

# 2019 SBA Fact Sheet

## BOSNIA AND HERZEGOVINA

### Key points

#### **Past & future SME performance<sup>1</sup>:**

In 2016, SMEs in Bosnia and Herzegovina generated 66.3 % of total value added and 71.9 % of employment in the 'non-financial business economy'. Average SME productivity - measured as value added per person employed - amounted to EUR 13 950, less than a third of the EU average of EUR 42 700. However, in 2014-2016, SME value added in the 'non-financial business economy' of Bosnia and Herzegovina increased by 14.4 %, twice as fast as the EU SME growth rate. Also, in the same period, overall SME employment rose by 6.9 %, and overall SME productivity by 7.1 %. Most recently, in 2015-2016, the value added of SMEs grew by 7.1 %, while SME employment increased by 5.3 %.

#### **Implementing the Small Business Act for Europe (SBA):**

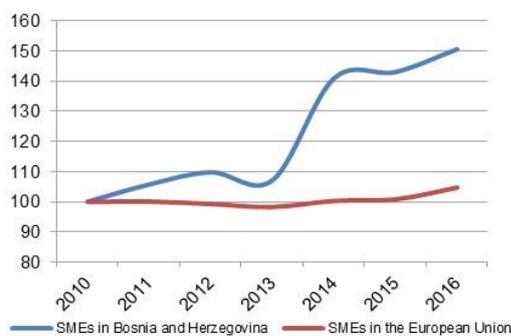
Bosnia and Herzegovina's SBA profile presents a mixed picture. The country performs above the EU average in 'second chance', while access to finance performs in line. Entrepreneurship, 'responsive administration' and internationalisation perform well below the EU average. No comparable information is available for the principles state aid & public procurement, single market, and skills & innovation. Therefore, analysis on these principles should be interpreted with caution.

#### **SME policy priorities:**

SME strategies and legislation exist at entity level and partly at cantonal level. Competence for dealing with SMEs in the Federation entity is shared with cantons. The *Republika Srpska* entity has an agency for implementing SME policies. Some aspects of improving SME policies are reflected in Bosnia and Herzegovina's Economic Reform Programme 2019-2021. However, there is no countrywide framework for SME policy. The complex business environment in the country results from its fragmented administrative structure and puts an added burden on businesses through excessive regulation, lengthy and complex administrative procedures, red tape, taxes and local fees. Bosnia and Herzegovina should draw up a countrywide policy framework for industrial and SMEs competitiveness and for encouraging foreign direct investment. Programmes which link domestic businesses with foreign investors should be enhanced. Bosnia and Herzegovina should reduce the institutional and regulatory barriers and address the lack of a single economic space by harmonising key business-related legislation and by improving coordination and cooperation between different levels of government. In terms of education, wide skills mismatches should be addressed. The country should increase investment in research and innovation and take concrete measures to effectively prevent brain drain. These priorities are also reflected in the European Commission's analytical report accompanying the Commission's Opinion on the application of Bosnia and Herzegovina to the EU as well as in the Commission's assessment of the country's economic reform programme 2019-2021.

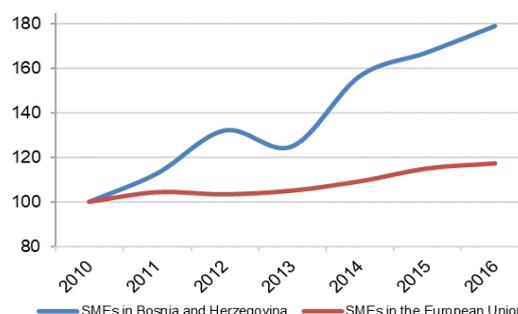
**Number of persons employed in SMEs**

(Index: 2010=100)



**Value added of SMEs**

(Index: 2010=100)



#### **About the SBA fact sheets:**

The Small Business Act for Europe (SBA) is the EU's flagship policy initiative to support small and medium-sized enterprises (SMEs). It comprises a set of policy measures organised around 10 principles ranging from entrepreneurship and 'responsive administration' to internationalisation. To improve the governance of the SBA, the 2011 review of it called for better monitoring. The SBA fact sheets, published annually, aim to improve the understanding of recent trends and national policies affecting SMEs.

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## 1. SMEs — basic figures

Class size	Number of enterprises			Number of persons employed			Value added		
	Bosnia and Herzegovina		EU-28	Bosnia and Herzegovina		EU-28	Bosnia and Herzegovina		EU-28
	Number	Share	Share	Number	Share	Share	Million €	Share	Share
Micro	59 940	90,3 %	92,8 %	192 817	39,1 %	29,2 %	786,9	20,1 %	20,3 %
Small	5 103	7,7 %	6,0 %	95 574	19,4 %	20,3 %	933,5	23,8 %	17,6 %
Medium-sized	1 102	1,7 %	1,0 %	107 171	21,7 %	17,0 %	955,5	24,4 %	18,3 %
<b>SMEs</b>	<b>66 145</b>	<b>99,7 %</b>	<b>99,8 %</b>	<b>395 563</b>	<b>80,3 %</b>	<b>66,5 %</b>	<b>2676,0</b>	<b>68,3 %</b>	<b>56,2 %</b>
Large	204	0,3 %	0,2 %	97 350	19,7 %	33,5 %	1243,5	31,7 %	43,8 %
<b>Total</b>	<b>66 349</b>	<b>100,0 %</b>	<b>100,0 %</b>	<b>492 913</b>	<b>100,0 %</b>	<b>100,0 %</b>	<b>3919,5</b>	<b>100,0 %</b>	<b>100,0 %</b>

*These are data for 2016 provided by the Agency for Statistics of Bosnia and Herzegovina and Eurostat (Structural Business Statistics Database) and were processed by DIW Econ. 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. Entrepreneurs (natural persons) are not included in the data from 2010 to 2013, entrepreneurs (natural persons) are included in the data from 2014 to 2016. The disadvantage is that for some countries the data may be different from those published by national authorities.*

In 2016, SMEs in Bosnia and Herzegovina generated 66.3 % of total value added and 71.9 % of employment in the 'non-financial business economy'. In comparison, EU SMEs played a smaller role in the EU 'non-financial business economy', with respective shares, on average, of 56.2 % and 66.5 %. SMEs in Bosnia and Herzegovina employed more people (5.4) than was average for EU SMEs, which employed 3.9. Average SME productivity in Bosnia and Herzegovina, measured as value added per person employed, amounted to EUR 13 950, less than a third of the EU average of EUR 42 700.

Wholesale and retail trade was the sector which contributed most to SME value added in the 'non-financial business economy' of Bosnia and Herzegovina, with a share of 32.9 %, along with a share of 30.9 % in total SME employment. For EU SMEs, wholesale and retail trade was also, on average, the most

important sector, generating 22.1 % of SME value added and employing almost a quarter (24.6 %) of the total SME workforce. The manufacturing sector was the second most important sector for SMEs in Bosnia and Herzegovina, generating slightly lower shares of 26.3 % in total SME value added and 28.6 % in total SME employment.

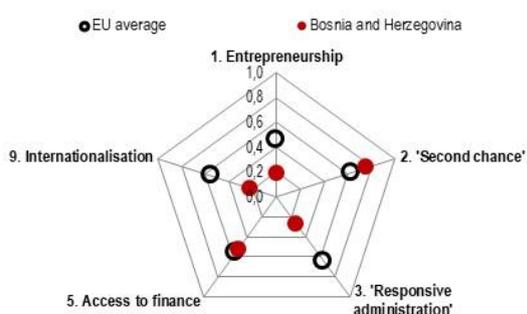
In 2014-2016, SME value added in the 'non-financial business economy' of Bosnia and Herzegovina increased by 14.4 %, twice as fast as the EU SME growth rate of 7.4 % in the same period. The main growth driver for SME value added in Bosnia and Herzegovina was manufacturing due to strong sectoral value added growth of 24.1 %. In the same period, overall SME employment rose by 6.9 %, and overall SME productivity by 7.1 %.

Most recently, in 2015-2016, the value added of SMEs in the ‘non-financial business economy’ of Bosnia and Herzegovina grew by 7.1 %, while SME employment increased by 5.3 %. This SME growth exceeded the average value added and employment increases of SMEs in the EU, which were much weaker, at 3.9 % and 2.0 %, respectively.

*Manufacturing* was also in the more recent 2015-2016 period one of the fastest growing sectors in Bosnia and Herzegovina,

with SME value added growth of 11.1 %. *Construction* also achieved two-digit annual growth of 10.1 % in SME value added in this period. However, at the same time, SME value added fell in both *information and communication* and *real estate activities*, by 5.5 % and 11.6 %, respectively. Nevertheless, this did not impact the overall value added growth of SMEs in the ‘non-financial business economy’ of Bosnia and Herzegovina, because of the small shares generated by these two sectors in total SME value added.

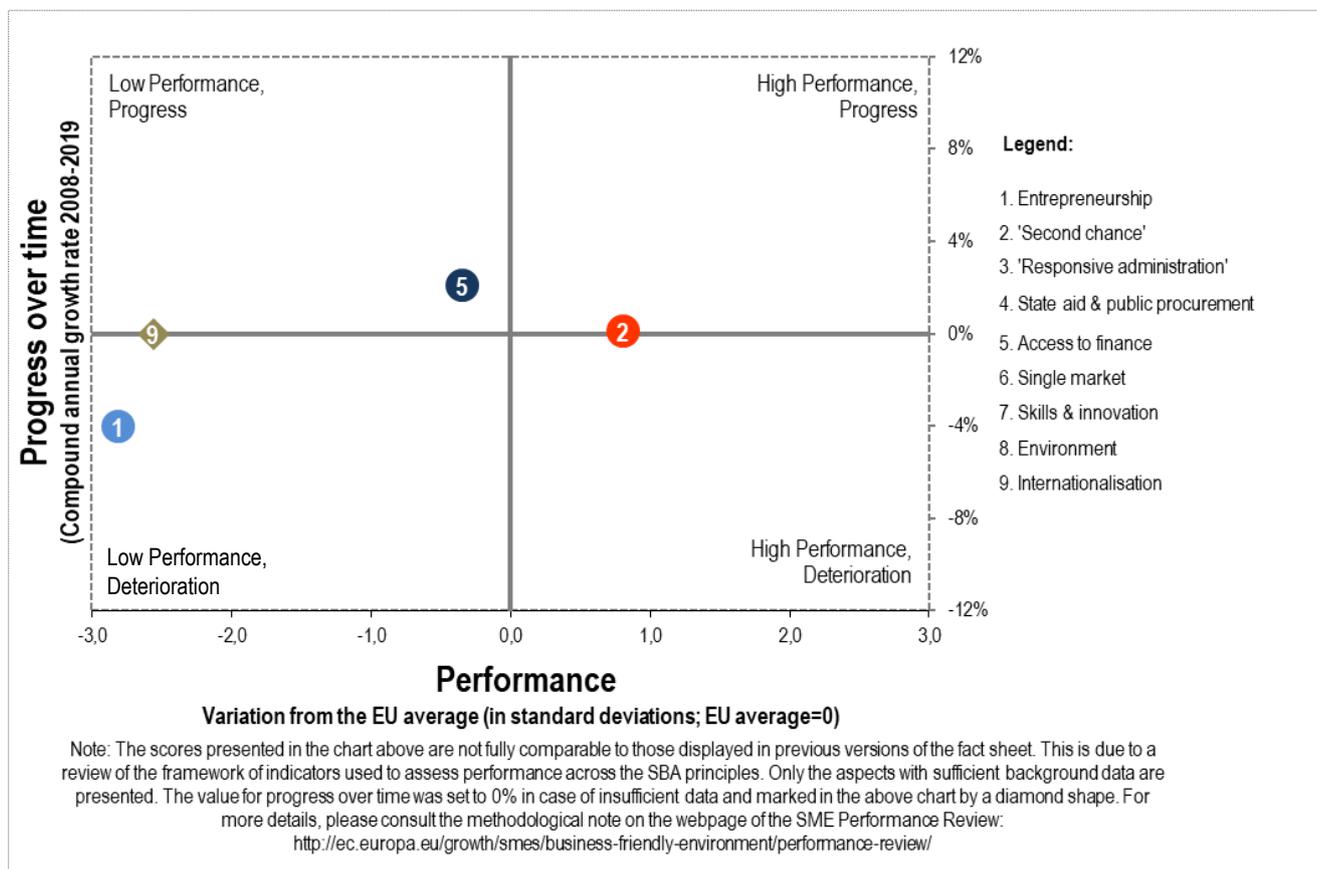
## 2. SBA profile<sup>2</sup>



The SBA profile of Bosnia and Herzegovina continues to show a mixed picture. The country performs above the EU average in ‘second chance’, while access to finance performs in line. Entrepreneurship, ‘responsive administration’ and internationalisation perform well below the EU average.

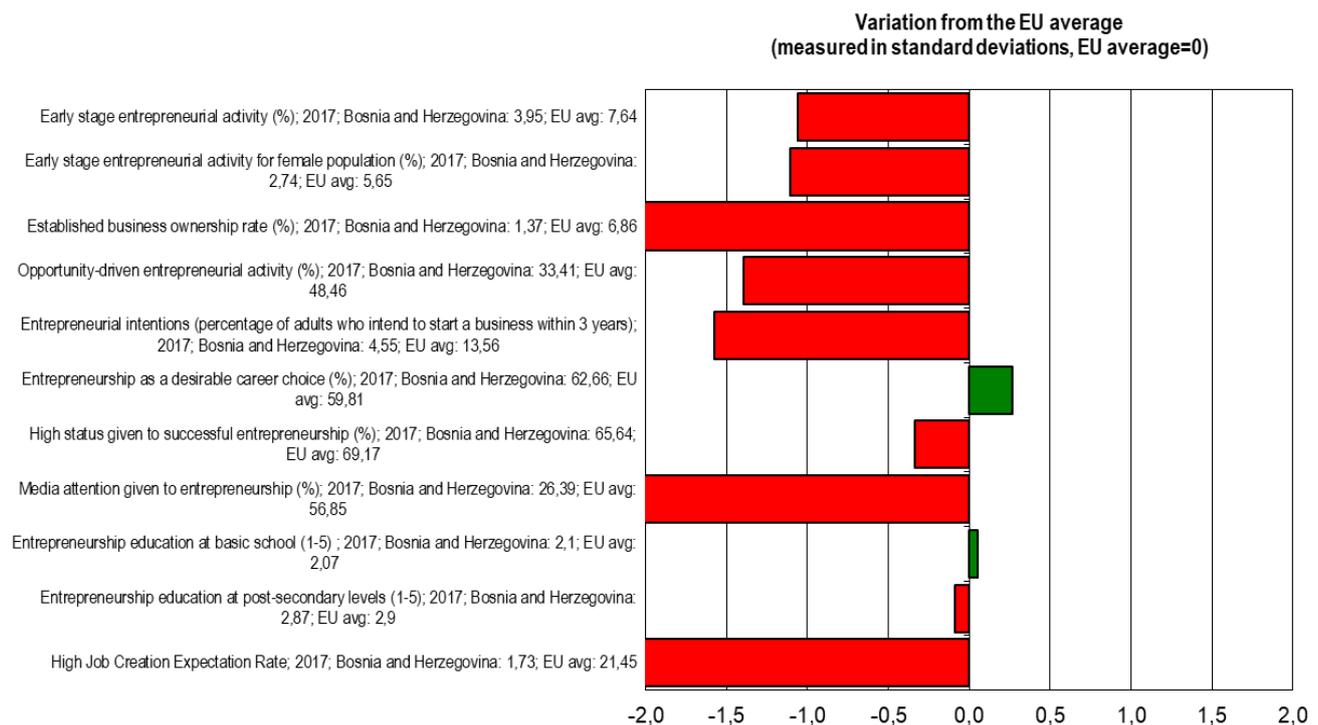
No comparable information is available for the principles state aid & public procurement, single market, skills & innovation and environment. Therefore, analysis for these principles should be interpreted with caution.

## SBA performance of Bosnia and Herzegovina: state of play and development from 2008 to 2019<sup>3</sup>



### 3. SBA principles<sup>4</sup>

#### 3.1 Entrepreneurship

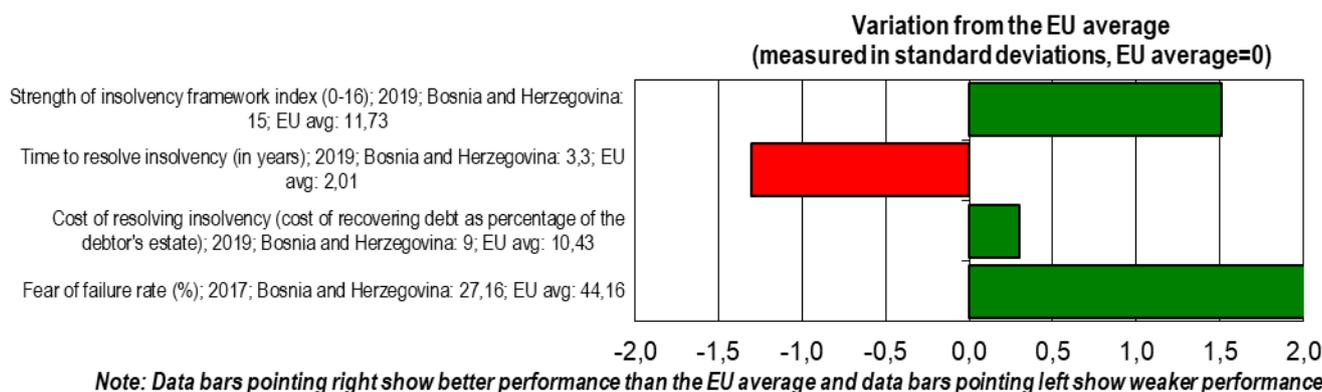


**Note:** Data bars pointing right show better performance than the EU average and data bars pointing left show weaker performance.

Bosnia and Herzegovina perform well below the EU average for entrepreneurship. The established business ownership rate, entrepreneurial intentions, media attention given to entrepreneurship and high job creation expectation rate are particularly lagging behind. Indicators performing in line with the EU average include the share of population who consider

entrepreneurship as a desirable career choice and the high status given to entrepreneurship – although both indicators are experiencing a downward trend since 2013, having dropped by 20 and 6 percentage points respectively. Entrepreneurship education at basic and post-secondary school levels is also within the EU average.

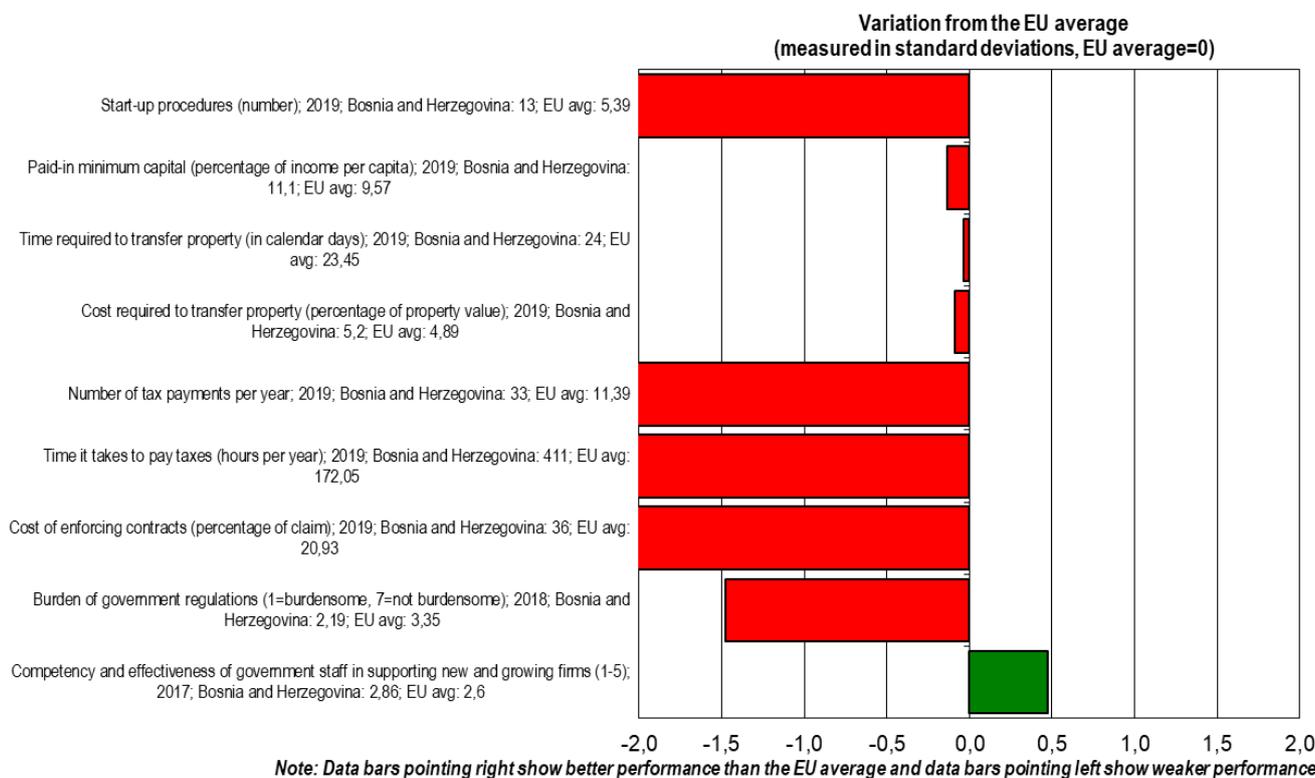
### 3.2 ‘Second chance’



‘Second chance’ refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. Bosnia and Herzegovina performs above the EU average for ‘second chance’. But the indicators present a mixed picture. The strength

of the insolvency framework and the fear of failure rate perform well above the EU average. However, the time to resolve insolvency is the most pertinent issue – performing significantly below the EU average.

### 3.3 ‘Think Small First’ and ‘Responsive administration’

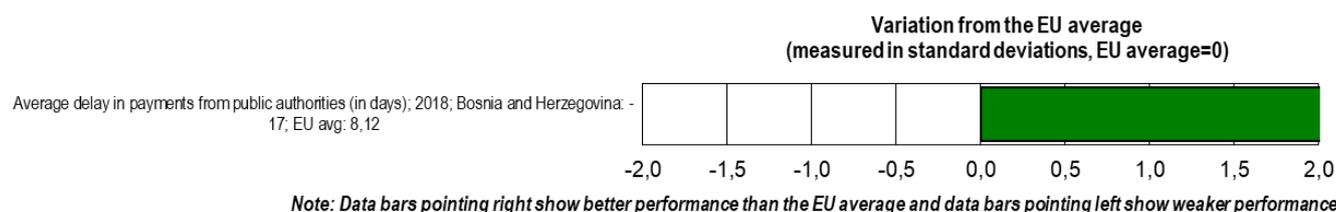


The ‘think small first’ principle is meant to be a guiding principle for all policy- and law-making activities. It requires policymakers to consider SMEs interests at the early stages of the policy-making process. The principle also calls for newly designed legislation, administrative rules and procedures to be made

simple and easy to apply. ‘Responsive administration’ refers to public administration being responsive to the needs of SMEs. Bosnia and Herzegovina performs well below the EU average. In particular, the number of start-up procedures, the time it takes to pay taxes, the number of tax payments per year and the cost

of enforcing contracts are all significantly higher than the EU average. On a positive note, the paid-in minimum capital has fallen by 17 percentage points since 2016.

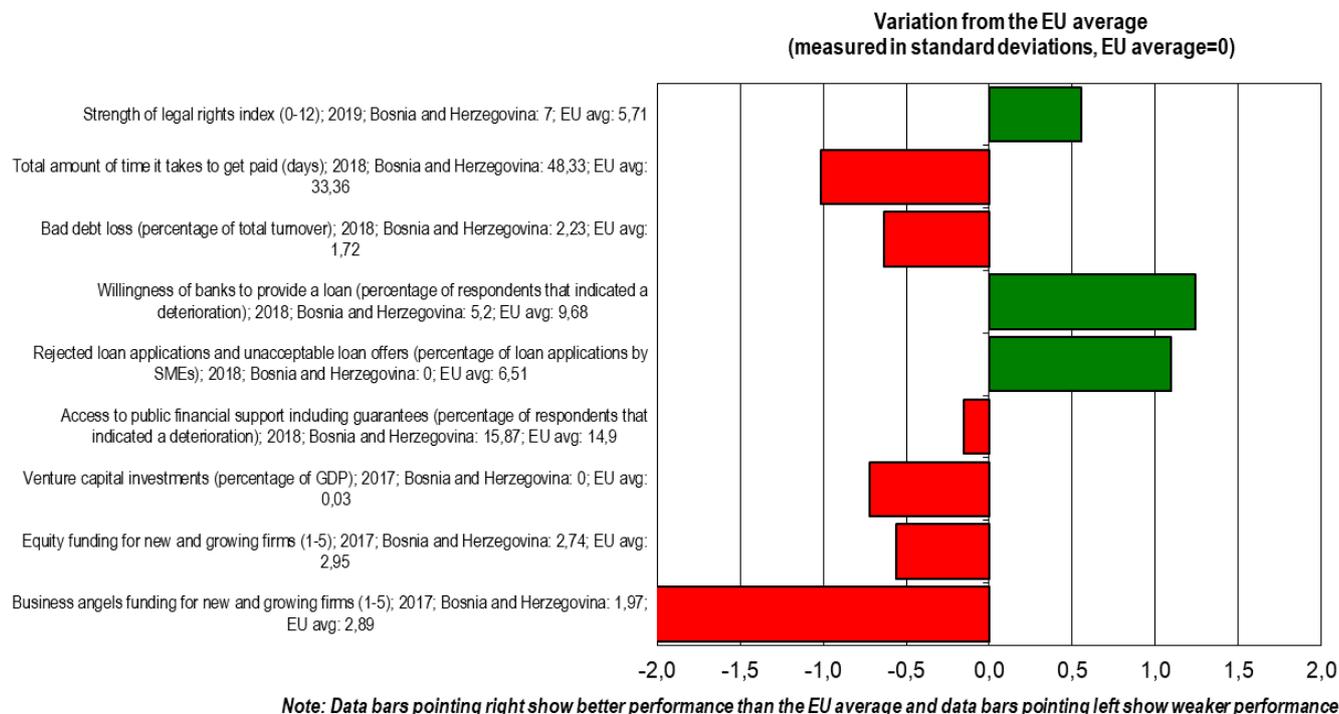
### 3.4 State aid & public procurement



The average delay in payments from public authorities is significantly less than the EU average. Regarding the rest of the indicators related to this principle, sufficient data has not been

collected. Therefore, it is not possible to draw any general conclusions on the country's performance for state aid & public procurement vis-à-vis the EU.

### 3.5 Access to finance



Bosnia and Herzegovina performs in line with the EU average in access to finance. Alternative finance is scarce, especially in the case of business angels and venture capital. However, traditional finance is more easily accessible. Rejected loan applications and unacceptable loan offers is substantially lower than the EU

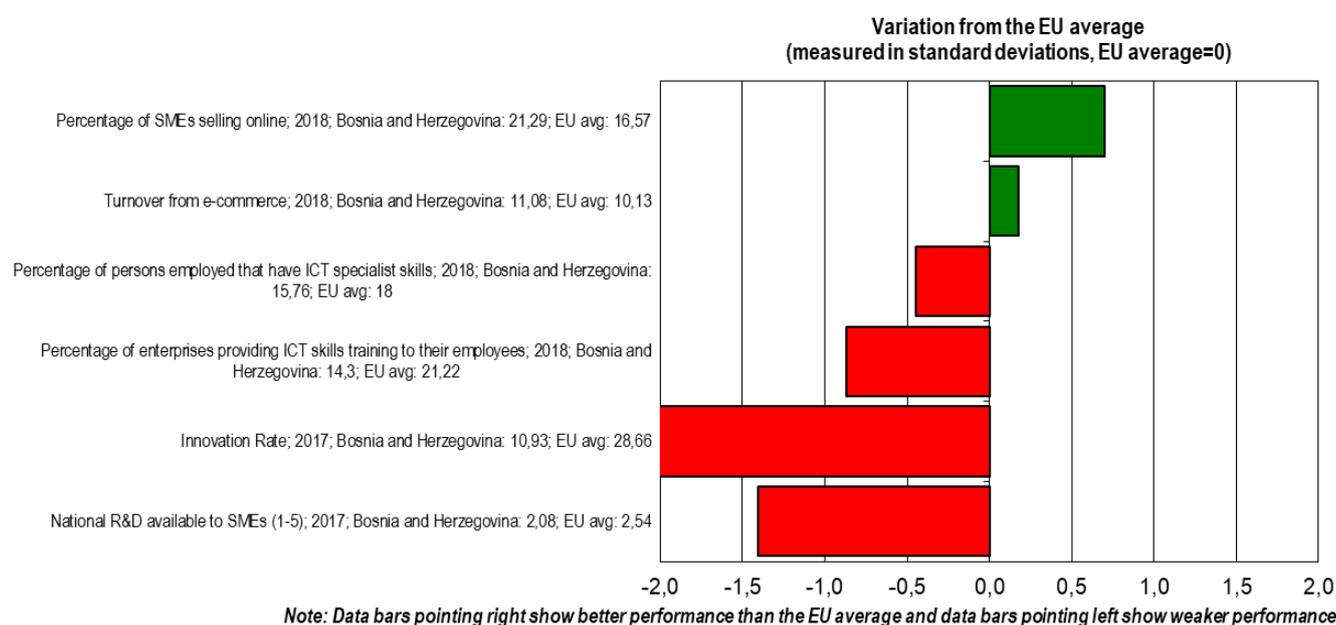
average, and banks are more willing to provide loans. But, the amount of time it takes to get paid by customers, which is 15 days higher than the EU average, is a challenge – and has increased by 10 days since 2017.

### 3.6 Single market

As Bosnia and Herzegovina is not an EU Member State, there is no relevant comparable data regarding the single market on most indicators. Market access for new and growing firms is

considered unfairly blocked by established firms. However, the data is not complete. Consequently, the overall results need to be interpreted with caution.

### 3.7 Skills & innovation



Most indicators with data available perform below or in line with the EU average. The country's best performing indicator is the share of SMEs selling online, which scores above the EU average. By contrast, the innovation rate and the national R&D available

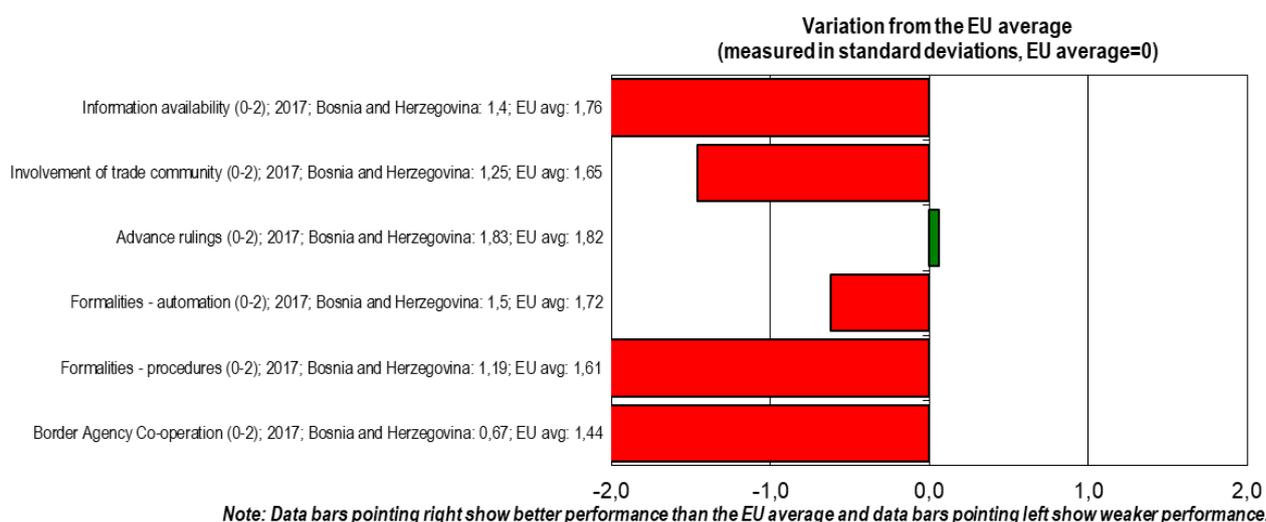
to SMEs are significantly lagging behind the EU average. However, the data is not complete. Consequently, the overall results need to be interpreted with caution.

### 3.8 Environment

There is no sufficient data for the indicators related to this principle. Therefore, it is not possible to draw any general

conclusions on the country's performance for skills & innovation vis-à-vis the EU.

### 3.9 Internationalisation



Bosnia and Herzegovina performs below the EU average in most indicators under internationalisation – especially lagging behind in terms of information availability, procedures and border agency cooperation. The country performs in line with the EU

average in advance rulings. However, the data is not complete. Consequently, the overall results need to be interpreted with caution.

## 4. Interesting initiative

Below is an example of an initiative from Bosnia and Herzegovina to show what governments can do to support SMEs.

### EU4Business

The European Union's EU4Business project, implemented since April 2018, supports SMEs competitiveness and innovation in export-oriented sectors, tourism, agriculture and rural development. The project is worth EUR 16.1 million of which the European Union provided EUR 15 million and the Federal Republic of Germany EUR 1.1 million and it is jointly implemented by GIZ, UNDP and ILO.

Overall, EUR 10 million will be available in grants for companies, development partnership and farmers through the seven calls for proposals successfully launched in 2019.

The project will also assist the development of digital entrepreneurship and start-ups, while employment of young people, women and vulnerable groups in rural areas will be targeted through inclusive entrepreneurship initiatives in agri-food sector and tourism. Some 100 new jobs are expected to be opened, while sales and income of the grant beneficiaries should increase by 10%, as a result of the EU assistance.

<https://europa.ba/?p=57186>

#### Government initiatives

At the entity level, the Federation entity is currently implementing the scholarship programme for the professions required by industry and the Republika Srpska entity has started the project "Innovation and digitalisation of SMEs in BiH" to support 200 companies to digitalise their business models and services and to raise innovation and research capacities for new technologies and ICT skills.

## Important remarks

The European Commission produces the SBA fact sheets, which combine the latest available statistical and policy information. Produced annually, they help to organise the available information to facilitate SME policy assessments and monitor SBA implementation. They take stock and record progress. They are not an assessment of national policies. Rather, they should be regarded as an additional source of information to improve evidence-based policy-making. They do not and cannot reflect all measures the government has taken over the reference period. This SBA fact sheet is not related to other SBA assessments carried out with a different methodology.

SME Performance Review:

[https://ec.europa.eu/neighbourhood-enlargement/policy/policy-highlights/sme-performance-review\\_en](https://ec.europa.eu/neighbourhood-enlargement/policy/policy-highlights/sme-performance-review_en)

Small Business Act:

[http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index\\_en.htm](http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm)

Entrepreneurship and SMEs:

<https://ec.europa.eu/growth/smes>

## Endnotes

<sup>1</sup> The two graphs below present the trend over time for the variables. They consist of index values for the years since 2008, with the base year 2008 set at a value of 100. As from 2017, the graphs show estimates of the development over time, produced by DIW Econ on the basis of 2008-2016 figures from Eurostat's Structural Business Statistics Database. 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). They do not cover enterprises in agriculture, forestry and fisheries or largely non-market service sectors such as education and health. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

<sup>2</sup> The 2019 SBA fact sheets benefited substantially from input from the European Commission's Joint Research Centre (JRC) in Ispra, Italy. The JRC made major improvements to the methodological approach, statistical work on the dataset and the visual presentation of the data.

<sup>3</sup> The quadrant chart combines two sets of information. Firstly, it shows current performance based on data for the latest available years. This information is plotted along the X-axis measured in standard deviations of the simple, non-weighted arithmetical average for the EU. Secondly, it shows progress over time, i.e. the average annual growth rates from 2008 to 2019. These are measured against the individual indicators which make up the SBA area averages. Hence, the location of a particular SBA area average in any of the four quadrants provides information not only about where the country is located in this SBA area relative to the EU average at a given point in time, but also about the extent of progress made between 2008 and 2019. All SBA principles, with the exception of the 'think small first' principle for which there is not enough statistical data available, are calculated as composite indicators following the OECD/JRC Handbook guide. A detailed methodology can be consulted at: <http://ec.europa.eu/growth/smes/business-friendly-environment/performance-review/>

<sup>4</sup> The policy measures presented in this SBA fact sheet are only a selection of the measures the government took in 2018 and the first quarter of 2019. Only those measures were selected which are expected to have the highest impact in the SBA area in question.