

BOSNIA and HERZEGOVINA

1. Introduction

Bosnia and Herzegovina's insolvency framework is performing well, and significant measures have been taken to promote women entrepreneurs in recent years. However, substantial efforts are still needed to resolve the current challenges posed by the regulatory burden and access to finance for SMEs.

The COVID-19 pandemic has badly affected the country's economy. In 2020, GDP dropped sharply by 5.5%¹, and the unemployment rate increased by 0.1 percentage points². Small and medium-sized enterprises (SMEs) were also hit hard, with SME value added declining by 8.7% in 2020³. The *transportation and storage* sector and the *wholesale and retail trade* sector were impacted in particular, with respective decreases of 14.8% and 13.2% in SME value added. The *manufacturing* sector and the *accommodation and food services* sector were also hit hard, with SME value added declining by 12.2% and 11.9% respectively. In contrast, the *administrative and support services* sector performed strongly in 2020, generating an increase of 6.0% in SME value added.

In Bosnia and Herzegovina, SMEs play an important role in the 'non-financial business economy'. In 2018, they generated 62.7% of total value added and 69.1% of total employment, exceeding the respective EU averages by 9.8 and 4.2 percentage points. The average productivity of SMEs, calculated as value added per person employed, was approximately EUR 14 000 in 2018, notably lower than the EU average of EUR 41 600. SMEs employed an average of 5.6 people, significantly higher than the EU average of 3.7.

Figure 1: Number of enterprises, persons employed and value added in 2018

	Number of enterprises			Number of persons employed			Value added		
	Bosnia and Herzegovina		EU-27	Bosnia and Herzegovina		EU-27	Bosnia and Herzegovina		EU-27
	Number	Share	Share	Number	Share	Share	€ billion	Share	Share
Micro	59 989	89.2%	93.3%	133 656	24.7%	29.6%	1.490	17.8%	18.7%
Small	5 789	8.6%	5.7%	115 968	21.4%	19.7%	1.928	23.0%	17.0%
Medium-sized	1 231	1.8%	0.9%	124 431	23.0%	15.8%	1.837	21.9%	17.3%
SMEs	67 009	99.6%	99.8%	374 055	69.1%	64.9%	5.255	62.7%	52.9%
Large	253	0.4%	0.2%	167 659	30.9%	34.8%	3.124	37.3%	47.0%
Total	67 262	100%	100%	541 714	100%	100%	8.378	100%	100%

Source: These data for 2018 are based on data provided by the Agency for Statistics of Bosnia and Herzegovina. The data cover the 'non-financial business economy', which includes industry, construction, trade, and services (NACE Rev. 2 sections B to J, L, M and N), but not enterprises in agriculture, forestry and fisheries and the largely non-market service sectors such as education and health. The following size-class definitions are applied: micro firms (0-9 persons employed), small firms (10-49 persons employed), medium-sized firms (50-249 persons employed), and large firms (250+ persons employed).

2. Key strengths

Efficient bankruptcy and insolvency processes

According to the World Bank's Doing Business 2020 report, Bosnia and Herzegovina scores relatively high on the 'resolving insolvency' indicator, coming 37th out of the 130 economies analysed⁴. This ranking chimes with recent OECD analyses (2019) where, in terms of bankruptcy procedures and promoting a second chance for SMEs⁵, the country scored 2.55 (on a scale from 1 to 5, with a higher score indicating a better result), an increase compared to 2017, when it scored 2.25. In addition, on the strength of the insolvency framework index developed by the World Bank, which indicates the extent to which insolvency legislation is designed for rehabilitating viable firms and liquidating non-viable ones, the country achieved a score of 15 in 2020 (on a scale from 0 to 16; EU average 11.7)⁶.

The costs to resolve insolvency (as a percentage of the debtor's estate) are also slightly lower in Bosnia and Herzegovina (9%) compared to the EU average (10.6%)⁷. The same trend can be seen with the fear of failure rate, which remains significantly lower in Bosnia and Herzegovina compared to the EU average (Bosnia and Herzegovina 27.2, EU average 39)⁸. However, the country still performs below the EU average on the time taken to resolve insolvency, with 3.3 years on average (EU average 2 years)⁹.

While the legislative framework for bankruptcy proceedings is regulated at entity level¹⁰, improvements have been made to synchronise regulations at country level. The Federation entity's Parliament should soon adopt a new insolvency law – aligned with the *Republika Srpska* entity and Brčko District legislation – as it could play a crucial role in the coming months, when default rates are expected to increase¹¹.

Women's entrepreneurship is being promoted

Several initiatives have been implemented in recent years to promote women in entrepreneurship. In 2016, with the support of the *Gesellschaft für Internationale Zusammenarbeit*, a German development agency that provides services in the field of international development cooperation¹², a working group chaired by the Ministry of Foreign Trade and Economic Relations was set up. Its aim was to improve dialogue and coordination on women's entrepreneurship among policy makers from all entities¹³. According to the OECD, significant improvements were seen in women's entrepreneurship between 2016 and 2019. On a scale of 0 to 5, the country's performance in terms of women entrepreneurs increased from just above 2 in 2016 to 3.26 in 2019¹⁴.

At entity level, the *Republika Srpska* entity adopted the Women's Entrepreneurship Development Strategy in 2019 to increase the number of women entrepreneurs. The strategy defines the strategic goals, programmes and activities for developing women's entrepreneurship for 2018-2022. These are based on the analysis of the situation, previous activities for developing this sector, EU requirements and the needs of SMEs¹⁵.

According to data published by the Bureau of Statistics in Bosnia and Herzegovina in July 2020, 43% of the total number of people employed in 2020 (803 326), were women¹⁶. At the entity level, in the *Republika Srpska* entity, 30% of SMEs are owned or co-owned by female entrepreneurs. Companies owned or jointly owned by women represented 17% of the total number of people employed in the *Republika Srpska* entity in 2019¹⁷.

Despite the above-mentioned improvements, national data indicate severe gender gaps in labour market participation and in employment (20-64 age group). Gender differences continue to exist on access to employment, quality and pay. This highlights the need to step up efforts to support effective integration of women into the labour market.

3. Key challenges

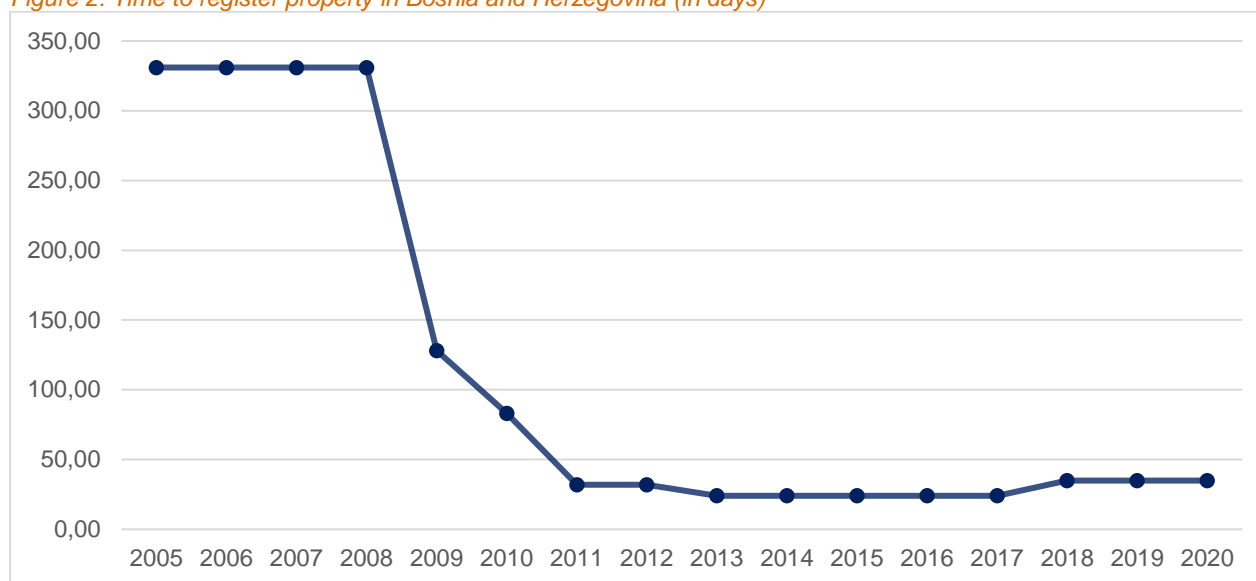
Regulatory burden for SMEs

According to the World Bank's Doing Business 2020 report, Bosnia and Herzegovina occupied the 184th position among the 190 countries on starting a business¹⁸. Registration procedures differ at the entity level. One business registration is not valid for the entire economy: a company registered in the Federation entity, for example, cannot operate directly in the *Republika Srpska* entity without obtaining additional permits, and vice versa. Moreover, there are 13 different procedures involved in starting a business, compared to the EU average of 5.4 procedures in 2020¹⁹. Obtaining licences and permits is a complex process managed by different institutions based on their own competences.

It takes around 80 days to start a business in Bosnia and Herzegovina (EU average 12.2 days), and it costs 13.7% of income per capita to start a business, compared to the EU average of 3.2% in 2020. However, while these costs remain higher in Bosnia and Herzegovina than in the EU, they were significantly cut in 2020, down from 25.2% in 2015²⁰.

The country also ranks poorly in 'Dealing with Construction Permits', coming 173rd out of 190 countries in 2020²¹. This process lasts 180 days on average, and costs are up to five times more than in EU countries²². In terms of time required to enforce contracts, this reached 595 calendar days in 2020²³.

Figure 2: Time to register property in Bosnia and Herzegovina (in days)



Source: World Bank Doing Business, 2020²⁴

Another difficulty comes from the fact that the country does not have a common approach to SME policy planning and implementation. SMEs policies are handled at entity level, with each entity having its own definition of SMEs. However, the country has undertaken some efforts in recent years to simplify the business environment for SMEs²⁵. The Federation entity adopted a new law in 2016 to simplify the procedures for businesses with 65% of them simplified. The *Republika Srpska* entity also managed to eliminate 25% of unnecessary procedures and 60% of redundant inspection procedures²⁶. Despite these efforts, the lack of a common countrywide approach to the planning and implementation of SME and industrial policies are obstacles to developing entrepreneurship and investments as well as to developing and implementing common COVID-19 mitigation measures for SMEs across the country.

Access to finance for SMEs

Bosnia and Herzegovina is the worst performer among the Western Balkan economies on access to finance for SMEs²⁷. While external financing sources such as bank loans and microcredit loans tend to dominate SME financing in Bosnia and Herzegovina, less traditional sources of financing are practically non-existent in the country. Venture capital investments, as a percentage of GDP, amounted to 0%²⁸ in 2018.

Moreover, while some government financial support measures are available in the country, these are developed at entity level and even sometimes at local level. This implies that support varies across entities and regions. This represents an additional layer of complexity in terms of access to finance for SMEs²⁹.

However, while access to finance is complicated for newly created companies, more established ones can easily benefit from access to finance from banks. According to the World Bank's Doing Business 2020 report, on the strength of the legal rights index (on a 0-12 scale) Bosnia and Herzegovina scored higher than the OECD high income average (7 against 6.1 for the OECD)³⁰.

4. Other key SME-related brief insights



IMPACT OF COVID-19 CRISIS ON SMES

To alleviate the negative effects of the COVID-19 pandemic on SMEs, governments provided, among other things, financial support to SMEs, increased flexibility in the payment of social security contributions for both SMEs and the self-employed, deferred tax payments, and loan guarantee funds. Certain banks also offered loan repayment deferrals.³¹



GREEN TRANSITION OF SMES

Bosnia and Herzegovina's 2018-2021 strategic plan for rural development includes some environmental protection measures. The strategy still has to be implemented across the country and a new post-2021 strategy needs to be prepared³².



REGULATORY BURDEN

An overly complex regulatory environment results in high compliance costs and is a significant obstacle to competitiveness and inclusive growth due to unnecessary regulatory and administrative burden. The Federation entity adopted the Federation of Bosnia and Herzegovina Development Strategy 2021-2027³³. It covers 12 areas, including the development of SMEs, entrepreneurship and crafts, and support to the green economy and digitalisation. The *Republika Srpska* entity adopted a new strategy for SME development for 2021-2027.



DIGITALISATION OF SMES

In recent years, the Council of Ministers granted considerable importance in official documents to digitalisation. However, limited progress has been made since the adoption of the law on e-signature as a precondition for SME digitalisation. Some developments have been made since 2016 in the digitalisation of basic governmental services for SMEs, such as online tax filing and the e-cadaster registry³⁴.

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- ¹ GDP is based on estimates produced by the IMF (https://www.imf.org/imf/weodatabase/downloadreport?c=914,913,963,918,960,944,967,921,943,962,964,968,922,942,186,926,&s=NGDP_RPCH,&sy=2018&ey=2022&ssm=0&scsm=1&sc=0&ssd=1&ssc=0&sic=0&sort=country&ds=.&br=1&wsid=9335dcb0-fe3f-4d14-93e3-2a34483cfc3a).
- ² Total unemployment is based on data from Statista (<https://www.statista.com/statistics/453933/unemployment-rate-in-bosnia-herzegovina/>).
- ³ The data for 2020 are estimates produced by DIW Econ, based on 2010-2018 figures from the Agency of Statistics of Bosnia and Herzegovina as well as provisional data for 2019-2020 from the National Accounts Database and the Short-Term Business Statistics Database (Eurostat). Due to data constraints, for 2020, only value added data can be estimated (data for employment and number of enterprises are only available up until 2018).
- ⁴ The World Bank (2020), Ease of Doing Business in Bosnia and Herzegovina, available at: <https://www.doingbusiness.org/en/data/exploreeconomies/bosnia-and-herzegovina>
- ⁵ OECD (2019), SME Policy Index: Western Balkans and Turkey 2019, available at: <https://www.oecd-ilibrary.org/docserver/g2g9fa9a-en.pdf?expires=1613399104&id=id&accname=guest&checksum=77ACCC87A5FFB4A6474AB601DC33FB83>
- ⁶ World Bank Doing Business Methodology 2020, available at: <http://www.doingbusiness.org/methodology/resolving-insolvency>
- ⁷ World Bank Doing Business 2020, available at: <http://www.doingbusiness.org/>
- ⁸ Global Entrepreneurship Report, GEM 2016/17, 2019, available at: <http://www.gemconsortium.org/data/key-aps>
- ⁹ See Note 7.
- ¹⁰ According to the Constitution, Bosnia and Herzegovina is a country formed by two entities, the Federation of Bosnia and Herzegovina (Federation B&H) and the Republic of Srpska (RS) as well as the Brcko District.
- ¹¹ IMF (2021), Bosnia and Herzegovina: 2020 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Bosnia and Herzegovina, available at: <https://www.imf.org/en/Publications/CR/Issues/2021/02/26/Bosnia-and-Herzegovina-2020-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-50127>
- ¹² GIZ, available at: <https://www.giz.de/en/html/index.html>
- ¹³ See Note 5.
- ¹⁴ See Note 5.
- ¹⁵ Government of Republic of Srpska Ministry Of Industry, Energy And Mining (2018), Women entrepreneurship development strategy of the Republic of Srpska for the period 2018-2022, available at: <https://komorars.ba/wp-content/uploads/2018/04/Strategija-preduzetnistva-zena-RS-Nacrt.pdf>
- ¹⁶ Agency for Statistics for Bosnia and Herzegovina (2020), Demography and social statistics, available at: http://www.bhas.ba/data/Publikacije/Saopštenja/2020/LAB_02_2020_07_0_BS.pdf
- ¹⁷ Bljesak (2019), Women's entrepreneurship flourishes in the Republic of Srpska, available at: <https://www.bljesak.info/gospodarstvo/flash/zene-vode-oko-30-posto-kompanija-u-privredi-rs/292109>
- ¹⁸ The World Bank (2020), Economy Profile Bosnia and Herzegovina, available at: <http://documents1.worldbank.org/curated/en/657131574754234166/pdf/Doing-Business-2020-Comparing-Business-Regulation-in-190-Economies-Economy-Profile-of-Bosnia-Herzegovina.pdf>
- ¹⁹ World Bank Doing Business 2020, available at: <http://www.doingbusiness.org/>
- ²⁰ See Note 6.
- ²¹ See Note 18.
- ²² Ibid.
- ²³ Ibid.
- ²⁴ See Note 17.
- ²⁵ See Note 5.
- ²⁶ Ibid.
- ²⁷ Ibid.
- ²⁸ EVCA, Eurostat, 2018, available at: <http://www.investeurope.eu>
- ²⁹ See Note 5.
- ³⁰ See Note 18.
- ³¹ Deloitte (2020), COVID-19 – Review of measures for stabilization of the economy in Bosnia and Herzegovina, available at: <https://www2.deloitte.com/content/dam/Deloitte/ba/Documents/about-deloitte/8.6.2020.%20BiH%20COVID-19.pdf>
- ³² Strategic Plan for Rural Development of Bosnia and Herzegovina (2018-2021) – Framework Document, available at: http://www.mvteo.gov.ba/data/Home/Dokumenti/Poljoprivreda/Strategic_Plan_for_Rural_Development_of_BiH____Eng.pdf
- ³³ Bosnia and Herzegovina, Federation of Bosnia and Herzegovina, Federal Institute for Development Programming, (2020), Federation of BiH 2021 – 2027, available at: <http://fzzpr.gov.ba/en/news/0/187/public-consultations-development-strategy-of-the-federation-of-bih-2021-2027>
- ³⁴ See Note 5.