly export orientation.
9. Incentives for newly established - start-up small businesses.
10. Encouraging the development of women's entrepreneurship and
11. Incentive for the development of youth entrepreneurship.

Source: <https://serda.ba/bs/novosti/odrzana-i-druqa-po-redu-prezentacija-godisnjeg-plana-provodenja-programa-razvoja-male-privrede/3697>

***Finding 21. Indicators in strategic documents are typically defined for strategic goals, programs, and measures. In some cases, the difference between project-level and program-level indicators are unclear. As such, measuring the effect of the project/measure is rather a difficult task as many other activities might contribute to an indicator.***

Annual progress reports and three-year medium-term progress reports are documents typically produced at a national level, containing a detailed description of what has been completed. These documents typically contain indicators. However, the Annual Progress report of the Ministry of Foreign Trade and Economic Relations of BiH for 2020<sup>70</sup> expressed almost all indicators in terms of 100% completion rates, with rather unclear indicators either at the project or program level. For example, a measure "Issuance of a decision for the export of sugar to the EU based on the allocated quota" (1.2.1.5.) specifies "percentage" as a unit of an indicator with 100% base value and 100% target value. Another measure "Database management" (1.1.2.3.) uses "absolute number" as a unit of analysis, baseline value, as well as the target value, are all set to "1". One of the measures implies the

<sup>70</sup> <http://www.mvteo.gov.ba/Content/Read/Programi-i-izvjestaji>

development of a coordination system according to the Small Business Act principles, and the base value was defined as “0” in 2019, and the reported target value in 2020 is “1”, indicating that progress has been made in establishing a coordination system. Some indicators are descriptive. In the 2020 Annual progress report, a measure “Full implementation of existing bilateral trade agreements through the holding of various forms of interstate institutional meetings, new bilateral agreements, as well as work on further contractual regulation of bilateral relations” was reported as completed. The indicator for this measure is assumed to be an outcome or impact indicator defined as “the effectiveness of the implementation of bilateral agreements through the removal of barriers to trade and the creation of preconditions for increasing trade”, with a descriptive base value stating only “current situation in the implementation of existing bilateral agreements” and target value “Improved bilateral trade relations in relation to the situation in 2020”. Based on these observations from strategic documents, indicators do exist, but it is not clear how they are being defined. In addition to that, there is a lack of supporting evidence to validate the progress.

The three key strategic documents identified as the most relevant for the purpose of this research report (Development Strategy of the FBiH 2021-2027, Strategy for the Development of Small and Medium Enterprises in RS for the period 2021-2027, Development Strategy of the BD 2021-2027) identify reasonably good indicators. All measures in these strategic documents represent project-level activities. However, 31.6% (BD), 70.3% (FBiH) and only 6.2% (RS) of measures envisioned in the strategic documents of FBiH, RS and BD, that are supposed to measure output, defined indicators that are measuring outcome and/or impact. **Error! Reference source not found.** shows the number and percentage of indicators that are defined for the measures that are supposed to use output indicators. Appendix 5 provides a detailed insight into the indicators selected for the different levels (strategic goal, priority, measure).

Table 34. Types of indicators for project-level measures used in the strategic documents of RS, FBiH and BD

Level	Types of indicators used by the measures that are supposed to measure output						Total	
	Impact indicator		Outcome indicator		Output indicator			
	Count	%	Count	%	Count	%	Count	%
BD	7	18.4%	5	13.2%	26	68.4%	38	100%
FBiH	15	20.3%	37	50.0%	22	29.7%	74	100%
RS	0	0.0%	3	6.3%	45	93.8%	48	100%
Total	22	13.8%	45	28.1%	93	58.1%	160	100%

*In the context of this analysis, an indicator is classified as an output indicator if it tracks the immediate results of the measure, as an outcome indicator if it tracks the results of strategic goals and as an impact indicator if it tracks the results of priorities. Both priorities and strategic goals are defined in strategic goals.*

Source: Author

## CONCLUSIONS AND RECOMMENDATIONS

This section presents key conclusions and recommendations, based on a detailed analysis of current monitoring and evaluation practices that support the policy cycle, the SME landscape and the entrepreneurial ecosystem in BiH in the context of “creating a business enabling environment”.

### CONCLUSIONS

Research question 1: What is the current state of the SME landscape and the entrepreneurial ecosystem in BiH, in the context of “creating a business enabling environment”?

***Conclusion 1: BiH underperforms in almost all policy dimensions, compared to the Western Balkans and Turkey, and the ideal standards.***

The most recent assessment indicates that BiH has significant gaps between the current state and (a) the ideal, (b) regional in all policy dimensions, suggesting that all SME policies and/or legislative framework could benefit from a certain level of improvement or modifications, in terms of both design and delivery, including (from worst to best rated): innovation policy for SMEs; operational environment for SMEs; SMEs in a green economy; bankruptcy and second chance for SMEs; internationalization of SMEs; the institutional and regulatory framework for SME policy; enterprise skills; standards and technical regulations; entrepreneurial learning and women’s entrepreneurship, access to finance for SMEs and finally business support services for SMEs and public procurement.

Research question 2: What is the current state-of-play regarding monitoring and evaluation, i.e., are monitoring and evaluation practices rooted in the policy cycle to support SMEs and entrepreneurial activity?

***Conclusion 2: Evaluations are at an early stage of development and evaluation practices are not rooted in the policy cycle to support SMEs and entrepreneurial activity***

According to the report’s findings, while the government’s measures are typically monitored, evaluations are rarely conducted, especially in RS. The legal and regulatory environment and subsequent indicators to direct the monitoring of changes exist. However, it there is no attempt made to understand how and why a change has occurred through reflection on, and use of, data to inform decision-making and program-design. In response, the FBiH envisions the implementation of a specific measure in the period 2021-2027, titled “Strengthening the statistical base as a basis for policy-making”.

***Conclusion 3: Public-private consultations are assessed as being poor and inconsistent***

The drafting of strategic and policy documents, as well as legislative changes are considered through; public discussion and presentations; various councils; chambers of commerce and employers' associations as members of workgroups and focus groups with employers and expert opinions. However, public-private consultations are assessed as being poor and inconsistent.

***Conclusion 4: Publicly available reports and strategies show the lack of skill in designing measures***

As the findings indicated, measures in strategic documents do not necessarily align with the evidence produced from the situation analysis. While strategic documents defined broad measures targeting all enterprises, and they are “size-blind” and do not align with incentives and grant schemes, which target enterprises of different sizes.

***Conclusion 5: There is no framework guiding SME development at the national level.***

Findings indicate that definitions of MSMEs in various laws are not harmonized across BiH, resulting in the lack of a national-wide MSME definition. In addition to that, all findings showed that the national level does not have an important role in creating policies or collecting the data, which obstructs evidence-based policy making for the whole economy.



## KEY RECOMMENDATIONS

**Recommendation 1: Strengthening evaluation in the policy cycle would allow for informed SME policy making<sup>71</sup>, contributing to an increase of evidence which, when utilized, would allow for more informed policy making.**

Participants in both FGDs observed that monitoring and evaluation practices are not rooted in the policy cycle. Representatives of employers also pointed out that available programs and measures for SMEs are not entirely in line with their needs. The policy documents should be based more on the results of monitoring and evaluation. As noted in OECD's (2019) report, the government should ensure full implementation of regulatory impact analysis (RIA), including aspects affecting SMEs.

**Recommendation 2: Strengthening the capacity of the government representatives to conduct and utilize monitoring and evaluation throughout the policy cycle, would further promote evidence-based policy making**

Since many strategic documents envision monitoring and evaluation activities, and that government representative in the FDG observed that current practices in evaluation are rather inadequate, capacity building in forms of training and support are necessary. The evidence-based decision making should promote all involved parties to be involved, as the current level of understanding and application of the evaluation process is at a low level. Capacity-building and support should be provided in the process of designing, implementing, and interpreting the evaluation reports.

**Recommendation 3: Encourage government representatives to make reports publicly available to promote transparency and accountability**

As monitoring and evaluations are not available publicly, effort should be put in to encouraging representatives to make reports publicly available to support transparency and accountability, as a means to combat corruption. In addition to that, new strategic documents should demonstrate a clear link when designing a new policy document.

**Recommendation 4: Continue the effort to improve administrative procedures efficiency and to decrease fiscal burden of businesses<sup>72</sup>**

Ongoing efforts are invested to improve the time, simplify the procedures, and reduce the total cost of SME registration, but it is necessary to continue to work on building an environment that will facilitate the SME registration process from the employer's point of view. Desk research and the FGDs pointed out the most challenging problems that entrepreneurs are facing right now: no facilities for e-signatures or electronic communication, complex and lengthy procedures for gaining construction permits and obtaining VAT numbers. According to the most recent ILO (2021) brief; "making it easier to start, grow and close a business" is identified as one of the priority areas for reform, and is aimed

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<sup>71</sup> As recommended in OECD et al. (2019), SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en>, p. 30.

<sup>72</sup> One of the three pillars of an SME Strategy for a sustainable and digital Europe, as recommended in European Commission (2020). Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: An SME Strategy for a sustainable and digital Europe. COM/2020/103 final <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1593507563224&uri=CELEX:52020DC0103>

at reducing compliance costs; the simplification of administrative procedures, and fast-track approval processes<sup>73</sup>. One of the areas for improvement regarding the fiscal burden of businesses, is related to **wage** contributions, which should be improved to motivate employers to increase workers' wages. This is expected to have a positive impact on preserving jobs and preventing the youth from migrating to other countries. Current wage contributions do not motivate employers to increase workers' wages, which has a negative impact on preserving jobs and preventing the emigrations of youth.

**Recommendation 5: Harmonize policies and measures across BiH**

BiH's laws are not harmonized, which creates problems for employers. Desk research as well as the participants in FGD, reported various issues regarding wholesale fiscalization, waste fees, and incentives to pay contributions, and regulations on environmental protection.

**Recommendation 6: Further improve the legal framework for bankruptcy and second chance policies<sup>74</sup>**

The legal framework for bankruptcy and second chance has been improved in RS, but it should be improved in FBiH and BD too. Further improvement should focus on harmonization of the legal framework with the European Commission recommendation; implementation bodies should receive training; and early warning systems should be developed. Monitoring and evaluation processes should also be defined to support evidence-based policy making. According to ILO's (2020) policy brief, "reforms should focus on simplifying the procedures associated with business restructuring and closure."<sup>75</sup>

**Recommendation 7: It is necessary to work on building a more efficient public-private dialogue**

Involving micro, small and medium enterprises in policy design is a common practice across BiH (discussions, focus groups, small business development councils, involvement of chambers of commerce and employers' associations), but it is necessary to work on building a more efficient public-private dialogue. This dialogue should lead institutions, from the local to the highest national level, as they should listen to the word of entrepreneurs and try to find ways how to improve the business environment. The methods of employers' involvement should not be ad hoc, but systemic. In that context, one of the recommendations of ILO's (2020) policy brief is to take public-private dialogue online.

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<sup>73</sup> International Labour Organization (2020). Policy Brief: Enabling Environment for Sustainable Enterprises and the Post-COVID-19 Rapid Response. Available at [https://www.ilo.org/empent/Publications/WCMS\\_750320/lang--en/index.htm](https://www.ilo.org/empent/Publications/WCMS_750320/lang--en/index.htm) , p.04.

<sup>74</sup> As recommended in OECD et al. (2019), SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en> , p. 547.

<sup>75</sup> International Labour Organization (2020). Policy Brief: Enabling Environment for Sustainable Enterprises and the Post-COVID-19 Rapid Response. Available at [https://www.ilo.org/empent/Publications/WCMS\\_750320/lang--en/index.htm](https://www.ilo.org/empent/Publications/WCMS_750320/lang--en/index.htm) , p.04.

**Recommendation 8: Regularly monitor and evaluate tax simplification measures<sup>76</sup>**

Complex criteria deter employers from making use of the tax schemes, even when they are simplified. In that context, the government should regularly monitor and evaluate tax simplification measures to prevent abuse of tax schemes.

**Recommendation 9: Strengthen the monitoring and evaluation of business support services programs in both entities<sup>77</sup>**

Business support services are not regularly monitored and evaluated, which is of significant importance for increasing their effectiveness. As such, it is recommended to strengthen the monitoring and evaluation of business support services programs in both entities.

**Recommendation 10: Non-banking instruments should be further developed as the most dominant way of financing comes from banks, which have very strict criteria for getting a loan<sup>78</sup>.**

Insufficient financial support is available to employers and start-ups. Start-ups are encountering more difficulties in seeking financial support, as banking policies prevent start-ups from applying for loans.

**Recommendation 11: Improve MSMEs skills, innovation, internationalization, and access to standardization**

These three SMEs policy dimensions are underdeveloped and should be further supported by government programs and measures. SMEs should become aware of benefits of successfully integrating digital technologies into their business, they should improve their skills and they should be supported in their efforts to access standardization, in order to become fully competitive internationally.

**Recommendation 12: Financial and non-financial support regarding environmental protection and export certification should be provided to enterprises across BiH.**

Employers believe that environmental protection should not be a priority in the current phase of MSMEs development, as more pressing issues exist. However, they agree that protecting the environment is important, but also the right and 'harmonized' support from all levels of government are required. The transition to sustainable business practices is even challenging for the third of SMEs in the EU, indicating that it is "essential to support SMEs in this process and equip them with instruments to understand environmental risks and mitigate those covering specific sectors, including construction, plastics, electronics and agro-food."<sup>79</sup>

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<sup>76</sup> As recommended in OECD et al. (2019), SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-e>, p. 557.

<sup>77</sup> As recommended in OECD et al. (2019), SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-e>, p. 563.

<sup>78</sup> One of the three pillars of an SME Strategy for a sustainable and digital Europe is related to improving access to financing, as recommended in European Commission (2020). Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: An SME Strategy for a sustainable and digital Europe. COM/2020/103 final <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1593507563224&uri=CELEX:52020DC0103>

<sup>79</sup> European Commission (2020). Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: An SME Strategy for a

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## Annex 1. Entrepreneurial Ecosystem and the SME Policy Index Assessment Framework

The entrepreneurial ecosystem “...stresses how entrepreneurship is enabled by a comprehensive set of resources and actors, which have an important role to play in enabling entrepreneurial action”<sup>80</sup>. The entrepreneurial ecosystem includes both a framework and systemic conditions that boost entrepreneurial activity with four outcomes: productivity, income, employment, and wellbeing. **Framework conditions** represent formal institutions, culture, physical infrastructure, and demand while **systemic conditions** are, networks, leadership, finance, talent, new knowledge, and support services. The entrepreneurial ecosystem model provides a comprehensive list of entrepreneurship enablers.

Table 35. Key elements, outputs, and outcomes of entrepreneurial Ecosystem

Key elements, outputs, and outcomes of entrepreneurial Ecosystem <sup>81</sup>	
<b>Outcomes:</b>	Productivity; Income; Employment; Well-being
<b>Outputs:</b>	Innovative start-ups; High-growth start-ups; entrepreneurial employee activity
<b>Framework conditions</b>	Formal institutions, culture, physical infrastructure, and demand
<b>Systemic conditions</b>	Network, leadership finance, talent, new knowledge, and support services.
Isenberg’s model of an entrepreneurship ecosystem <sup>82</sup>	
<b>Policy</b>	<b>Leadership</b> (unequivocal support, social legitimacy, open door for advocates, entrepreneurship strategy, urgency, crisis, and challenge) <b>Government</b> (institutions, e.g., investment, support; financial support, e.g., for R&D, jump start funds; regulatory framework incentives, e.g., tax benefits; research institutions; venture-friendly legislation, e.g., for bankruptcy, contract, enforcement, property rights and labour).
<b>Finance</b>	<b>Financial capital</b> (micro-loans; angel investors, friends, and family; zero-stage venture capital; venture capital funds; private equity; public capital markets; debt)
<b>Culture</b>	<b>Share Success stories</b> (visible successes; wealth generation for founders; international reputation) <b>Societal norms</b> (tolerance of risks, mistakes, and failures; innovation, creativity, experimentation; social status of entrepreneurs; wealth creation; ambition, driver, hunger)
<b>Supports</b>	<b>Infrastructure</b> (telecommunications; transportation & logistics; energy; zones, incubation centres, clusters) <b>Support professions</b> (legal, accounting, investment bankers, technical experts, advisors) <b>Non-government institutions</b> (Entrepreneurship promotion in non-profits; business plan contests; conferences; entrepreneur-friendly associations)
<b>Human Capital</b>	<b>Labor</b> (skilled and unskilled; serial entrepreneurs; Later generation family) <b>Educational institutions</b> (General degrees; specific entrepreneurship training).

<sup>80</sup> Stam (2014). The Dutch entrepreneurial ecosystem. BirchResearch Entrepreneurship & Innovation (page numbers?)

<sup>81</sup> *ibid*

<sup>82</sup> Isenberg, D. (2011) The entrepreneurship ecosystem strategy as a new paradigm for economy policy: principles for cultivating entrepreneurship, Babson Entrepreneurship Ecosystem Project, Babson College, Babson Park: MA (page numbers?)

<b>Markets</b>	<b>Network</b> (Entrepreneur’s networks; Diaspora networks; Multinational corporations) <b>Early Customers</b> (Early adopters of proof-of-concept; expertise in productizing; reference customers; first reviews: distribution channels)
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The SME Policy Index assessment framework<sup>83</sup> was used to identify priorities in all relevant policy dimensions, guided by the ten principles of the SBA, 10 policy categories and 34 sub-categories relate to each SBA principle.

Table 36. The SBA assessment framework and its links to the SBA principles

SME Policy Index dimension	SME Policy Index dimension	Sub-dimension
1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded.	1. Entrepreneurial learning and women’s entrepreneurship.	1.1. Entrepreneurial learning.
		1.2. Women’s entrepreneurship.
2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance.	2. Bankruptcy and second chance for SMEs.	2.1. Preventive measures.
		2.2. Bankruptcy procedures.
		2.3. Promoting second chance.
3. Design rules according to the “think small first” principle.	3. Institutional and regulatory framework for SME policy.	3.1. Institutional framework.
		3.2. Legislative and regulatory simplification and RIA application.
		3.3. Public-private consultations (PPCs).
4. Make public administration responsive to SMEs.	4. Operational environment for SMEs.	4.1. Digital government services for enterprises.
		4.2. Company registration.
		4.3. Business licenses.
		4.4. Tax compliance procedures for SMEs.
5. Adapt public policy tools to SME needs.	5a. Business support services for SMEs.	5.1. Business support services provided by the government.
		5.2. Government initiatives to stimulate private business support services.
	5b. Public procurement.	5.3. Public procurement.
6. Facilitate SME access to finance and develop a legal framework and business environment supportive of timely payments in commercial transactions.	6. Access to finance for SMEs.	6.1. Legal and regulatory framework.
		6.2. Bank financing.
		6.3. Non-bank financing.
		6.4. Venture capital ecosystem.
		6.5. Financial literacy.
7. Help SMEs to benefit more from the opportunities offered by the Single Market.	7. Standards and technical regulations.	7.1. Overall co-ordination and general measures.
		7.2. Harmonization with the EU acquis.
		7.3. SME access to standardization.
8. Promote the upgrading of skills and all forms of innovation.	8b. Innovation for SMEs.	8.1. Policy framework for innovation.
		8.2. Government institutional support services for innovative SMEs.

<sup>83</sup> OECD et al. (2019), SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the Small Business Act for Europe, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/g2g9fa9a-en>, p. 54-55.



SME Policy Index dimension	SME Policy Index dimension	Sub-dimension
		8.3. Government financial support services for innovative SMEs.
		8.4. SME and research institution collaboration and technology transfer.
9. Enable SMEs to turn environmental challenges into opportunities.	9. SMEs in a green economy	9.1. Framework for environmental policies targeting SMEs.
		9.2. Incentives and instruments for SME greening.
10. Encourage and support SMEs to benefit from growth markets.	10. Internationalization of SMEs.	10.1. Export promotion.
		10.2. Integration of SMEs into global value chains.
		10.3. Promoting the use of e-commerce.

Source: OECD et al. (2019), SME Policy Index: Western Balkans and Turkey 2019: Assessing the Implementation of the SBA for Europe, SME Policy Index, OECD Publishing, Paris, <https://doi.org/10.1787/g2q9fa9a-en>, p. 54-55.

## Annex 2. Overview of key strategic reforms and challenges

The strategic documents identified several goals necessary for creating a business-enabling environment and overall economic growth. These goals are oriented toward increasing entrepreneurial activity and improving the competitiveness of SMEs. The strategic reforms and challenges presented in this section, represent similar themes that have been identified across the two entities and BD. However, the most important strategic reforms can be group into the following groups:

- Economic recovery and creating resilience to crises.
- Improving the environment for the development of entrepreneurial activity.
- Entrepreneurship development and learning.
- Entrepreneurship development, with a focus on specific sectors and specific categories of entrepreneurs.
- Improving access to finance for MSMEs.
- Standardization and internationalization.
- Business skills development for SMEs.
- Innovation and digitalization of business.
- The transition of SMEs to a green economy.

The overarching strategy for each state, established indicators and baseline and target values are presented in Annex 5. In the following sections, planned reforms are presented in detail, i.e., what different levels (mainly FBiH, RS and BD) are planning to implement in the upcoming 2021-2027 period. Implementation of activities and programs, with the assessment of the current state, are presented in detail in the findings section.

The data sources for indicators in the strategic plans, are specified in the Development Strategy of the FBiH 2021-2027. For the measures relevant to the creation of a business-enabling environment, a total of 22 sources have been specified. The major sources for measures outlined, include the Federal Bureau of Statistics (25.6%), the World Bank (10.5%), the Federal Employment Agency (10.5%), the Federal Institute for Development Programming (8.1%) and EUROSTAT (5.8%). As can be observed, the FBiH's strategic document mostly relies on secondary sources. Only in the case of two indicators, is the FBiH Chamber of Commerce is mentioned. Although data sources are not explicitly mentioned in the strategic documents of BD, the chosen indicators do point to secondary sources. Measures defined in Strategy for the development of small and medium enterprises in RS for the period 2021-2027 are strictly output-based, meaning that they aim to track progress in achieving outputs, whereas selected indicators in the case of priorities and strategic goals point to the secondary sources.

### ***Economic recovery and creating resilience to crises***

The strategic documents envisage the continuation of support to MSMEs for recovery from the pandemic, as well as the development of preventive measures for responding to similar crises in the future. These focus on understanding the effects of previous measures, as well as providing professional support to SMEs to introduce preventive measures. These measures are planned by strategic documents of RS and BD. Another reform envisaged by RS and BD strategic documents is related to the promotion of second chances and a quick restart for entrepreneurs who have failed in their first attempts, including activities such as; improving bankruptcy legislation; consulting support to entrepreneurs who want to start a business again through training and exchange of experiences;

mentoring services; and appropriate financial incentives for a fresh start as well as early warning support for those entrepreneurs who have business problems. Table 37 lists measures in this category, with the title of a measure, indicators, and allocated budget.

It is worth noting that FBiH does not explicitly mention economic recovery and creating resilience to crises in the strategic document. However, programs and measures that support this in FBiH are available, but they are not presented in the strategic document. For example, the Small-sized enterprises' Economy Development Program for the period 2020 – 2023 aims to provide sufficient liquidity to companies affected by this crisis, enabling them to overcome the temporary economic disruption, using the following: provision of incentive credit funds for the implementation of ensuring economic stability; liquidity and entrepreneurial projects; and subsidizing/refunding interest expenses on loans from the previous two years.

Table 37: Economic recovery and creating resilience to crises			
Level	Measure	Indicators	Budget*
RS	Mitigating and preventing the negative consequences of the crisis on the economy.	Increased percentage of SMEs that mitigated the negative consequences of the crisis in the economy by using incentives. Increased number of SMEs provided with professional support for the introduction of preventive measures.	N/A
RS	Promoting second chances and a quick restart for entrepreneurs who have failed in their first attempts.	Increased number of entrepreneurs who successfully used the second chance by applying this measure.	BAM 700,000 (0.43%)
BD	Support for business operations and recovery from the consequences of the pandemic crisis.	Increased number of: active MSMEs; MSMEs that use existing incentives. Improving the SBA profile of BiH in dimension 2 (Bankruptcy and second chance) and dimension 6 (Access to finance).	BAM 60,000,000 (13.3%)

\* The percentage in parentheses represents the share of funds in the total budget of the strategy being analysed

### ***Improving the environment for the development of entrepreneurial activity***

Several activities are implemented within this group. First, the strategic documents focus on strengthening the capacity of entrepreneurial associations, chambers of commerce and government, which will lead to strengthening the participation and influence of SMEs in public-private dialogue. The other activities are related to the changes in the regulations that will facilitate and improve business conditions, and the organization of training, workshops, and mentorships for business improvement. Additionally, the reforms aim to improve the use of business support services, such as increasing the capacity of local governments to improve support services, establishing funding instruments and organizing joint training and mentoring programs for entrepreneurs.

### ***Theme 1: The integration of the digital economy***

The reforms aim to improve the availability and quality of public services intended for SMEs. Particularly important is the level of digital public-sector services available to SMEs, observed through the interaction of SMEs with the public sector through digital technologies in the process of

registration and business licensing, as well as the execution of tax obligations. All strategic documents promote the idea of Single Point of Contact (SPOC), something that is established at all levels but will require further improvement with the e-services. The strategic documents emphasize the digitization of statistical surveys, reports and the introduction of surveys on SMEs.

### *Theme 2: Strengthening the administrative capacity and legislative framework in the field of entrepreneurship*

In order to improve the business environment in RS, further steps in strengthening the administrative capacity and legislative framework in the field of entrepreneurship are planned: development and support for the implementation of the Local Government Development Strategy in RS; investing efforts to achieve certification of a favourable business environment; strengthening the capacity of local development agencies and municipal departments of the economy through the organization of training for the preparation and implementation of development projects and improvement of services for SMEs; and strengthening cooperation between RS Development Agency and local development agencies through the preparation and implementation of joint projects; and establishing and supporting models of inter-municipal cooperation.

The FBiH specifically aims to reduce parafiscal charges and the tax burden on labour (especially for low-income workers), support formal employment and make amendments to the law on income tax and the law on contributions. It is also necessary to; remove obstacles to registering business activity by improving legal regulations aimed at reducing costs, procedures and time of performing activities (such as online and one-stop shop system for registration of business entities and issuing building permits, electricity permits, etc.). It is also necessary to provide financial resources (grant funds for start-up SMEs, voucher schemes, favourable microcredits, co-investment, guarantees, etc.), as well as professional support through mentoring, and assistance in connecting and networking with other companies. The measure “Strengthen political and institutional leadership and coordination of public administration reform and economic reforms”, promotes the need for a change of the legal framework, to identify the leading institution responsible for creating, proposing and coordinating public administration reform policy in FBiH. The measure takes into consideration establishment of standards of public administration organization; human resources management, development policies, e-government development policies, standards of public service delivery and e-services; identification of important issues for the functioning of public administration in FBiH and the development of a framework for modernization of public administration in FBiH, ensuring effective coordination between different stakeholders.

Theme 3: The establishment and development of entrepreneurial infrastructure such as business zones, incubators, accelerators, innovation centres and co-working spaces

Another measure aims at creating more a favourable business environment in RS, is related to the provision of support to the establishment and development of entrepreneurial infrastructure (business zones, incubators, accelerators, innovation centres, co-working spaces), including analytical-planning activities, the establishment of support institutions (laboratories, accreditation and certification organizations, centres for product design and development, incubators, co-working spaces, HUBs, etc.); the construction of the first Scientific and Technological Park in RS. Also, these measures include financial support and improvement of the regulatory framework which would

enable more efficient resolution of property-legal relations (Law on Real Rights, Law on Construction Land and other laws).

FBiH measures promote the need to bring together all relevant participants such as federal administrative bodies, the Chamber of Crafts and Commerce, scientific research institutions, relevant ministries, and other entities and institutions. Their tasks and interests are to strengthen entrepreneurial capacity to ensure exchange of knowledge and good practices; the availability of information on funding opportunities, entrepreneurial projects, and other information that contributes to successful business operations.

The measures specified in this group of reforms in BD, seek to ensure quality strategic profiling of tourism in the BD through the selection, development and branding of major tourism products; the establishment of a single destination-management body (Destination Management Organization). These are to be done in accordance with the best practices which characterize the systemic approach and partnership of public and private sector in the management and organization of a series of training sessions for the holders of tourist offers, in order to work on the constant improvement and increase of the attractiveness of the offer, as well as training for professionals dealing with tourism. Additional measures in BD focus on a series of individual activities and projects related to the construction of tourist and recreational infrastructure, such as the the city's plan to construct a marina. Finally, one of DB's focuses is on adopting a proactive approach regarding regional cooperation, use of EU funds and programs, especially those envisaged for the Western Balkans and announced by the European Commission's Economic and Investment Plan, as well as the Green Agenda for the Western Balkans.

#### Theme 4: Corruption

As noted by Lee-Jones's (2018) report, "corruption in BiH is pervasive across all levels of government. It occurs in the form of undue political influence and interference, clientelism and patronage, bribery and abuse of public office."<sup>84</sup> However, corruption does not get the attention it deserves in strategic documents produced at different levels. In order to improve the business environment, FBiH aims to implement two measures to "increase the efficiency of the justice system" and to "develop an effective system for preventing and fighting corruption". The measures are relevant for MSMEs as they aim to reduce the number of unresolved commercial cases in courts; to increase the independence of the judiciary in BiH, and to work on removing and controlling corruption. In BD's strategic document, "effective fight against corruption" is merely recognized as an important driver, without giving any attention to the means of fighting corruption being given.

Participants in both FGDs agree that corruption is present in almost all spheres of business. Employers' representatives expressed their concerns that authorities devote most of their time to the inspection of those who work honestly and are officially registered as a business entity, while non-official business entities are mostly out of their reach. As noted by E2 (M):

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<sup>84</sup> Lee-Jones, K. (2018). Bosnia and Herzegovina: Overview of corruption and anti-corruption. CMI Chr. Michelsen Institute. Available at: <https://www.u4.no/publications/bosnia-and-herzegovina-overview-of-corruption-and-anti-corruption.pdf>

"Corruption is one of the most common words used in foreign reports. We can say that corruption is another name for BiH. First of all, I mean the state apparatus and public companies." (E2, M)

Government representatives in the FGD identified that the measures typically aimed at fighting corruption include: the publication of a register of beneficiaries; the public disclosure of beneficiaries and the organization of special anti-corruption bodies. For example, in 2018, the Government of the Sarajevo Canton passed the Decree on the Establishment of the Office for the Fight against Corruption and Quality Management. On a dedicated web page<sup>85</sup>, the Government of the Sarajevo Canton has established the Register of Beneficiaries of Agricultural Incentives and the Register of Small Business Development Incentives in the Sarajevo Canton, with the aim of increasing transparency in the use of funds.

Table 38: Improving the environment for the development of entrepreneurial activity			
Level	Measure	Indicators	Budget*
RS	Support for entrepreneurial initiatives to improve the business environment.	Number of LGUs that have improved or adjusted business conditions for micro and small enterprises by applying this measure; Increased number of implemented entrepreneurial initiatives at the entity level by applying this measure.	BAM 700,000 (0.43%)
RS	Development of entrepreneurial business support services by the public and private sector (management, finance, business innovation).	Increasing the number of small and micro enterprises participating in organized business development support programs by applying this measure; Increased number of entrepreneurs who have improved their business by using entrepreneurial business support services by applying this measure.	BAM 350,000 (0.22%)
RS	Continuous improvement of the availability of digital services for SMEs.	Increased number of new digital public services for SMEs.	N/A
RS	Strengthening administrative capacity and legislative framework in the field of entrepreneurship.	Increased number of trainings held. Increased number of implemented Council recommendations. Increased number of reduced fees for the private sector.	N/A
RS	Strengthening the capacity to support entrepreneurship at the local level.	Growth% of LGUs that realized financial support for SMEs. Increased number of: municipalities that have gone through the certification process; Of joint projects implemented by this measure.	N/A
RS	Support to the establishment and development of entrepreneurial infrastructure (business zones, incubators, accelerators, innovation centres, co-working spaces).	Increased number of new users of entrepreneurial infrastructure.	BAM 7,000,000 (4.32%)

<sup>85</sup> <https://www.anticorruptiks.com/>

FBiH	Facilitate and speed up the processes of entering and exiting a business activity.	Starting a business activity easily.	31,200,000 (1.2%)
FBiH	Unburden the economy by reducing the fiscal burden on labour.	Tax wedge on the minimum gross salary in FBiH (%); Tax wedge on the average gross salary in FBiH (%).	BAM 13,000,000 (0.5%)
FBiH	Strengthen political and institutional leadership and coordination of public administration reform and economic reforms.	Functionally leading institution for public administration reform in FBiH established. Adopt a framework for modernizing the administration.	N/A
FBiH	Increase the efficiency of the justice system.	Reduced number of unresolved commercial cases in courts; Independence of the judiciary in BiH.	N/A
FBiH	Develop an effective system for preventing and fighting corruption.	Change in Corruption Perceptions Index (CPI); Absence of corruption; Corruption control.	N/A
FBiH	To support spatial concentration of enterprises.	Increased; Road infrastructure network density, km per 1,000 km <sup>2</sup> ; Density of railway infrastructure network, km per 1,000 km <sup>2</sup> ; Passenger traffic at airports per 100,000 inhabitants.	BAM 200,000 (0.01%)
BD	Strategic profiling and tourism branding in BD.	Increased number of proposed and accepted tourist brands of BD. Increased number of developed / realized tourist brands.	BAM 400,000 (0.01%)
BD	Organizational and personnel strengthening of the tourism sector.	Tourism organization established and functional. Increased number of organized educations in the field of tourism.	BAM 1,000,000 (0.2%)
BD	Construction of tourist-recreational infrastructure.	Increased number of priorities / projects for the development of tourist infrastructure realized through capital and private investments.	BAM 7,000,000 (1.5%)
BD	Active participation in regional cooperation programs, the EU and the Western Balkans.	Increased number of projects within EU funds, regional cooperation, multilateral and bilateral donors implemented in BD.	BAM 10,000,000 (2.2%)
BD	Harmonization of the labour market and the education system through career guidance and counselling.	Reduction of youth unemployment.	BAM 700,000 (0.2%)
BD	Harmonization and improvement of the business environment.	Greater degree of harmonization of the Law on Stimulating the Economy with the EU recommendations; Increased number of successful new joint initiatives of chamber of commerce and employers' association BD; Improving the SBA profile of BiH in dimension 3 (Institutional and regulatory framework) and dimension 5a (SME support services).	BAM 100,000 (0.02%)
BD	Equipping priority business zones.	Construction and occupancy of business zones.	BAM 50,000,000 (11.1%)

\* The percentage in parentheses represents the share of funds in the total budget of the strategy being analysed

### **Entrepreneurship development and learning**

Activity in this chapter refers to systemic and continuous support to potential entrepreneurs for establishing a business, including the following activities: promotion of support for business start-ups; education of entrepreneurs and (self)employment; workshops and other forms of consulting; mentoring support and financial incentives for future entrepreneurs. In addition to this, all strategic documents promote the integration of entrepreneurial learning in all types of formal education. The documents also express the need to improve the subject and knowledge of teachers, the promotion of entrepreneurship in educational institutions to increase the interest and competencies of students for entrepreneurial careers. In the case of RS, this measure is presented as a separate measure, whereas in the case of BD and FBiH, these measures are contained within other measures, with no specific indicators defined to measure the progress. Table 39 lists measures in this category, with title of measure, indicators, and allocated budget.

<b>Table 39: Entrepreneurship development</b>			
<b>Level</b>	<b>Measure</b>	<b>Indicators</b>	<b>Budget*</b>
RS	Support for the development of start-ups (beginners in business).	Increased number of new entrepreneurs who have received support for business development in the year.	40,000,000 (24.7%)
RS	Support the development and integration of entrepreneurial learning programs into formal and non-formal education and career planning.	Increased number of high schools and faculties that have introduced / adopted the subject of entrepreneurial learning.	N/A
RS	Systematic support for the development and promotion of women's entrepreneurship.	Increased number of women owners of SMEs.	1,400,000 (0.86%)
RS	Incentives for (self) employment in entrepreneurial activity.	Contracted funds under employment programs for entrepreneurial activities (self-employment).	N/A

\* The percentage in parentheses represents the share of funds in the total budget of the strategy being analysed

### **Entrepreneurship development, with a focus on specific sectors and specific categories of entrepreneurs**

#### *Theme 1: Tourism sector*

In the case of FBiH, RS and BD, the focus of strategic documents is on the development of specific sectors. They support the development of entrepreneurship in the tourism sector, a project planned to be implemented in FBiH and BD. This measure is envisioned as increasing the quality of accommodation capacities and to engage as many local entrepreneurs and their products and services in the destination value chain, which ensures market differentiation based on local and authentic offers. It is meant to provide education and support the association of entrepreneurs to achieve a more organized, thematic and meaningful offer at the destination, as well as providing favourable loans and resolving issues of research and protection of cultural and historical heritage, etc.

As noted in the FBiH strategic document, "it is necessary to work on a systematic and continuous raising of the awareness of the population in rural areas (lectures and professional workshops) on the possibilities and importance of tourism, preservation of traditional and indigenous products, authentic



natural and cultural heritage.”<sup>86</sup> It is also meant to support mass-tourist entrepreneurship (for example: converting rooms in households into small family hotels; revitalization of traditional houses in abandoned villages of underdeveloped areas; construction of accommodation facilities for special interest markets; construction of thematic facilities tourist offers; accelerating the growth of mountain and other underdeveloped tourist areas). Additionally, the development of the tourist offer requires investments, protection and maintenance of cultural and historical heritage and its integration into development trends at the local and regional level. According to the strategic plan, it is also necessary to adopt a (another) strategic plan for the development of health tourism, such as rehabilitation, dentistry, and cosmetic surgery, in FBiH. Finally, the document envisions the improvement of necessary infrastructures, such as mountain trails, local and forest roads, solar smart benches, rest areas, tourist info panels, lookouts, shelters, etc. Support under this measure is aimed at improving and integrating the tourist information system, including the creation of web applications, in order to increase the activity of tourists during their stay at the destination and thus induce additional consumption

### *Theme 2: Creative sector*

Additionally, FBiH emphasizes the development of a creative sector. The strategic document of FBiH envisages systemic support to the development of the creative sector, especially architecture, crafts, tourism, film, television, video, publishing, museums, galleries, libraries, music, performing and visual arts, design, branding and the application of information and communication technologies. Also included is proposed support for the production of promotional films for industries and the distribution and promotion of various forms of communication (internet, TV, etc.)<sup>87</sup>. Activities that will support the development of creative sectors include: mapping the available and potential resources of the creative industry; providing different types of support and resources; tax reductions; building networks; support in local participation in international fairs; promoting education in the field of creative industry, etc. Stimulating connections with BiH’s diaspora is also unique project of FBiH and BD, aiming to increase the number of business entities initiated by the diaspora and to provide support services to the diaspora of BiH (connecting companies with researchers and diaspora’s companies, ensuring fully functional entrepreneurial infrastructure, etc.).

### Theme 3: Traditional and artistic crafts or domestic crafts

In RS, 33 independent entrepreneurs currently have a certificate of traditional and artistic crafts or domestic crafts<sup>88</sup>. As there is no support for this area, a large number of traditional crafts disappear after the retirement of craftsmen because there is no interest in continuing the business. One measure identified in the strategic document of RS is related to providing the support for the preservation of these MSMEs through financial support for the procurement of materials and tools and the education of young people who would be interested in this area, as well as the costs of promoting products. These issues are also recognized in the strategic documents of FBiH and BD. At the cantonal level however, the preservation and development of crafts are recognized. For example, the Small Economy Development Program of Canton Sarajevo for the period 2020 – 2023, recognizes the importance of preservation and development of crafts, and aims to modernise and improve businesses. The program recognizes issues that small low-income craft workshops face (lack of capital for the introduction of

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<sup>86</sup> Development Strategy of the FBiH 2021-2027, p. 28.

<sup>87</sup> Development Strategy of the FBiH 2021-2027, p. 25-26.

<sup>88</sup> Strategy for the development of small and medium enterprises in the RS for the period 2021-2027

new technologies and modernization of business; lack of the knowledge and entrepreneurial skills to accept and apply new technologies and innovations; a long-term negative trend of structural deviation towards the service sector, instead of the real sector with technologically and innovatively oriented projects of higher added value). As such, this plans to continue the allocation of incentive funds for the modernization and improvement of craftsmen's business, and education with special emphasis on those who perform traditional, deficit and productive craft activities.

*Theme 4: Vulnerable groups and social entrepreneurship*

The FBiH Development Strategy recognizes that “the current labour market in FBiH is characterized by negative trends and high rates of inactive and unemployed, especially among members of vulnerable social groups (long-term unemployed, people with disabilities, women, youth, young people without parental care who leave public care, Roma, etc.).”<sup>89</sup> According to the strategy, it is necessary to institutionally and legislatively regulate the field of social entrepreneurship in order to; “enable and facilitate the establishment and functioning of social enterprises, provide easier access to funding sources (establish a center for social entrepreneurship development or social entrepreneurship development fund capital for the development of social enterprises), additionally encouraged the business sector to be more actively involved in social employment programs (co-financing social entrepreneurship programs by providing mentoring services), provided tax reduction for social enterprises that reinvest their profits in activities that contribute to community development, which will be suitable for the development of the concept and activities of social entrepreneurship.”<sup>90</sup> In RS, the Law on Social Entrepreneurship enables vulnerable groups to get involved in business processes and thus strengthen their status and position in society. As noted by the Strategy for the development of small and medium enterprises in the RS for the period 2021-2027, the Law on Social Entrepreneurship will be in force in RS from 2021. This area is defined for the first time in the legal system, which enables vulnerable groups to get involved in business processes and thus strengthen their status and position in society. It is planned to monitor a register of socially-owned enterprises and provide support to this area in accordance with the available resources.

Theme 5: Agriculture

In BD, support for self-employment in the economic and agricultural sectors includes support for the self-employment of unemployed persons and support to persons who have started an economic activity, with special attention given to agriculture.

Table 40: Entrepreneurship development, with a focus on specific sectors and specific categories of entrepreneurs			
Level	Measure	Indicators	Budget*
FBiH	Support the development of entrepreneurship in the creative sector.	Gross value added in the creative and cultural industry, in thousands BAM; Growing number of employees in the creative and cultural industry.	BAM 24,000,000 (1.0%)
FBiH	Support the development of entrepreneurship in the tourism sector.	Percent of gross value added of “Accommodation and food service activities (hotels and restaurants)” in GDP;	BAM 30,300,000 (1.2%)

<sup>89</sup> The FBiH Development Strategy 2021-2027, p.53.

<sup>90</sup> The FBiH Development Strategy 2021-2027, p.53-54.

		Growth in average expenditure per trip; Growth in the annual number of overnight stays.	
FBiH	Stimulate connections with the BiH diaspora.	Growth in number of business entities initiated by the diaspora; Register of BiH diaspora (companies and scientists) established; A credit line established for companies from FBiH that establish business cooperation with the BiH diaspora.	BAM 6,100,000 (0.2%)
FBiH	Improve the position of vulnerable groups in the labour market.	Decreased rate of unemployment among women. Increased activity rate among women. Decrease in % of long-term unemployed women in the total number of unemployed women (over 12 months). Increase in % of sustainable business entities after 3 years of business founded by women and youth. Increase in numbers of women with disabilities employed in relation to the total number of unemployed women in employment services.	BAM 7,700,000 (4.8%)
BD	Active inclusion of emigrants in the economic development of the BD.	Increased number of newly created business arrangements between emigrants and local businessmen; Growth of emigrants' investments in BD.	BAM 600,000 (0.1%)
RS	Support for the preservation of traditional crafts and handicrafts.	Increasing the number of certified trades.	N/A
RS	Support for the development of social entrepreneurship.	Growth in: number of entities that have received the status of social enterprises; number of social enterprises that received support.	BAM 700,000 (0.43%)
BD	Systemic support for youth entrepreneurship and women's entrepreneurship.	Growth in number of new young IT professionals; new IT companies founded by young entrepreneurs. Increased participation by women in granted incentives for self-employment (number of incentives for women in relation to the total number of incentives); Improving the SBA profile of BiH in dimension 1.1. (Entrepreneurial learning) and 8a (Professional and business skills).	BAM 3,000,000 (0.7%)
BD	Support for self-employment in the economic and agricultural sectors.	Growth in the number of newly registered businesses from self-employment funds. Growth in the number of new employees from self-employment funds.	BAM 7,000,000 (1.5%)

\* The percentage in parentheses represents the share of funds in the total budget of the strategy being analyzed

## Women's Entrepreneurship

The main institutions relevant in improving policy framework in the context of involvement of “women in business”<sup>91</sup> are:

- The Agency for Gender Equality of BiH was established within the Ministry of Human Rights and Refugees, in accordance with the Law on Gender Equality of BiH and the Decision of the Council of Ministers of BiH.
- Gender Center of the FBiH
- RS Gender Center
- Commission for Achieving Gender Equality of the House of Representatives of the Parliamentary Assembly of BiH
- Commission for Gender Equality of the House of Peoples in the Parliament of the FBiH
- Committee for Equal Opportunities of the National Assembly of the RS
- Gender equality commissions/committees in cantonal assemblies and governments
- City councils/city assemblies of Sarajevo and Mostar
- Gender Equality Commissions of Municipal Councils / Municipal Assemblies and Offices of Municipal Mayors established in more than 95% of municipalities
- Commission for Gender Equality of the Assembly of the BD
- Persons nominated for gender equality issues in state administration bodies

World Bank's (2015) report concluded that “men are much more likely to have ownership of and to manage firms.”<sup>92</sup> The percentage of firms with female ownership is 27.3%, and the percentage of firms with female top managers is 24.2%. The World Bank's (2015) report showed that women's chances of being top managers are much higher in medium-sized firms (29.2%), and in smaller firms (22.5%).

In the FBiH's strategic document, only one paragraph relating to the measure “Improvement the position of vulnerable groups in the labor market”, promotes female entrepreneurship. More specifically, the measure plans to alleviate the problem of the under-representation of women and youth in entrepreneurship and identify the challenges and opportunities related to these groups. It is envisioned that special programs will be created for these groups and it is planned to promote entrepreneurship through formal education and lifelong learning. The measure particularly aims to provide support to women entrepreneurs to join European women's entrepreneurial networks. The indicators this measure is based on are:

- Unemployment rate among women (21.7% in 2019 and the target value in 2027 is set to be reduced to 15.0%)
- Activity rate among women (29.3% in 2019; and 40.0% in 2027)
- Percentage of long-term unemployed women in the total number of unemployed women (79.3% in 2019; and 60.0% in 2027)
- The percentage of sustainable business entities after 3 years of a business founded by women and youth (initial and target values not available)

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<sup>91</sup> Arslanagić-Kalajdžić, M. et al. (2019). Žensko preduzetništvo: pregled stanja i preporuke za budućnost. Ekonomski fakultet Univerziteta u Sarajevu. Available at: [http://www.efsa.unsa.ba/ef/sites/default/files/women\\_in\\_business.pdf](http://www.efsa.unsa.ba/ef/sites/default/files/women_in_business.pdf), p.20.

<sup>92</sup> World Bank (2015). Bosnia and Herzegovina: Gender Disparities in Endowments, Access to Economic Opportunities and Agency. Available at: <https://documents1.worldbank.org/curated/en/754241467992483659/pdf/97640-ESW-P132666-and-P152786-Box385353B-PUBLIC-BiH-Gender-Disparities-in-Endowments.pdf>, p.56.

- The percentage of women with disabilities in relation to the total number of unemployed women in employment services (0.93% in 2019 and 0% in 2027).

The improvement of female entrepreneurship is also defined as a priority by most strategic documents. The importance of women's entrepreneurship is also emphasized in the Women's Entrepreneurship Development Strategy in the RS for the period 2019-2023. As noted by the Strategy, "indicators on the operations of business entities in the RS owned or co-owned by women were practically not processed until 2016."<sup>93</sup> A total of 29.1% of business entities in RS are owned and co-owned by women, but the largest number of entities owned by women (97.23%) fall into the category of micro enterprises. The activities in which women operate are most often service activities such as trade. As noted by the strategic document, women entrepreneurs more frequently establish and run companies in areas that are considered "less important" for economic growth and development (retail, services, education, etc.). In 2012, the Program for the Development of Women's Entrepreneurship in RS was adopted, which enabled easier access to finance, support for education and training.

The strategy defines various indicators for measuring the implementation of measures within the outlined priorities, but initial and target values are not reported.

The BD also envisions systemic support for both female and youth entrepreneurship, as a measure within their strategic document. The basis for this support is the Action Plan for the Development of Women's Entrepreneurship in BD BiH (2018-2021), which is expected to be updated for the period 2021-2023. Financial support implies greater use of funds for incentives provided in BD, through targeted information for women entrepreneurs and the introduction of additional points for women entrepreneurs in incentive programs where it is desirable and feasible to enable adequate monitoring of the effects. Non-financial support includes the provision of professional support for women entrepreneurs, primarily the following: for the preparation and application of projects; training in the field of entrepreneurship and promotion of women's entrepreneurship to a greater extent and support networking and association of women entrepreneurs. The only indicator that measures progress in relation to female entrepreneurship is "Participation of women in granted incentives for self-employment (number of incentives for women in relation to the total number of incentives)" with initial values of 26% (85 out of 317 incentives in the period between 2014 and 2019; and target value more than 35% in the period 2021-2027).

### ***Improving access to finance for MSMEs***

The legal framework for secured creditors is well regulated, with bank lending being the dominant form of financing across BiH. The financial market for SMEs is characterized by the lack of newer financial arrangements such as venture capital, business angels and crowd funding, with a relatively low level of financial literacy and low general information about SME financial support arrangements. BiH faces a small to moderate gap for SME loan financing, a large gap in terms of leasing, a large funding gap for equity products and a low gap for unfunded trade finance products – guarantees and letters of credit<sup>94</sup>. EIB's (2016) report came to the following conclusions<sup>95</sup>:

<sup>93</sup> Women's Entrepreneurship Development Strategy in the RS for the period 2019-2023, p. 7

<sup>94</sup> European Investment Bank (2016). Bosnia and Herzegovina Assessment of financing needs of SMEs in the Western Balkans countries. Business & Finance Consulting. Available at:

[https://www.eib.org/attachments/efs/assessment\\_of\\_financing\\_needs\\_of\\_smes\\_bosnia\\_herzegovina\\_en.pdf](https://www.eib.org/attachments/efs/assessment_of_financing_needs_of_smes_bosnia_herzegovina_en.pdf)

<sup>95</sup> Ibid, p. 21-22.

- The smallest of the microenterprises generally have good access to credit, but microfinance institutions only disburse loans in amounts of up to approximately EUR 5,000, thus their outreach is limited.
- SMEs that do not have sufficient collateral for loans will be negatively impacted by the contraction in supply from leasing companies.
- There is a large funding gap for equity products, mainly as a result of the absence of specialized investment vehicles such as venture capital funds.
- For medium-sized enterprises, listing on one of the country's two stock exchanges is possible, but very low turnover among all but the largest and most well-known companies assures that very few SMEs consider this option.
- SMEs do not have difficulty obtaining guarantee products, as these are readily available from banks. Although only some banks offer letters of credit to SMEs, there is very little demand, much less than for guarantees.

The measure to facilitate access to finance is particularly important for SMEs. A variety of activities and reforms are planned to facilitate this including; improving financial literacy in SMEs; promoting financial services and products tailored to SMEs (banks, MCOs, leasing companies, guarantee and credit guarantee funds, factoring, etc.); training and the introduction of new financing models, focused on SMEs in the initial stages of development (business angels, crowd funding financing and platforms, venture capital funds, tax and other benefits and incentives, diaspora activation and other new support instruments). As planned are measures to improve existing, and create new, support schemes for SMEs as users of financial services, primarily banks and MCOs. Incentives for employment in companies focus on increasing employment in SMEs through incentives, including activities such as analysis and evaluation of the effects of previous employment incentives, planning of new incentives, harmonized with the strategic commitments and needs of unemployed persons and employers, which will be provided by the annual Employment Action Plans adopted by RS Government to support employment.

According to the FBiH Development Strategy, banks have a legal monopoly because no one but them can collect deposits and approve loans. As such, it is necessary to introduce non-bank deposit financial institutions, such as savings banks, that would be regional institutions serving the needs of cities and micro, small and medium enterprises.

Table 41: Improving the access to finance for SMEs			
Level	Measure	Indicators	Budget
FBiH	Diversify and improve financial systems	An increased percentage of participation of legal entities in total approved loans; Higher turnover on the stock exchange in relation to loans to legal entities. Hirschmann-Herfindahl Index - loans (banking market concentration), increased interest rate spread (active - passive interest rate)	N/A
RS	Facilitating access to finance for growing and new SMEs	Number of new finance models; Growth of loans for economic activities	N/A

### **International trade and standardization**

The application of these measures will facilitate SMEs’ ability to export to demanding foreign markets, in accordance with the EU directives. Given that meeting the relevant technical standards is a necessary precondition for exporting products to the EU single market, these measures will further expedite SME’s ability to export through: instruments of continuous financial support; the adequate informing of SMEs; education of employees in SMEs on the application of standards, consultation, and providing services of supporting institutions.

In terms of standardization and internationalization, FBiH plans to implement three measures: “Improve the protection of intellectual property”; “Support the application of international standards, certification and accreditation of CAB” and “Strengthen internationalization and inclusion in global value chains”. The aims of these measures are to address intellectual property-use fees and inspections by the competent inspections in the field of intellectual property protection, to improve the rank of trademark applications and application for design solutions, and to increase high technology exports.

BD also aims to provide support for export-oriented sectors and companies. The implementation of this measure should significantly facilitate the export of SMEs to demanding foreign markets, in line with EU New Approach directives. The measure includes financial support to companies for the introduction of technical standards and for appearances at international fairs, and support for their tighter integration into global value chains. It is expected, according to the strategic document, that implementation of the measure will lead to an increase in SMEs exports, as enterprises will be able to meet the basic condition for export to demanding EU markets.

In RS, one of the activities encompasses an analysis of the situation with a focus on missing accredited CAB, especially for key export industries such as metal processing, wood processing, as well as identification of entities with the potential to be accredited as CABs. Additionally, measures in this group include supporting SMEs to export their products, in order to strengthen SME competitiveness and better access to information and the international market. Some financial support within this measure is related to participation at international fairs, support for stronger integration of SMEs into global value chains through: joint appearances in foreign markets, support for clustering and networking of SMEs to achieve a more favourable negotiating position, organizing business meetings (B2B), involving domestic SMEs in the supply chains of foreign investors in BiH; promotion of the capacity of domestic SMEs through embassies and missions of BiH abroad, and various training.

<b>Table 42: Standardization and internationalization</b>			
<b>Level</b>	<b>Measure</b>	<b>Indicators</b>	<b>Budget</b>
FBiH	Improve the protection of intellectual property.	Intellectual Property Use Fees, (\$1,000); Increase; number of inspections by the competent inspections in the field of intellectual property protection	BAM 100,000 (0.004%)
FBiH	Support the application of international standards, certification, and accreditation of CABs.	Increase in: total trademark applications, total, brand and rank. Increase in applications for design solutions (rank)	21,100.000 (0.8%)
FBiH	Strengthen internationalization and inclusion in global value chains.	Increase in % of BH exports in total world exports. Increase in high technology exports (% of total exports),	20,900.000 (0.8%)

BD	Support for export-oriented sectors and companies.	Export revenue growth Improving the SBA profile of BiH in dimension 7 (SME approach to standardization) and dimension 10 (Internationalization)	BAM 2,000,000 (0.4%)
RS	Facilitating access to standards for SMEs.	Increase in number of applied / introduced technical standards in SMEs by applying this measure	BAM 2,000,000 (1.24%)
RS	Support to the accreditation of CAB.	Increase in number of accredited CAB in export sectors	BAM 600,000 (0.37%)
RS	Support for the export and integration of SMEs into global value chains.	Growth of SME participation in exports	BAM 1,000,000 (0.63%)

\* The percentage in parentheses represents the share of funds in the total budget of the strategy being analysed

### **Business skills development for SMEs**

This measure refers to the development of business skills according to the current and future needs of SMEs. It includes the introduction of the programs and the incorporation of the development of business skills for SMEs into local development strategies, as well as the formation of local partnerships for education and employment. It also envisages the improvement of practical classes, with a more active role of RS Chamber of Commerce, which by the Law on Amendments to the Law on Secondary Education received new competencies related to checking the fulfilment of conditions for education of students with employers; the organization of training for mentors (persons responsible for conducting practical classes in companies); the keeping of a register of contracts on education of students with employers. Another measure in RS ensures a regular analysis of skills and training needs in key sectors. Organizing mentoring support and priority trainings with the transition to e-learning envisages the continuous provision of mentoring and training services according to the priorities determined by the annual needs analysis for skills and training in key sectors. It contains three basic groups of activities: (1) organizing mentoring support for SMEs; (2) organizing priority business trainings for SMEs (3) Transition to e-learning for the business community. Additionally, this measure envisages the strengthening the cooperation of the scientific-research community and higher education institutions with the economy in terms of the transfer of knowledge and skills important for the business and development of SMEs.

<b>Table 43: Business skills development for SMEs</b>			
<b>Level</b>	<b>Measure</b>	<b>Indicators</b>	<b>Budget</b>
RS	Incorporating business skills development for SMEs into the framework for education development, smart specialization, and local development.	Growth in number of introduced new occupations with accompanying programs, according to the needs of SMEs. Growth in the number of employers with whom practical classes are conducted; Growth in the number of functional local partnerships for education and employment	N/A
RS	Continuous analysis of skills and training needs in key sectors.	Provisions of skills and training needs analysis	BAM 280,000 (0.17%)



RS	Organizing mentoring support and priority trainings with the transition to e-learning.	Growth in number of SMEs covered by mentoring support services; Growth in the number of SMEs covered by training and e-learning	BAM 1,700,000 (1.05%)
FBiH	Improve the digital skills of the population, especially skills adapted to the needs of the labour market.	Increase in level of basic digital skills of individuals; Increase in number of employed ICT experts out of the total number of employees. Growth in number of employed ICT specialists.	BAM 300,000 (0.01%)

\* The percentage in parentheses represents the share of funds in the total budget of the strategy being analysed

### ***Innovation and digitalization of business***

Measures in this group imply the introduction of targeted financial support for the introduction of innovation in SMEs, such as piloting voucher programs for the introduction of innovation in SMEs (including energy innovation); and formation of the Fund for Science and Innovation in RS, effective by 2024. In order to strengthen the connection and cooperation between all these actors in the function of promoting innovation in SMEs, the Quadruple-helix model (aimed at strengthening interactions between academia, business, government institutions and civil society) has been adapted and applied in RS. In RS, the measure consists of mapping actors and exploring opportunities for mutual coordination and cooperation on innovation in SMEs; piloting and expanding (inter) sectorial networks focused on innovation in SMEs; piloting and expanding thematic networks for specific types of innovation in SMEs and inclusion of training for new knowledge necessary for innovative SMEs. The Action Plan for Innovation in SMEs of RS 2021-2023 elaborates on this measure in more detail.

FBiH is also implementing several activities regarding innovation and digitalization of business. These measures include encouraging the development of innovative digital solutions and companies in the software industry; supporting R&D and innovation activities and providing support to bring together enterprises and scientific research institutions. Like FBiH, BD aims to provide support for the innovation and digitalization of enterprises.

<b>Table 44: Innovation and digitalization of business</b>			
<b>Level</b>	<b>Measure</b>	<b>Indicators</b>	<b>Budget</b>
FBiH	Establish a public digital infrastructure.	Broadband internet traffic, million GB Cloud computing centre established	BAM 31,000,000 (1.2%)
FBiH	Accelerate the digital transformation of small and medium enterprises	Growth in E-commerce sales.	BAM 2,200,000 (0.1%)
FBiH	Develop artificial intelligence and its application.	Creation of an: Institute for AI (artificial intelligence) established; Adopted strategy AI (artificial intelligence) of FBiH	BAM 7,500,000 (0.3%)
FBiH	Encourage the development of innovative digital solutions and companies in the software industry.	Growth in: percentage of annual change in the number of companies in the IT sector percentage of annual change in the number of employees in IT companies; percent of share of gross value added of the IT sector in GDP	32,000,000 (1.3%)
FBiH	Support for R&D and innovation activities.	Growth in: percentage of gross domestic expenditure on R&D in the business sector in GDP; percentage of technologically innovative companies; The law on innovations was passed	155,000,000 (6.2%)

FBiH	Support the connection between the economy and scientific research institutions.	EPO patent application by priority year (EUROSTAT) Growth in number of patents, residents	140,500,000 (5.6%)
RS	Providing financial support for innovation in SMEs.	Financial instrument to support innovation	BAM 20,200,000 (12.47%)
RS	Networking and cooperation to promote innovation in SMEs.	Increase in number of functional innovation networks and active actors in innovation networks	BAM 1,500,000 (0.93%)
RS	Building infrastructure to support innovation and digitalization in SMEs.	Increase in; number of product development and innovation centres / laboratories at faculties; number of science and technology parks; percentage of SMEs covered by digitization.	BAM 12,000,000 (7.41%)
RS	Proactive participation in regional and EU programs to support innovation and the green economy.	Increase in; number of SMEs benefiting from EU / EC innovation programs; number of R&D organizations benefiting from EU / EC innovation programs.	BAM 200,000 (0.12%)
BD	Support for innovation and digitalization of enterprises.	Growth of gross value added of SMEs. Improvement of the SBA profile of BiH in dimension 8b (Innovations).	BAM 3,600,000 (0.8%)

\* The percentage in parentheses represents the share of funds in the total budget of the strategy being analysed

### **The transition of SMEs to a green economy**

Measures in this group encourages and support energy efficiency projects and the use of renewable sources of energy; organizing professional and business events, workshops, and public-private dialogue to create a sense of urgency and importance of the transition to more energy-efficient solutions among all stakeholders. Finally, creating and expanding energy efficiency networks encompasses support for the creation of cross-sectorial SME networks, conducting energy audits to assess the effects of improvements, identifying and implementing targeted interventions, with mutual information exchange and mutual learning.

FBiH particularly aims to improve the legal and institutional framework for environmental regulation and the development of communal infrastructure; ensure sustainable use of land resources; improve integrated waste management and the circular economy system; and provide support to SMEs in improving energy efficiency and the principles of "green economy" and "greening".

<b>Table 45: The transition of SMEs to a green economy</b>			
<b>Level</b>	<b>Measure</b>	<b>Indicators</b>	<b>Budget</b>
FBiH	Improve the legal and institutional framework for environmental regulation and the development of communal infrastructure.	Rate of harmonization of environmental legislation with EU legislation.	N/A
FBiH	Ensure sustainable use of land resources.	Growth in percentage of land on which productivity is reduced (LPD); percentage of land with early signs of declining productivity (LPD); percentage of land that is stable but under pressure of declining productivity (LPD)	N/A

FBiH	Improve integrated waste management and the circular economy system.	Growth in: % of disposed (untreated) municipal waste out of the total collected; % of processed (recycled) municipal waste out of the total collected. Growth in Private investments, jobs and gross value added related to circular economy sectors in mil. EUR	
FBiH	Provide support to SMEs in improving energy efficiency and the principles of "green economy" and "greening".	Increase share of SMEs that have implemented EE measures in relation to the total number of SMEs. Energy efficiency project support fund established	BAM 17,000,000 (0.7%)
RS	Promotion of energy efficiency and renewable sources with available sources of financing for companies.	Growth in number of SMEs that actively participate in the promotion of energy efficiency and Renewable energy sources.	BAM 100,000 (0.63%)
RS	Providing financial support for "green" innovations in SMEs.	Growth in percentage of "green" innovations supported through the voucher program and the Fund.	N/A
RS	Creating and expanding energy efficiency networks.	Growth in: the number of SMEs involved in energy efficiency networks; number of students involved in performing energy audits.	BAM 1,500,000 (0.93%)

*\* The percentage in parentheses represents the share of funds in the total budget of the strategy being analysed*

## Annex 3. “Strengths” and “Weaknesses” of FBiH, RS and BD, according to their strategic plans

### “Weaknesses”

FBiH	RS	BD
<ul style="list-style-type: none"> <li>• Ineffective way of managing companies with a majority state share in the capital.</li> <li>• Lack of a strategic framework for the development of the digital economy in the FBiH, including artificial intelligence.</li> <li>• Lack of digital skills in the business, governmental and non - governmental sectors (e - business, digital marketing, digital financial management, etc.).</li> <li>• Education system inconsistent with the needs of the labour market as well as global technological innovations (hardware, software, digital skills).</li> <li>• Continuous development and education of teaching staff as well as insufficient involvement of the economy in the University's R&amp;D activities.</li> <li>• Insufficient investments in ICT development and scientific research projects.</li> <li>• Incomplete legislative and strategic frameworks for e-business and e-commerce.</li> <li>• Insufficiently developed digital infrastructure for the development of the IT sector.</li> <li>• Disincentivising tax policy for the development of companies in the IT sector.</li> <li>• Insufficient involvement of BiH in large EU pilot projects funded by the Competitiveness and Innovation Program.</li> <li>• Lack of "translation infrastructure" that ensures technology transfer and development (funds and centres for research, development and innovation</li> </ul>	<ul style="list-style-type: none"> <li>• Decrease in the volume of total industrial production in 2019 and 2020 after growth in the period 2015-2018;</li> <li>• Gross wage growth lags significantly behind other SME growth indicators.</li> <li>• Uneven territorial representation of SMEs across economic areas of RS (dominated by Banja Luka with 44.55%).</li> <li>• Insufficient participation of women in business ownership and employment.</li> <li>• High sensitivity of SMEs to crises (COVID-19 caused significant disruptions in the operations of 2/3 of surveyed companies).</li> <li>• Low interest of high school students (especially craft occupations) in entrepreneurial learning.</li> <li>• Youth entrepreneurship without stronger systemic support.</li> <li>• Absence of recent financial arrangements such as venture capital, business angels and crowdfunding, with a relatively low level of financial literacy and low general information on SME financial support arrangements.</li> <li>• High taxes and wage contributions; difficult to predict and uneven non-tax burdens.</li> <li>• The SME test is missing in the impact assessment of regulations.</li> <li>• There is a lack of monitoring and evaluation of services provided by the public sector to SMEs.</li> <li>• Significant lack of accredited bodies for conformity assessment of products.</li> </ul>	<ul style="list-style-type: none"> <li>• Negative natural population growth.</li> <li>• Fluctuations in production volume in key industrial areas, from marked growth to marked decline.</li> <li>• Dominant share of trade in the economic structure.</li> <li>• Relatively low level of investment in the private sector.</li> <li>• Low percentage of capital investments.</li> <li>• Insufficient profiling, promotion and utilization of tourist offers</li> <li>• Lack of data on emigration and opportunities for inclusion in the economic and social development of BDBiH</li> <li>• Average salary lower than BiH average; significantly lower wages in the private sector compared to the public sector</li> <li>• High numbers of female unemployment, both of women with higher education and secondary education.</li> <li>• Insufficient harmonization of education with the labor market</li> <li>• High level of employee turnover, especially in the segment of health and primary / secondary education.</li> <li>• Politicization and partocracy as dominant patterns of public sector governance in BD BiH.</li> <li>• Lag in the use of opportunities to attract donors and funds, especially the EU, and lack of human capacity to attract donor funds</li> <li>• Low level of waste selection and recycling.</li> <li>• The current state of the sewerage network and</li> </ul>

<p>in FBiH, cantons and local self-government units).</p> <ul style="list-style-type: none"> <li>• Lack of legal and strategic framework on innovation, R&amp;D and coordination in the field of innovation and smart specialization.</li> <li>• Lack of legal solutions on innovators.</li> <li>• Insufficient protection of intellectual property (law enforcement, inspections, police bodies, prosecutors, courts, etc.).</li> <li>• Inadequate legislation on financial institutions, financial mechanisms and financial instruments.</li> <li>• Insufficient knowledge and skills on the functioning of the capital market (financial illiteracy).</li> <li>• Incomplete and inadequate legal frameworks for starting and closing new start-up companies and entrepreneurial infrastructure.</li> <li>• Fiscal burden of work.</li> <li>• High contribution rate on work.</li> <li>• Prominent grey economy.</li> <li>• A large number of parafiscal levies.</li> <li>• Insufficient budget allocations for the development of entrepreneurship in the creative sector (cinematography, cultural institutions, etc.).</li> <li>• Administrative, trade and other barriers and procedures for export in the countries and markets in which they operate and in which FBiH businessmen are interested.</li> <li>• Insufficient productivity of the economic sector as well as society as a whole.</li> <li>• Insufficiently developed entrepreneurial infrastructure at universities.</li> <li>• Insufficient energy efficiency of SMEs.</li> <li>• Low productivity of coal mines and weak competitiveness of</li> </ul>	<ul style="list-style-type: none"> <li>• Insufficient consulting and financial support for the introduction of technical standards.</li> <li>• Insufficient knowledge, professional and financial capacities of SMEs for the introduction and application of standards.</li> <li>• Inadequate communication and interactions between the economies (SMEs), the education system and support institutions.</li> <li>• Underdeveloped human resource management function in SMEs.</li> <li>• Innovations in SMEs occur mainly through the procurement of equipment and ad hoc (under customer pressure), low level of engagement of professional staff and investment in knowledge.</li> <li>• Low orientation of scientific research towards the economy; insufficient number and unfavourable structure of researchers and research institutions; small investments in R&amp;D.</li> <li>• Poor information (promotion) and capacities of SMEs to use available support programs (grants, support, development agencies and support institutions ...).</li> <li>• Low awareness of the importance and opportunities offered by the green economy.</li> <li>• Unresolved problem of export insurance (credit insurance - insurance of collection after the export).</li> <li>• Negative perception of career and work in SMEs (preference is given to going abroad and working in the public sector).</li> </ul>	<p>wastewater treatment system.</p> <ul style="list-style-type: none"> <li>• Lack of gas infrastructure.</li> <li>• Poor state of railway infrastructure.</li> <li>• Low level of general energy efficiency and energy inefficient public lighting, etc.</li> </ul>
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the thermal energy sector of EPBiH.		
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## “Strengths”

FBiH	RS	BD
<ul style="list-style-type: none"> <li>• Export-oriented, competitive and accelerated growth of the IT sector in FBiH.</li> <li>• Highly qualified and jobs with above-average pay in the IT sector.</li> <li>• Institutional capacity of FBiH for investments in procurement of equipment and technical infrastructure of companies in the IT industry (eg FBiH Development Bank).</li> <li>• Potential for the development of rural, adventure, gastronomic tourism.</li> <li>• Existence of conditions for the development of different types of tourism such as hunting, fishing, recreational, rural and thematic.</li> <li>• Potentials of using waste from the economy.</li> <li>• Adoption of the Law on Environmental Protection and the Law on the Fund for Environmental Protection and Energy Efficiency.</li> <li>• Potential for using and maintaining the potential of land resources, with the aim of fulfilling their economic functions in the long run.</li> <li>• The agricultural sector in FBiH (milk processing, early fruit and vegetable growing) has an international competitive advantage as well as a number of non-agricultural rural activities.</li> <li>• Favourable climatic conditions for the development of organic agricultural production (fruit growing, viticulture, olive growing, fishing, beekeeping, sheep breeding, poultry farming, vegetable growing, medicinal plants, etc.).</li> </ul>	<ul style="list-style-type: none"> <li>• Increase of small and medium enterprises in the economy and changes in the economic structure in favour of industrial sectors.</li> <li>• Steady growth of total SME income, with income growth and increase in income per employee in the period 2015-2019.</li> <li>• Steady growth of SME productivity in the form of a continuous increase in total gross value added, GVA per employee and a stable profit rate in the period 2015-2019.</li> <li>• Growth of SMEs in the manufacturing industry across all key indicators (number of employees, income and export revenues, GVA and average gross salary) in the period 2015-2019.</li> <li>• Entrepreneurship is studied in all secondary schools, except medical schools and grammar schools, at most faculties of economics and at certain faculties of other fields.</li> <li>• Successfully started system support for women's entrepreneurship.</li> <li>• Successfully started developing policies and practical solutions to provide a "second chance" to entrepreneurs who failed in the first attempt as well as entrepreneurs who have problems in business.</li> <li>• A series of new laws on fees, taxes, registration and liquidation proceedings in 2019 and 2020 in order to relieve the economy and improve the overall business environment and environment.</li> </ul>	<ul style="list-style-type: none"> <li>• Unique constitutional-legal and administrative status in BiH, with a large scope of competencies at the local level</li> <li>• Very good geostrategic position between the EU and regional centres, with multimodal transport (road, rail and river).</li> <li>• Developed system and significant scope of incentives for economic and agricultural development.</li> <li>• Significant tax incentives for business and incentives for new employment.</li> <li>• Solidly developed business infrastructure, with a large number of zones.</li> <li>• Developed, export-oriented food and beverage industry, as an engine for the development of agricultural production.</li> <li>• Port of Brcko as the only international river port in BiH</li> <li>• Positive trends in export and employment growth in the SME sector.</li> <li>• Growth of business achievements in the sectors of transport and storage, as well as professional, scientific and technical activities.</li> <li>• The trend of continuous increase in the number of employees with a decrease in the number of registered unemployed persons.</li> </ul>

<ul style="list-style-type: none"> <li>• Cross-border cooperation in the field of agricultural production and rural development.</li> <li>• Potential for the development of cold value chains in agriculture.</li> <li>• Good examples of entrepreneurship in the creative sector (cinematography, fashion, crafts, music, etc.).</li> <li>• Long tradition of production and industrial culture.</li> <li>• Competitive price of labour in relation to the environment.</li> <li>• Participation of domestic companies in the construction of domestic and international infrastructure projects.</li> <li>• Progress made in implementing the legal heritage of the EU and international agreements - deregulation and market liberalization.</li> </ul>	<ul style="list-style-type: none"> <li>• Established the Council for SME Development as a form of permanent public-private dialogue.</li> <li>• Established mentoring system for SMEs and emerging firms;</li> <li>• Progress in digitalization of public services important for SMEs (RS Tax Administration, Republic Administration for Geodetic and Property-Legal Relations, local governments ...).</li> <li>• Solid range of banking credit products developed for the needs of SMEs in terms of amount, maturity and method of use, supported by the Investment and Development Bank of RS product range.</li> <li>• Factoring Law adopted.</li> <li>• Participation of SMEs in the Single System for Multilateral Compensation and Assignments.</li> <li>• Established temporary Guarantee Program to support the economy in overcoming difficult business conditions due to COVID-19.</li> <li>• Established strategic and institutional bases for the development of quality infrastructure (Strategy, Institute, and Coordinating Body).</li> <li>• Seminars, workshops, advisory services and financial support for the introduction of standards (RS Chamber of Commerce and other organizations).</li> <li>• Establishment of the Centre and Network for Digital Transformation of the RS Economy.</li> <li>• More and more projects that directly or indirectly deal with innovation in RS, building infrastructure for emerging firms and supporting innovative SMEs.</li> <li>• Continuity of project support to export-oriented SMEs.</li> </ul>	
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	<ul style="list-style-type: none"> <li>Support of the Fund for Energy Efficiency and Environment of the RS.</li> </ul>	
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## Annex 4. Strategic goals, priorities, and measures in the strategic documents of FBiH, RS and BD

### Strategic Goals

No	Level	Goal	Relevant indicators	Baseline	Target
1.	RS	Renewal and growth of entrepreneurial activity in all parts of RS, with a focus on youth entrepreneurship and women's entrepreneurship.	Increase in number of SMEs in relation to population.	29.65 MSMEs per 1000 inhabitants	35 MSMEs per 1000 inhabitants
			Even more territorial representation of MSMEs by economic areas.	Banja Luka 45% of the total number of MSMEs, other economic areas 55%	Other economic areas 62%
2.	RS	Restoring and strengthening the competitiveness of SMEs in global value chains.	Growth in share of export revenues in the total income of SMEs.	11.6%	18.0%
			Coverage of imports by exports.	75.3%	82.0%
3.	RS	Growth of participation of knowledge-based products and services and sectors in the structure of SMEs.	Growth of gross value added in SMEs.	3.4 billion	35% increase
1.	FBiH	Accelerated economic development.	Growth of GDP per capita in KM	10,010	19,755
			Increase in % real GDP growth rate.	3.80	7.00
			Increase in average number of employees.	531,483	630,000
2.	FBiH	Prosperous and inclusive social development. <sup>96</sup>	Increase in average net salary.	928	1,500
3.	FBiH	Resource efficient and sustainable development. <sup>97</sup>	Growth in percentage of gross value added to the medium and high technology industry in GDP.	2.51%	5.0%
4.	FBiH	Transparent, efficient and accountable public sector. <sup>98</sup>	Evaluation of the provision of public administration services	1.00	3.00
1.	BD	Systemic support to strengthening the competitiveness of the economy of the BD in domestic, regional and global value chains, in the conditions of growing digitalization and decarbonization.	Growth of BD GDP proportion in BiH's % of GDP.	2.40%	3.00%
			Increased employment growth rate growth.	69.60	80.00
			Growth of budget revenues (without external financing), BAM	225,382,000	265,000,000

<sup>96</sup> Only relevant indicators have been selected for this strategic goal

<sup>97</sup> Only relevant indicators have been selected for this strategic goal

<sup>98</sup> Only relevant indicators have been selected for this strategic goal



## Programs/priorities

No	Level	Priority	Indicator	Baseline	Target
1.1.	RS	Economic recovery and creating resilience to crises.	Growth in number of active entrepreneurs and SMEs.	33,870	By 2023, reach the level of 2019
			Increase in number of entrepreneurs and SMEs that have introduced preventive measures.	0	At least 50% (2025)
1.2.	RS	Entrepreneurship development, with a focus on youth entrepreneurship and women's entrepreneurship.	Growth in the number of newly established SMEs.	4,149 (2019)	Increased by 40%
			Increased youth participation in the structure of SME owners.	Youth participation in the ownership structure (2019)	Increased by 30%
			Increased female participation in the structure of owners (and management positions) of SMEs.	26.85%	Increased by 30%
1.3.	RS	Improving the environment for the development of entrepreneurial activity.	Reduction of tax and non-tax burdens for entrepreneurial activities.	n.a.	Reduced at least by 15%
			Increasing the number of registered entrepreneurs while reducing the number of closed entrepreneurs.	Number of registered 3,324 (2019), number of closed enterprises 3,572 (2019)	Number of registered +40%, number of closed enterprises -30%
			Growth of incentives for the development of entrepreneurial activities.	n.a.	Increased by 20%
1.4.	RS	Development of other / marginalized types of entrepreneurship.	Growth of (self) employment in marginalized types of entrepreneurship.	n.a.	Increased by 20%
2.1.	RS	Improving the business environment and access to finance for SMEs.	Increased digitization and interoperability of services for SMEs.	Partial	Completed
			Growth of incentives for enterprise development.	BAM 4,400,000	Increased by 100%
2.2.	RS	Standardization and internationalization.	Export revenue growth.	2.1 billion	Increased at least by 25%
3.1.	RS	Business skills development for SMEs.	Increased proportion of employees with professional qualifications (secondary education and above) in companies.	79.6%	90.0%
3.2.	RS	Innovation and digitalization of business.	Growth in the number of SMEs that have introduced innovations.	23.0% (2018)	35% (2024) 50.0% (2027)
			Increased focus on digitalization in SMEs.	Dominant at the stages of production and finance	All stages of business
3.3.	RS	The transition of SMEs to a green economy.	Growth in the number of companies introducing more energy-efficient solutions.	n.a.	Increased by 100% (2024) Increased by 300% (2027)

No	Level	Priority	Indicator	Baseline	Target
1.1.	FBiH	Increase the digitization of the economy.	Increase in percentage of enterprises with established ICT functions, performed by external suppliers.	63%	76%
			Increased percentage of companies with established ICT functions performed by their own employees.	15%	30%
			Percent of companies that have ERP (Integration of internal processes)	24%	50%
1.2.	FBiH	Support technology transfer and development.	Increased percentage of allocations in the field of engineering and technology from gross expenditures for R&D.	29.22%	40.00%
			Percentage increase in gross domestic expenditure on R&D in GDP.	0.18%	1.85%
			Global Innovation Index (GII), rank	74 / 131 (BiH)	50 / 131 (BiH)
1.3.	FBiH	Support the development of the private business sector.	Growth in 'Ease of doing business' rankings.	90 / 190 (BiH)	70 / 190 (BiH)
			Increase in number of single traders (Sole proprietorship) per 1000 inhabitants.	23.8	40.0
			Increase in number of legal entities per 1000 inhabitants.	27.8	40.0
			Percentage growth of medium and high technology industry in the total value of Manufacturing C	17.79%	30.0%
1.4.	FBiH	Support the export and creation of higher value-added activities.	Percentage growth of employees in industrial areas of medium high technological intensity in total employees in C – Manufacturing.	10.5%	20%
			Increase in percentage of employees in industrial areas of high technological intensity in the total number of employees in the C - Manufacturing industry.	1.1%	5.0%
			Increase in gross value added per employee in FBiH, BAM.	35,242	65,000
			Percent growth of exports of high-tech areas in total exports of C – Manufacturing.	2.07%	8.0%
			Growth in FBiH exports, million, BAM	7,620	11,000

No	Level	Priority	Indicator	Baseline	Target
2.4.	FBiH	Reduce inactivity and unemployment, especially long-term.	Decrease in unemployment rate.	18.4%	14.0%
			Decrease in the number of inactive persons in the total working age population.	60.9%	50.0%
			Decrease in long-term (12 months +) male unemployment rate.	12.9%	9.5%
			Decrease in long-term (12 months +) female unemployment rate.	18.0%	13.5%
3.1.	FBiH	Improve the protection and use of natural resources.	Decreased quantities of waste from production activities, tons/million BAM of GDP.	439	254
			Decreased quantities of hazardous waste from production activities, tons/million BAM of GDP.	0.41	0.30
			Decreased quantities of collected municipal waste, kg/per capita.	284	228
			Renewable fresh water sources, million m <sup>3</sup>	51,354	52,000
3.3.	FBiH	Increase energy efficiency.	Increased energy efficiency, MTOE (million tons of oil equivalent)	6.69	6.50
			Better energy efficiency regulations	71.40	80.00
			Increased shares of renewable energy.	40.80	60.00
3.5.	FBiH	Encourage the development of rural areas.	Increased number of certified organic and/or organic agricultural producers and/or agricultural products.	n.a.	n.a.
			Increased percentage of gross value added of activity area A- Agriculture, forestry and fishing in GDP.	4.30	6.00
			Change in percentage in income of rural population.	n.a.	n.a.
4.1.	FBiH	Promote the rule of law. <sup>99</sup>	BiH Rule of Law Index.	-0.23	1.00
			Decreased percentage of unresolved reports out of the total number of reports in the FBiH Prosecutor's Office.	29.30	20.00
			Increased Citizens' trust in the legal system and courts.	30.00	50.00
1.1.	BD	Entrepreneurship development and development of small and medium enterprises.	Increased number of MSMEs in relation to population.	39 MSMEs per 1000	50 MSMEs per 1000 inhabitants.

<sup>99</sup> Only relevant indicators are presented

No	Level	Priority	Indicator	Baseline	Target
				inhabitants (2019). <sup>100</sup>	
			Increased MSME revenue growth.	BAM 1.9 billion.	Increased by at least 20%.
			Visible progress in BiH's SBA implementation (SME Policy Index).	Significantly below the average of the Western Balkans and Turkey (2019).	At the level of the average of the countries of the Western Balkans and Turkey (2025).
1.2.	BD	Development of agriculture and rural areas.	Growth of gross production in the field of agriculture, hunting and forestry.	109.7 million KM.	Increased by at least 15%.
			GVA growth in agriculture, hunting and forestry.	70.6 million KM.	Increased by at least 20%.
1.3.	BD	Tourism development.	Growth in the number of tourist arrivals	13.958 ppl.	Increased by at least 20%.
			Growth in the number of tourist overnight stays.	21.896 ppl	Increased by at least 20%.
			Revenue growth in hotels and restaurants.	5.3 million KM	Increased by at least 20%.
1.4.	BD	Attracting investment.	Growth of investments in fixed assets (private sector).	368.2 million KM (2013-2018).	Increased by at least 15% (2021-2026).
1.5.	BD	Labor market development.	Reducing the formal unemployment rate.	30.4%	20.0%
			Reducing the survey unemployment rate.	24.1%	16.0%
			Reducing the participation of women in the structure of the unemployed persons.	58.7%	53.0%

<sup>100</sup> This number includes only selected NACE activities

## Measures/projects

Rbr.	Level	Measure	Indicator	Period	Baseline	Target
1.1.1.	RS	Mitigating and preventing the negative consequences of the crisis on the economy.	Growth in percentage of SMEs that mitigated the negative consequences of the crisis in the economy by using incentives and incentives.	2020 - 2022	n.a.	At least 50%
			Growth in the number of SMEs provided with professional support for the introduction of preventive measures.	2020 - 2023	n.a.	At least 300
1.1.2.	RS	Promoting a second chance and a quick restart for entrepreneurs who have failed in their first attempts.	Increased number of entrepreneurs who successfully used their second chance by applying this measure.	2020-2027	0	At least 40 (2024) At least 100 (2027)
1.2.1.	RS	Support for the development of start-ups (beginners in business).	Increased number of new entrepreneurs who have received support for business development per year.	2018-2027	405 (2018) 873 (2019)	At least 700 per year (2024) At least 900 per year (2027)
1.2.2.	RS	Support the development and integration of entrepreneurial learning programs into formal and non-formal education and career planning.	Increased number of high schools that have introduced / adapted the subject of entrepreneurial learning.	2020-2027	n.a.	55 (2024) 70 (2027)
			Number of faculties that have introduced / adapted the subject of entrepreneurial learning.	2020-2027	n.a.	20 (2024) 30 (2027)
1.2.3.	RS	Systematic support for the development and promotion of women's entrepreneurship.	Increased number of female owners of SMEs.	2019-2027	10,590	+20% (2024); +30% (2027)
1.3.1.	RS	Support for entrepreneurial initiatives to improve the business environment.	Growth in the number of LGUs that have improved or adjusted business conditions for micro and small enterprises by applying this measure.	2020-2027	0	20 (2024) 40 (2027)
			Increased number of entrepreneurial initiatives implemented at the entity level by applying this measure.	2020-2027	0	5 (2024) 10 (2027)
1.3.2.	RS	Development of entrepreneurial business support services by the public and private sector (management, finance, business innovation).	Increasing the number of small and micro enterprises participating in organized business development support programs by applying this measure.	2020-2027	n.a.	40% (2024) 60% (2027)
			Increasing the number of entrepreneurs who have improved their business by using entrepreneurial business support services by applying this measure.	2020-2027	n.a.	200 (2024) 400 (2027)

Rbr.	Level	Measure	Indicator	Period	Baseline	Target
1.3.3.	RS	Incentives for (self) employment in entrepreneurial activity.	Increase in Contracted funds under employment programs for entrepreneurial activities (self-employment).	2019-2027	BAM 10.8 million	+30%
1.4.1.	RS	Support for the preservation of old crafts and handicrafts.	Increasing the number of certified trades.	2020-2027	33	At least 100
1.4.2.	RS	Support for the development of social entrepreneurship.	Increase in the number of business entities that have received the status of social enterprises.	2020-2027	0	At least 80
			Increase in the number of social enterprises that received support.	2020-2027	0	At least 80%
2.1.1.	RS	Facilitating access to finance for growing and new SMEs.	Increase in the number of new finance models.	2020-2027	0	3
			Growth of loans for economic activities.	2019-2027	2.507 billion	Increased by 10% (2024) and +15% (In 2027 compared to 2024)
2.1.2.	RS	Continuous improvement of the availability of digital services for SMEs.	Increase in the number of new digital public services for SMEs.	2020-2027	0	10 (2024) 20 (2027)
2.1.3.	RS	Strengthening the administrative capacity and legislative framework in the field of entrepreneurship at RS level.	The number of trainings held.	2020-2027	n.a.	At least 5 per year
			Increase in the number of implemented Council recommendations.	2020-2027	n.a.	At least 3 per year
			Increase in the number of reduced fees for the private sector.	2020-2027	n.a.	At least 5 per year
2.1.4.	RS	Strengthening the capacity to support entrepreneurship at the local level.	Increase in growth of LGUs that implemented financial support for SMEs.	2019-2027	66.0%	85% (2024) 90.0% (2027)
			Increase in the number of municipalities that have gone through the certification process.	2020-2027	12	20 (2024) 30 (2027)
			Increase in the number of joint projects implemented by this measure.	2020-2027	0	5 (2027) 10 (2027)
2.1.5.	RS	Support to the establishment and development of entrepreneurial infrastructure (business zones, incubators, accelerators, innovation centres, co-working spaces).	Increase in the number of new users of entrepreneurial infrastructure.	2020-2027	n.a.	Increased by 50%
2.1.6.	RS	Incentives for employment in companies.	Growth in the number of employed workers within the employment program.	2019-2027	4,802	Annual increase by 5%
2.2.1.	RS	Facilitating access to standards for SMEs.	Growth in the number of applied / introduced technical standards in SMEs by applying this measure.	2020-2027	0	At least 300

Rbr.	Level	Measure	Indicator	Period	Baseline	Target
2.2.2.	RS	Support to the accreditation of CABs.	Increase in the number of accredited CAB in export sectors.	2019-2027	13	17 (2024) 20 (2027)
2.2.3.	RS	Support for the export and integration of SMEs into global value chains.	Growth of SME participation in realized exports.	2019-2027	59.68%	Continuous incensement.
3.1.1.	RS	Incorporating business skills development for SMEs into the framework for education development, smart specialization and local development.	Increase in the number of introduced new occupations with accompanying programs according to the needs of SMEs.	2020-2027	n.a.	Increase by 50%
			Increase in the number of employers with whom practical classes are conducted.	2020-2027	n.a.	Increased by 100%
			Increase in the number of functional local partnerships for education and employment.	2020-2027	n.a.	At least 25
3.1.2.	RS	Continuous analysis of skills and training needs in key sectors.	Skills and training needs analysis.	2020-2027	Ad hoc approach.	A regular instrument with more than 20 local self-governments involved.
3.1.3.	RS	Organizing mentoring support and priority trainings with the transition to e-learning.	Increase in the number of SMEs covered by mentoring support services.	2017-2027	54 (2017-2020)	At least 90 (2004-2027) and 70 (2021-2024).
			Growth in the number of SMEs covered by training and e-learning.	2020-2027	n.a.	+50% (2024) +100% (2027)
3.2.1.	RS	Providing financial support for innovation in SMEs.	Creation of a financial instrument to support innovation.	2020-2027	Support through international projects.	Functional instrument of the Government of RS and at least 70 innovative projects supported.
3.2.2.	RS	Networking and cooperation to promote innovation in SMEs.	Increase in the number of functional innovation networks.	2020-2027	0	At least 5.
			Increase in the number of active actors in innovation networks.	2020-2027	0	At least 100.
3.2.3.	RS	Building infrastructure to support innovation and digitalization in SMEs.	Increase in the number of product development centres.	2020-2027	0	6
			Increase in the number of innovation centres/laboratories at faculties.	2020-2027	0	6
			Increase in the number of science and technology parks.	2020-2027	0	1

Rbr.	Level	Measure	Indicator	Period	Baseline	Target
			Increase in percentage of SMEs covered by digitization	2020-2027	n.a.	At least 80%.
3.2.4.	RS	Proactive participation in regional and EU programs to support innovation and the green economy.	Increase in the number of SMEs benefiting from EU/EC innovation programs.	2020-2027	n.a.	Increased 5 times.
			Increase in the number of R&D organizations benefiting from EU/EC innovation programs.	2020-2027	n.a.	Increased 5 times.
3.3.1.	RS	Promotion of energy efficiency and renewable sources with available sources of financing for companies.	Increase in the number of SMEs that actively participate in the promotion of EnE (Energy efficiency) and RES (Renewable energy sources).	2020-2027	n.a.	Increased at least 10 times.
3.3.2.	RS	Providing financial support for "green" innovations in SMEs.	Increase in the percentage of "green" innovations supported through the voucher program and the Fund.	2020-2027	n.a.	20.0%
3.3.3.	RS	Creating and expanding energy efficiency networks.	Increase in the number of SMEs involved in EnE networks.	2020-2027	0	At least 90
			Increase in number of students involved in performing energy audits.	2020-2027	0	At least 50
1.1.1.	FBiH	Establish a public digital infrastructure.	Increase in the Broadband internet traffic, million GB.	FZS, 2019	323	1000
			Cloud computing centre established.	FZZPR, 2020	No	Yes
1.1.2.	FBiH	Accelerate the digital transformation of small and medium enterprises.	Increase in E-commerce sales (micro companies' 1-9 workers).	FIA	n.a.	n.a.
			Increase in E-commerce sales (small companies' 10-49 workers).	EUROSTAT, 2019	20	50
			Increase in E-commerce sales (medium enterprises, 50-249 workers).	EUROSTAT, 2019	22	50
1.1.3.	FBiH	Improve the digital skills of the population, especially skills adapted to the needs of the labor market.	Increase in percentage of basic digital skills of individuals.	EUROSTAT, 2019	16%	50%
			Increase in percentage of employed ICT experts, out of the total number of employees.	EUROSTAT, BIH	n.a.	n.a.
			Increase in digital skills of the population	WB, 2019	3.70	5.00
1.1.4.	FBiH	Develop artificial intelligence and its application.	Institute for AI (artificial intelligence) established	FMPIK, 2020	No	Yes
			Adoption of the Artificial Intelligence Strategy of FBiH.	FMPIK, 2020	No	Yes
1.1.5.	FBiH	Encourage the development of innovative digital solutions and companies in the software industry.	Increase in the number of enterprises in the IT sector.	FZS, 2019	10.7%	20.0%
			Increase in annual change in the number of employees in IT companies.	FZS, 2019	18.5%	30.0%



Rbr.	Level	Measure	Indicator	Period	Baseline	Target
			Share of gross value added of the IT sector in GDP.	FZS, 2018	1.2%	4.0%
1.2.1.	FBiH	Support R&D and innovation activities.	Increase in proportion of gross domestic expenditure on R&D in the business sector in GDP.	FZS, 2018	0.05%	0.90%
			Increase in percentage of technologically innovative companies.	FZS, 2018	39.74%	60.00%
			The law on innovations – passed.	FZZPR, 2020	No	Yes
1.2.2.	FBiH	Support the connection between the economy and scientific research institutions.	EPO patent application by priority year.	FZS	n.a.	n.a.
			Increase in the number of patents per residents.	WB, 2018	84	200
1.3.1.	FBiH	Facilitate and speed up the processes of entering and exiting a business activity.	Starting a business activity, rank	WB, 2019	184/190	100/190
			Increase in financing of small and medium-sized enterprises, rank	WEF, 2019	106/141	70/141
1.3.2.	FBiH	Unburden the economy by reducing the fiscal burden on labour.	Tax wedge on the minimum gross salary in FBiH	FZS, FZZPR, 2019	31.3%	27.0%
			Tax wedge on the average gross salary in FBiH	FZS, FZZPR, 2019	38.3%	34.0%
1.3.3.	FBiH	Support the development of entrepreneurship in the creative sector.	Gross value added in the creative and cultural industry, in 000 BAM.	FZS, 2018	472,190	800,000
			Increase in the numbers of employees in the creative and cultural industry.	FZS, 2019	16,355	25,000
1.3.4.	FBiH	Support the development of entrepreneurship in the tourism sector.	Increase in the percentage of gross value added of activity area I - Activities of providing accommodation and food preparation and serving (hotels and restaurants) in GDP.	FZS, 2018	2.2%	2.5%
			Increase in the average expenditure per trip.	FZS	n.a.	n.a.
			Increase in the percentage annual change in the number of overnight stays.	FZS, 2019	13.6%	15.0%
1.3.5.	FBiH	To support spatial concentration of enterprises.	Improvement of road infrastructure network density, km per 1,000 km <sup>2</sup> .	FZS, 2019	181.50	200.00
			Increase in density of railway infrastructure network, km per 1,000 km <sup>2</sup> .	FZS, 2019	23.30	25.00
			Increase in passenger traffic at airports per 100,000 inhabitants.	FZS, 2019	78,856	100,000
1.3.6.	FBiH	Diversify and improve financial systems.	Increase in percentage of participation of legal entities in total approved loans.	FBA, 2019	51.4%	60.0%
			Increase in turnover on the stock exchange in relation to loans to legal entities.	FBA, SASE, FZZPR 2019	5.5%	10,0%

Rbr.	Level	Measure	Indicator	Period	Baseline	Target
			Hirschmann-Herfindahl Index – loans (banking market concentration).	FBA, 2019	1,360	1,100
			Better Interest rate spread (active - passive interest rate).	FBA, 2019	n.a.	n.a.
1.4.1.	FBiH	Improve the protection of intellectual property.	Increase in Intellectual Property Use Fees. (\$1,000)	WB, 2018	8,376	20,000
			Growth in the number of inspections by the competent inspections in the field of intellectual property protection.	FUZIP	n.a.	n.a.
1.4.2.	FBiH	Support the application of international standards, certification, and accreditation of CABs.	Increase in total Trademark applications.	WB, 2018	3,778	6,000
			Increase in Trademark applications. - brand, rank	WIPO, 2019	104/146	70/146
			Applying for design solutions.	WIPI, 2019	78/116	50/116
1.4.3.	FBiH	Strengthen internationalization and inclusion in global value chains.	Increase in percentage of BH exports in total world exports.	WB, 2018	0.049%	0.055%
			Increase in High technology exports (% of total exports).	WB, 2019	66/218	50/218
1.4.4.	FBiH	Stimulate connections with the BiH diaspora.	Increase in the number of business entities initiated by the diaspora.	P/GK FBiH	n.a.	n.a.
			Register of BiH diaspora (enterprises and scientists) established.	P/GK FBiH, 2020	No	Yes
			Established line of credit to companies in FBiH that have business cooperation with BiH diaspora.	Razvojna banka, 2020	No	Yes
2.4.1.	FBiH	Develop and implement an effective activation and active employment policy.	Increase in activity rate.	FZS, 2019	39.1%	50.0%
			Higher Employment rate (15+).	FZS, 2019	31.9%	45.0%
			Increase in costs of active measures per new employee.	FZZZ	n.a.	n.a.
			Decrease in average male unemployment duration.	FZZZ	n.a.	n.a.
			Decrease in average female unemployment duration.	FZZZ	n.a.	n.a.
2.4.2.	FBiH	Create conditions for the availability of labour in the labour market.	Decrease in proportion of employers who have difficulty filling jobs.	FZZZ	n.a.	n.a.
			Increase in number of employed foreigners.	FZZZ, 2019	172	1,000
2.5.4.	FBiH	Improve the position of vulnerable groups in the labour market.	Decrease in unemployment rate among women.	FZS, 2019	21.7%	15.0%
			Decreased unemployment rate among youth (15-24%)	FZS, 2019	39.0%	30.0%
			Increase in activity rate among women	FZS, 2019	29.3%	40.0%
			Increase in activity rate among youth	FZS, 2019	35.0%	55.0%

Rbr.	Level	Measure	Indicator	Period	Baseline	Target
			Decrease in the percentage of long-term unemployed women in the total number of unemployed women (over 12 months).	FZS, 2019	79.3%	60.0%
			Increase in percentage of sustainable business entities after 3 years of business founded by women and youth.	FZS, 2019	n.a.	n.a.
			Increase in percentage of persons with disabilities in relation to the total number of unemployed in employment services.	FZZZ, 2019	1.31%	0%
			Increase in percentage of women with disabilities in relation to the total number of unemployed women in employment services.	FZZZ, 2019	0.93%	0%
3.1.2.	FBiH	Improve the legal and institutional framework for environmental regulation and the development of communal infrastructure.	Increase in the rate of harmonization of environmental legislation with EU legislation.	FMOIT, 2019	n.a.	n.a.
3.1.5.	FBiH	Ensure sustainable use of land resources.	Decrease in percentage of land on which productivity is reduced (LPD).	FZZA, 2014	0.44%	0.25%
			Decrease in percentage of land with early signs of declining productivity (LPD). **	FZZA, 2014	0.53%	0.30%
			Decrease in percentage of land that is stable but under pressure of declining productivity (LPD).	FZZA, 2014	15.73%	10.00%
3.1.7.	FBiH	Improve integrated waste management and the circular economy system.	Decrease in percentage of disposed (untreated) municipal waste out of the total collected.	FZZPR, 2018	93.50%	60.00%
			Increased percentage of processed (recycled) municipal waste out of the total collected.	FZZPR, 2018	0.14%	5.00%
			Increased amount of private investments, jobs and gross value added related to circular economy sectors.	EUROSTAT, 2017	157.5	300
3.3.2.	FBiH	Provide support to SMEs in improving energy efficiency and the principles of "green economy" and "greening".	Increased share of SMEs that have implemented EE measures in relation to the total number of SMEs.	FMRPO	n.a.	n.a.
			Energy efficiency project support fund established.	FMRPO, 2020	No	Yes
3.5.2.	FBiH	Establish functional capacities for agriculture and rural development.	Increased number of established science and technology parks in the agricultural sector.	FMVPŠ	0	1
			Increased number of agricultural holdings.	FMVPŠ, 2017	7,244	10,000

Rbr.	Level	Measure	Indicator	Period	Baseline	Target
			Proportion of gross value added of crop and livestock production, hunting and related service activities (Area 01 KD BiH 2010) in GDP.	FZS, 2018	3.60%	5.00%
3.5.3.	FBiH	Improve the quality and competitiveness of agri-food production, and the resilience of agricultural producers.	Coverage of imports by exports (Section KD A - Agriculture, forestry and fishing).	FZS, 2018	19.96%	40.00%
			Coverage of imports by exports of food and beverages.	FZS, 2018	20.54%	40.00%
4.1.1.	FBiH	Increase the efficiency of the justice system.	Decrease in number of unresolved commercial cases in courts.	VSTV, 2019	17,757	10,000
			Increased judicial independence in BiH.	WEF, 2019	133/141	80/141
4.1.4.	FBiH	Develop an effective system for preventing and fighting corruption.	Change in Corruption Perceptions Index (CPI).	TI BiH, 2019	36	80
			Absence of corruption.	WJP, 2019	72/126	40/126
			Corruption control.	WB, 2018	-0.57	1.00
4.2.1.	FBiH	Strengthen political and institutional leadership and coordination of public administration reform and economic reforms.	Establishment of functionally leading institution for public administration reform in FBiH.	ZJU, 2020	No	Yes
			Adopt a framework for modernizing the administration.	ZJU, 2020	No	Yes
4.3.3.	FBiH	Increase efficiency in the collection of public revenues.	Decrease in annual time required to pay taxes (hours).	WB, 2019	411	200
			Increase in percentage of public revenues derived from taxes and contributions in relation to GDP.	PU FBiH, 2018	23.8%	20%
1.1.1.	BD	Support for business operations and recovery from the consequences of the pandemic crisis.	Increase in the number of active MSMEs.	2019-2023	3278	By 2023, reach the level of 2019.
			Increase in the number of MSMEs that use existing incentives.	2019-2027	1,569	Less than 1200
			Improving the SBA profile of BiH in dimension 2 (Bankruptcy and second chance) and dimension 6 (Access to finance).	2019-2025	2.55 and 3.26	3.5 and 4.0
1.1.2.	BD	Systemic support for youth entrepreneurship and women's entrepreneurship.	Increase in the number of new young IT professionals.	2020-2027	0	At least 100
			Increase in the number of new IT companies founded by young entrepreneurs	2020-2027	0	At least 20
			Increased participation of women in incentives for self-employment (number of incentives for women in relation to the total number of incentives)	2014-2027	26% (85 out of 317 in the period 2014-2019).	More than 35% (2021-2027).

Rbr.	Level	Measure	Indicator	Period	Baseline	Target
			Improving the SBA profile of BiH in dimension 1.1. (Entrepreneurial learning) and 8a (Professional and business skills)	2019-2025	3.23 and 2.70	3.8 and 3.5
1.1.3.	BD	Support for innovation and digitalization of enterprises.	The growth of the gross added value of SMEs	2019-2027	245.6 million	Increased by at least 20%
			Improving the SBA profile of BiH in dimension 8b (Innovations)	2019-2025	1.86	4
1.1.4.	BD	Support for export-oriented sectors and companies.	Export revenue growth	2019-2027	210.30	Increased by at least 20%
			Improving the SBA profile of BiH in dimension 7 (SME approach to standardization) and dimension 10 (Internationalization)	2019-2025	2.78 and 2.57	3.5 and 4.0
1.1.5.	BD	Harmonization and improvement of the business environment.	The degree of harmonization of the Law on Stimulating the Economy with the EU recommendations	2019-2023	Partly	Completely
			The number of successful new joint initiatives of chamber of commerce and employers' association BD	2020-2025	0	At least 5
			Improving the SBA profile of BiH in dimension 3 (Institutional and regulatory framework) and dimension 5a (SME support services)	2019-2025	2.62 and 3.41	4 and 4.2
1.2.1.	BD	Support for improving the competitiveness of agricultural production.	Increasing the proportion of funds for structural and rural development initiatives (pillar 2) in incentives for agriculture	2019-2027	About 10%	About 30%
			Growth of investments in the field of Agriculture, hunting and forestry (legal entities)	2018-2027	2.7 million	Increased by at least 100%
1.2.2.	BD	Land policy improvement and land consolidation.	Reversing the trend of fragmentation of agricultural holdings	2019-2027	Fragmentation trend (up to 2019)	Enlargement trend (2027)
			Increasing the average size of market-oriented farms	2019-2027	About 2 ha (2019)	Increased by at least 100%
1.2.3.	BD	Mobilization of local resources for rural development.	The number of established and functional local action groups	2019-2027	0	At least 3
1.2.4.	BD	Organizational and personnel development of the agriculture and rural development sector.	Increase in the number of established and functional organizational units for the implementation of financial and advisory support.	2019-2027	0	At least 2
1.3.1.	BD	Strategic profiling and tourism branding BD.	Increase in the number of proposed and accepted tourist brands of BD.	2020-2024	0	At least 5
			Increase in the number of developed/ realized tourist brands.	2020-2027	0	At least 3

Rbr.	Level	Measure	Indicator	Period	Baseline	Target
1.3.2.	BD	Organizational and personnel strengthening of the tourism sector.	Tourism organization established and functional.	2020-2025	0	1
			Increase in the number of organized educations in the field of tourism.	2020-2027	0	20
1.3.3.	BD	Construction of tourist-recreational infrastructure.	Increase in the number of priorities/projects for the development of tourist infrastructure implemented through capital and private investments.	2019-2027	0	At least 15
1.4.1.	BD	Equipping priority business zones.	Construction and occupancy of business zones.	2019-2027	6 partially completed (5 partially used).	3 used and almost completed, 5 partially completed and used.
1.4.2.	BD	Advertising locations for investors.	Increased participation in the international competition fDi's European Cities and Regions of the Future.	2020-2025	The Brcko District did not participate in the fDi's European Cities and Regions of the Future competition.	Brcko District of BiH chosen as one of 10 locations in fDi's European Cities and Regions of the Future (until 2025).
1.4.3.	BD	Active inclusion of emigrants in the economic development of the BD.	Increase in the number of newly created business arrangements between emigrants and local businessmen.	2020-2027	0	At least 20 (2027)
			Growth of emigrants' investments in BD (diaspora)	2020-2027	0	At a rate of 5% per year from 2023 to 2027.
1.5.1.	BD	Professional training of unemployed persons who are actively looking for employment.	Increase in percentage of unemployed who have acquired competencies (new skills) in line with labour market needs.	2019-2027	10.0%	20.0%
			Increase in the percentage of unemployed who are employed on the basis of acquired new skills.	2019-2027	3.0%	10.0%
1.5.2.	BD	Employment of unemployed persons from the categories of hard-to-employ and women.	Reduced number of unemployed from the category of hard-to-employ.	2019-2027	3,000	Reduced by 10%
			Reduced number of unemployed women.	2019-2027	4,078	Reduced by 10%
			Reduced number of unemployed from the category of Roma.	2020-2027	1,600	Reduced by 10%
1.5.3.	BD	Harmonization of the labour market and the education system through career guidance and counselling.	Reducing the participation of young people in the structure of the unemployed.	2019-2027	27.7%	20.0%

Rbr.	Level	Measure	Indicator	Period	Baseline	Target
1.5.4.	BD	Support for self-employment in the economy and agriculture.	Growth in the number of newly registered businesses from self-employment funds.	2014-2026	261 (2014-2018)	Increased by at least 15% (2021-2026)
			Growth in the number of new employees from self-employment funds.	2014-2026	295 (2014-2018)	Increased by at least 15% (2021-2026)

## Annex 5. FGD with Government Representatives

### 1. BACKGROUND AND PURPOSE

As part of the Center of Excellence (CoE), the School of Economics and Business Sarajevo (SEBS) collaborates with stakeholders to promote evidence-based policy papers to inform decision making. To ensure that the policy papers produced by the CoE provide high-quality recommendations for relevant institutions, SEBS took an iterative and participatory approach to identify, prioritize, and select key business enabling environmental issues. A desk research analysis was based on the strategic policy documents of relevant government institutions and levels, which served as a basis for a review of the current state in the analysed sector. Informed by the initial prioritization from the desk research, SEBS convened FGDs with stakeholders from the government (departments involved in economic development at all levels). The aim of the focus group was to gain a better understanding of the SME landscape and the entrepreneurial ecosystem in BiH as part of a broader effort to conduct an in-depth analysis of the selected field; “creating a business enabling environment”, identified in preliminary analysis report as a priority.

### 2. DATA COLLECTION

On July 14, 2021, SEBS conducted an FGD with a total of six representatives from government institutions (Department of Economic Development, Sports and Culture of BD; Ministry of Development, Entrepreneurship and Crafts of the FBiH; Ministry of Economy, Labor and Physical Planning of Posavina Canton; Ministry of Economy of Zenica-Doboj Canton; Ministry of Economy of Central Bosnia Canton; Ministry of Economy of Sarajevo Canton). The FGD lasted an hour and a half. The FDGS were conducted online, using the Big Blue Button platform.

Based on the desk review conducted in parallel to the FGDs, SEBS identified the following priority policy topics for discussion: 1) general questions (definition of SMEs, segmentation of the market, challenges and constraints in creating business-friendly environment); 2) Policy; 3) Finance; 4) Culture; 5) Support; 6) Human Capital and 7) Markets. Given the purpose and objectives of the FGDs, SEBS used a semi-structured approach. The discussion through different domains of the SMEs ecosystem was guided with slides and short surveys were conducted to better understand overall of the topic. Summary of their answers was sent to all participants for commenting.

### 3. FINDINGS AND CHALLENGES

- Enterprises are generally classified by size, revenue, activity, and geographical area in documents that review the situation or make recommendations for the development of micro, small and medium enterprises.
- The classification of enterprises into micro, small and medium is defined by laws at all levels (Laws on Development of Small and Medium Enterprises of RS, Law on Encouraging Small Business Development of FBiH, Law on Enterprises of BD, but also laws on encouraging small business development at the cantonal level)
- Programs and measures implemented by different government levels are typically monitored, but evaluations are rarely conducted.
- The needs of employers before the adoption of strategic documents, legislation and incentives are collected. Policy documents and legislative changes are considered through public discussion and presentations, various councils, the involvement of chambers of commerce and employers' associations, focus groups with employers and expert opinions. Government



representatives observe changes in the market and adapt their programs and measures to the needs of employers.

- Economic-social council is a good way to collect information before designing a new program, as well as learning from good practices in similar countries. Other participants mentioned that their approach to design programs and measures to support SMEs and entrepreneurial activities are guided by previously established programs for use of funds with criteria for the allocation of funds, as well as reports and current strategic documents.
- Current legislation in BD and FBiH does not recognize e-signatures, making it more difficult to conduct business.
- The duration and complexity of the process of obtaining a construction permit is still an issue that is not addressed properly, although recent improvements are evident in terms of duration and costs of the procedure in the registration process. Construction permits and procedures related to these permits are recognized as most problematic in BD and FBiH, as it adds extra days in the process of business registration.
- Another issue is related to the process of registration and is related to the procedure of obtaining a VAT number. According to the participants, receiving a VAT number could last between three and six months.
- Overall, the number and amounts of various fees during registration has undergone serious reforms in the past, and all levels are reducing or removing various court or administrative fees. However, participants noted that this process is not harmonized across BiH.
- Registration in one place is implemented at almost all levels as FBiH, RS, and BD participated in the project financed by IFC.
- Legislation for a sole proprietorship is particularly unfavourable in the FBiH, especially in terms of foreign trade operations of craftsmen, registration procedures, registration conditions, and the entrepreneur's liability for damages that a business can cause.
- Available statistics do not assure monitoring of the development of micro, small and medium enterprises. The lack of statistics limits the possibility to redirect support and incentives to the relevant sectors.
- Tax incentives do not encourage companies to reinvest their profit, but different incentives exist across BiH and its entities.
- Corruption is present in almost all spheres of business, but certain measures are being taken to reduce the impact. Measures most often include the publication of a register of beneficiaries, the public disclosure of beneficiaries, and the organization of offices or special anti-corruption bodies.
- Insufficient financial support to finance all employers' projects is an issue raised by government participants. Start-ups (entrepreneurs) are encountering more difficulties in seeking financial support, while banking policies prevent start-ups from applying for loans.
- There are currently no clearly defined rules and procedures for establishing and managing business zones. Some participants expressed concerns when investors show interest, as they are searching for ready locations for investment, which are not available.
- The workforce is not adjusted to the needs of employers. SMEs who want to work and have serious business ideas lack a workforce with certain knowledge and skills. Although BiH has a large number of unemployed people, with a certain formal occupation, they lack knowledge and skills.
- Employers do not have the capacity to educate the workforce on their own.

- Entrepreneurs lack knowledge and skills regarding starting a business, but also understanding of what being an entrepreneur actually is. According to the participants, entrepreneurs expect to receive financial support, to work outside of their other work, and expect quick results.
- Currently, various stakeholders are not sufficiently connected, from education, employers, ministries, scientific institutions, etc., the situation which does not ensure quality cooperation and does not offer the potential for growth and development of MSMEs.

#### 4. RECOMMENDATIONS

- Involving micro, small and medium enterprises in policy design is a common practice (discussions, focus groups, small business development councils, involvement of chambers of commerce and employers' associations), but it is necessary to work on building a more efficient public-private dialogue. This dialogue should lead institutions, from the local to the highest state level, as they should listen to the word of entrepreneurs and try to find ways how to improve the business environment.
- Governments should provide services, such as a labour force training, efficient administration, and assistance to SMEs in the start-up and growth phase. They should, not only provide financial resources, but also advisory support. They should also support other, non-governmental institutions that might offer necessary business services to MSMEs.
- Ongoing efforts are being invested to improve the time, simplify the procedure and reduce the total cost of SME registration, but it is necessary to continue working on building an environment that will facilitate the SME registration process from the employer's point of view. Effort should be on simplification of the following procedure: obtaining construction permits and a VAT number.
- One Stop Business Registration is implemented at almost all levels. However, the implementation is not at the same level among the entities and BD and it is necessary to continue to work on improving the registration process, especially linking different participants in this process (Geodetic administration; Indirect Taxation Authority, etc.)
- It is necessary to support the amendments to the legal regulations for craftsmen that are currently in process, especially the issue of foreign trade operations of single trader, registration procedures, and registration conditions, to discourage informal economy and undeclared work.
- Given that the lack of currently available statistics does not ensure monitoring of all relevant indicators for the development of micro, small and medium enterprises, it is necessary to establish systems that will ensure up-to-date collection of statistical data.
- Current legislation provides some solution for tax incentives, but it is necessary to continue to work on improving tax incentives in order to stimulate the reinvestment of profits and the growth and development of enterprises.
- A clearer definition of rules and procedures for the establishment and management of business zones is needed. Every level in BiH should have legislation on business zones, which would precisely define the rules and procedures relevant for business zones, how to form them, and how they function.
- To improve the economic environment, it is necessary to increase financial support through the allocation of favourable funds or grants. Some extremely high-quality ideas cannot be implemented and they need to be rejected because there are not enough funds.
- Non-banking instruments should be further developed as the most dominant way of financing comes from banks, which have very strict criteria for getting a loan.

- Employers do not have the capacity to educate the workforce independently, and it is necessary to provide advisory, financial and non-financial support in this regard.
- It is necessary to work on educating entrepreneurs, but also to raise awareness of what it means to be an entrepreneur.
- Bringing together different interest groups, from education, employers, ministries, scientific institutions, to encourage cooperation and use the potential for growth and development of micro, small and medium enterprises.

## Annex 6. FGD with Chambers of Commerce and Employers' Associations

### 1. BACKGROUND AND PURPOSE

The Center of Excellence (CoE) and the School of Economics and Business Sarajevo (SEBS) will collaborate with stakeholders to promote evidence-based policy papers to inform decision making. To ensure that the policy papers produced by the CoE provide high-quality recommendations for relevant institutions, SEBS took an iterative and participatory approach to identify, prioritize, and select key business enabling environmental issues. A desk research analysis was based on the strategic documents of relevant government institutions and levels, which served as a basis for a review of the current state in the sector. Informed by the initial prioritization from the desk research, SEBS convenes FGDs with stakeholders from representatives of employers (chambers of commerce and employers' associations). The aim of the focus group was to gain a better understanding of the SMEs landscape and the entrepreneurial ecosystem in Bosnia and Herzegovina (BiH) as part of a broader effort to conduct an in-depth analysis of the selected field, "creating a business enabling environment", identified in preliminary analysis report as a priority.

### 2. DATA COLLECTION

On July 14, 2021, SEBS conducted second FGD with a total of four representatives from employers' representatives (Chamber of Commerce of RS, BD Chamber of Commerce, and Association of Employers of the FBiH and BD Employers' Association). The FGD lasted two hours. The FGD was conducted online by using the Big Blue Button platform.

Based on the desk review conducted in parallel to the FGDs, SEBS identified the following priority policy topics for discussion: 1) general questions (challenges and constraints in creating business-friendly environment); 2) Policy; 3) Finance; 4) Culture; 5) Support; 6) Human Capital and 7) Markets. Given the purpose and objectives of the FGDs, SEBS used a semi-structured approach. The discussion through different domains of the SMEs ecosystem was guided with slides and short surveys were conducted to confirm participants' views on the FGD topics being discussed.

### 3. FINDINGS AND CHALLENGES

- The needs of employers before the adoption of programs, measures and legal solutions are considered through public discussions, various councils, the involvement of chambers of commerce and employers' associations. However, the bargaining power of chambers and associations is not particularly pronounced, the quality of the available programs and measures do not meet the needs of employers and programs/measures are mostly repeated from year to year. Participants agreed that submitted comments to laws and policy documents are mostly not considered when considering a revision of the programs/measures.
- Some firms are not members of chambers of commerce and employers' associations and their involvement in the process of getting support or program design is rather direct. The participants in the FGD believe that the bargaining power of these associations would be much stronger if all enterprises joined.

- Tax incentives do not encourage companies to reinvest their profit, but employers recognized that different incentives exist across BiH. According to the participants, in FBiH no good incentives are available if profit is reinvested to purchase machinery, or new technology.
- Participants agreed that overall strategic documents, where they exist, are well defined. However, the main issue is in its implementation. One of the main challenges is a large number of participants in the decision-making process.
- Laws in BiH are not harmonized, which creates problems for employers. Participants highlighted the issue of wholesale fiscalization (present in FBiH, while not in RS and BD), waste fees (five times lower in FBiH), and financial measures regarding wage contributions (RS and BD have measures that partially relieve employers of paying high contributions), regulations on chemicals, and regulations on environmental protection. The participants provided an example of two companies, one in RS and one in FBiH. The company in RS had to close because much stricter environmental regulations apply in RS, whereas the same company in FBiH was able to continue its operations.
- The informal economy distorts the rules of a fair competitive environment and damages labour market. The presence of such a huge informal economy in at the heart of BiH's economy leads to uncertainty, where participants in the FGD do not see the possibility of further investment, as it is not stimulating.
- Electronic forms of communication and e-services, in general, have not been developed. During the COVID-19, electronic communication was rapidly introduced, but with the easing of measures, its use ceased very quickly.
- Employers are often unaware of the existence of programs and measures offered.
- Ongoing efforts are invested to improve the time, simplify the procedures and reduce the total cost of SME registration, but employers recognized the following particular challenges:
  - The complexity of procedures and the need to bring together institutions that have the same data, as very often same institutions require the information that is already available in their databases.
  - The duration and complexity of the process of obtaining a construction permit;
  - The length of time to obtain certificates from the Indirect Taxation Authority, and the lack of will and vision to reach simple and quick solutions;
  - One-stop registration is implemented at almost all levels; however, the implementation is not at the same level among the entities, and it is necessary to continue the efforts to improving the one-stop registration process. The BD stands out on this issue because, due to its special status, it can more easily make legal decisions.
  - A large number of regulations.
  - Adherence to payment deadlines. Legal solutions exist but they are not respected, even by authority.
  - Fiscal and parafiscal levies are high, the method of VAT payment is unsatisfactory. The state expects to collect taxes on the same date every month, regardless of the situation of employers.
  - Current wage contributions do not motivate entrepreneurs to increase workers' wages, which has a negative impact on preserving jobs and preventing the emigrations of youth.
  - Corruption is present in almost all spheres of business. Participants expressed their concerns that authorities devote most of their time to inspection to those who work

honestly and are officially register as a business entity, while non-official business entities are mostly out of their reach.

- Sufficient financial support is not available to employers and start-ups. Start-ups are encountering more difficulties in seeking financial support, while banking policies prevent start-ups from applying for loans.
- There are currently no clearly defined rules and procedures for establishing and managing business zones. As noted by participants, some business zones exist only “on the paper”.
- Participants agreed that enterprise skills are not supported, with education being the most problematic area. One of the conclusions is that the workforce is not adapted to the needs of employers, the education system is not adapted to the needs of the economy, and workers often leave BiH after the employer invests in their development. All participants agree that brain drain raises concerns.
- A dual education system is necessary, but FGD’s participants found it impractical. More precisely, it is difficult to lose workers for half of the day, when you need someone to do the work.
- FGD participants also pointed out the problem of slow regulation adoption. For example, the Law on Customs Policy was adopted in 2015, and the implementation of the decree related to Article 207 that equipment without origin can be imported duty-free was introduced only three years after.
- Employers believe that environmental protection should not be a priority in the current phase of MSMEs development, as more pressing issues exist. However, they agree that protecting the environment is important, but also the right and ‘harmonized’ support from all levels of government are required.
- Export certification is expected to be a challenge in the future, and participants of the FGD believe that employers are not prepared for that.

#### 4. RECOMMENDATIONS

- It is necessary to work on building a more efficient public-private dialogue. The methods of employers’ involvement should not be ad hoc, but systemic.
- Motivate and enrol companies in chambers of commerce and employers' associations, which are not otherwise active, but their problems can be solved directly through politics.
- Participants proposed that improvements are necessary for the tax policy, income tax exemptions, and incentives for innovation and providing training to people in introducing a standard. Through legal solutions, the employer should be exempt from paying income tax if he/she has invested the profit in the acquisition of technology or machinery.
- The effort should be put into the implementation of strategic documents, that mostly defines good measures, but are poorly executed. As many participants are involved in the process, a clear distinction of different roles should be recognized at the early stage of the program/measure design.
- The horizontal and vertical communication between the ministries. As noted by participants, the BiH market is unique but with drastic deviations in terms of laws, rules and programs. Efforts should be made to harmonize regulations between the entities, so that companies are not motivated to move from one entity to another, in order to benefit from better conditions.
- The informal economy should be properly addressed in order to ensure a fair competitive environment.
- Electronic forms of communication and e-services should be significantly improved.

- Government should provide support in the development of digital strategies and digitization of MSMEs.
- Strengthening human resources of employers through training and education to improve digitalization and knowledge, as well as skills needed to apply for EU funds.
- It is necessary to inform entrepreneurs about the available programs and measures.
- Ongoing efforts are invested to reduce the time taken in, and simplify the procedures for, and reduce the total cost of SME registration, but it is necessary to continue working on building an environment that will facilitate the SME registration process from the employer's point of view. These changes might include, but are not limited to, improving the exchange of data between institutions; simplification of the process of obtaining a construction permit; decreasing the length of time needed to obtain certificates from the Indirect Taxation Authority; continue efforts to harmonize one-stop business registration across BiH; reduce the number of regulations, and adherence to payment deadlines and improve the method of VAT payment.
- Wage contributions should be improved to motivate entrepreneurs to increase workers' wages, which is expected to have a positive impact on preserving jobs and preventing the departure of young staff.
- Tax incentives do not encourage companies to reinvest. Current legal solutions also define this area, but it is necessary to continue working on improving tax incentives in order to stimulate the reinvestment of profits and the growth and development of companies.
- To improve the economic environment, it is necessary to increase financial support through the allocation of favourable funds or grants. Banking policies need to be changed to ensure start-ups apply for loans.
- Non-banking instruments should be further developed as the most dominant way of financing comes from banks, which have very strict criteria for getting a loan.
- Participants agree that the development of enterprise skills should be better supported. Special focus was given to education and improving the practical skills of students and teachers.
- It is necessary to work on educating entrepreneurs, but also to raise awareness of what it means to be an entrepreneur.
- Bringing together different interest groups, from education, employers, ministries, scientific institutions, in order to encourage cooperation and use the potential for growth and development of micro, small and medium enterprises.
- Involvement of local communities is necessary due to a large number of regulations.
- Financial and non-financial support regarding environmental protection and export certification should be provided to enterprises across BiH.

## Annex 7. FGDs results

Statement	Group <sup>101</sup>	Disagree	Neither agree nor disagree	Agree
The environment in Bosnia and Herzegovina is the one in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded.	G (5)	0%	100%	0%
	E (5)	0%	40%	60%
Policy makers give full consideration to SMEs at the early policy development stage: rules impacting on business are fully created from the SMEs point of view; SMEs are considered by public authorities as being their "prime customers" as far as business regulation is concerned.	G (6)	16%	66%	16%
	E (5)	80%	20%	0%
The harmonization of different laws and rules in Bosnia and Herzegovina is required.	G (6)	0%	0%	100%
	E (5)	0%	0%	100%
We regularly evaluate the programs and measures we implement to see if the defined goals have been achieved.	G (6)	66%	33%	0%
	-	-	-	-
Honest entrepreneurs who have faced bankruptcy quickly get a second chance.	G (3)	0%	66%	33%
	E (5)	40%	40%	20%
SMEs have access to finance (bank financing, non-bank financing, venture capital, financial literacy).	G (3)	33%	66%	0%
	E (5)	20%	80%	0%
Policy framework for innovation as well as government support and services promote upgrading of skills and all forms of innovation.	G (4)	50%	50%	0%
	E (5)	100%	0%	0%
Public administration (e-government services, business licenses and permits, tax compliance procedures for SMEs, company registration) is fully responsive to SMEs.	G (4)	50%	50%	0%
	E (5)	100%	0%	0%
Public policy tools (SME support services provided by the government, government initiatives stimulating private business development services, public procurement) are adapted to SME needs	G (4)	50%	50%	0%
	E (5)	40%	40%	0%
SMEs are encouraged and supported to benefit from growth markets.	G (4)	25%	50%	25%
	E (5)	40%	40%	20%
Environmental policies enable SMEs to turn environmental challenges into opportunities.	G (2)	100%	0%	0%
	-	-	-	-
The _____ is well regulated/developed.				
Government measures regarding investment, support.	G (4)	0%	75%	25%
	E (5)	40%	40%	20%
Financial support, e.g., for R&D, jump start funds	G (4)	50%	50%	0%
	E (5)	60%	40%	0%
Regulatory framework incentives, e.g., tax benefits.	G (5)	60%	20%	20%
	E (4)	0%	100%	0%
Research institutions.	G (6)	66%	33%	0%
	E (4)	100%	0%	0%
Venture-friendly legislation, e.g., bankruptcy, contract, enforcement, property rights and labour	G (6)	83%	17%	0%
	E (4)	50%	50%	0%

<sup>101</sup> M (number of FGD participants) - representatives of ministries; E (number of FGD participants) - representatives of employers (chambers, associations, etc.);