

# 14 Bosnia and Herzegovina: Economy Profile

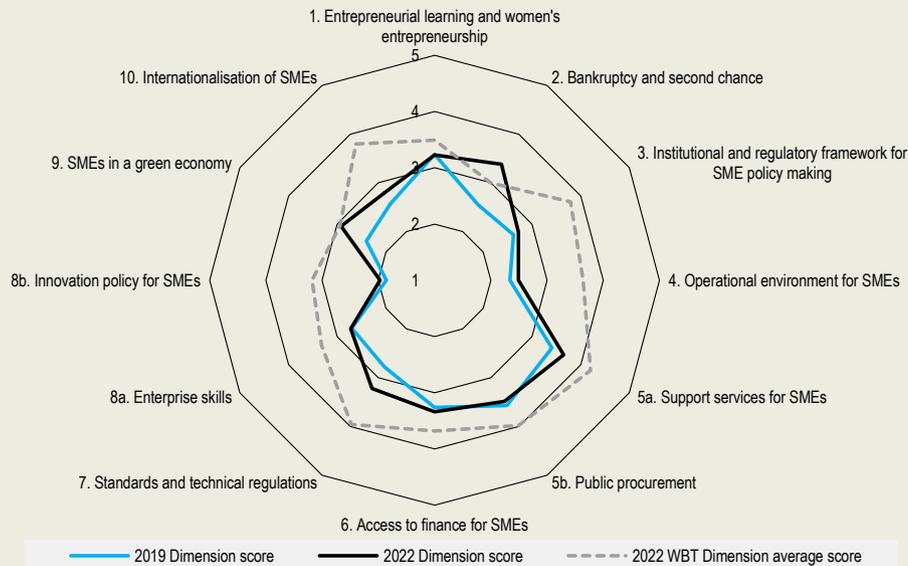
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This chapter covers the progress made by Bosnia and Herzegovina in implementing the Small Business Act (SBA) for Europe over the period 2019-21. It starts with an overview of Bosnia and Herzegovina's economic context, business environment and status of its EU accession process. It then provides key facts about small and medium-sized enterprises (SMEs) in the economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period and suggests targeted policy recommendations.

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## Key findings

Figure 14.1. Small Business Act scores for Bosnia and Herzegovina (2019 and 2022)



Note: WBT: Western Balkans and Turkey

Bosnia and Herzegovina (BiH) has made certain progress in implementing the SBA since the publication of the previous report – the *SME Policy Index: Western Balkans and Turkey 2019*. The economy has achieved its highest average scores in the following areas: bankruptcy and second chance for small and medium-sized enterprises (SMEs), support services for SMEs, standards and technical regulations and SMEs in a green economy. However, the progress has been rather incremental, and the economy still needs to step up its efforts to build an environment conducive to business across a number of areas.

### Main achievements

- **The insolvency framework has been harmonised across the entities in Bosnia and Herzegovina.** Following a series of reforms in each entity, the regulatory framework was harmonised in 2021 for the first time across the entire territory in line with the United Nations Commission on International Trade Law (UNCITRAL) Legislative Guide on Insolvency Law. The overall legal framework's main novelty is the introduction of pre-insolvency proceedings as preventive financial and operational restructuring based on an imminent insolvency threat. Overall, this important upgrade to the legislative process could be viewed as a major achievement in terms of the coherence of the insolvency framework within the economy.
- **Key developments were undertaken to optimise procedures to start a business.** While the Federation of Bosnia and Herzegovina (FBiH) has adopted the long-awaited adjustments to its administrative laws as a legal basis for establishing a one-stop-shop for company registration in 2021, Republika Srpska (RS) established a single portal and payment slip system to enable e-registration. Moreover, applicants from Bosnia and Herzegovina have access to clear information on all licences and permits through online entity-level registers and streamlining reforms are ongoing to simplify licensing procedures in Republika Srpska.
- **SMEs have access to a wide range of public business support services (BSSs).** In both entities, informational and educational workshops, trainings, tailored mentoring and advisory

services in the area of management, sales and marketing are available to SMEs, in addition to facilitated access to incubators and business accelerators. Private BSSs have received more government incentives across entities with support ranging from co-financing to providing access to a reinforced network of private-sector consultants.

- **Some progress has been made regarding access to finance.** Progress has been made in aligning regulations to EU standards, triggering harmonisation across entities, and the banking sector has weathered the economic downturn caused by the COVID-19 pandemic relatively well amid strengthened resilience prior to the pandemic. The establishment of dedicated COVID-19 sovereign credit guarantee schemes, complementing the existing public Guarantee Fund in Republika Srpska, have further helped soften the impact on lending. Legislative reforms have somewhat strengthened the framework for non-bank financial instruments, though limited data collection continues to hamper effective monitoring of non-bank financial institutions' activity.
- **The access to standardisation and accreditation services in Bosnia and Herzegovina slightly improved compared to the last assessment,** which helps to lower export barriers for SMEs whose products, processes and services need to conform with European standards and regulations. More specifically, the national standards body, the Institute for Standardisation of Bosnia and Herzegovina (ISBIH), expanded its outreach activities through additional webinars during the COVID-19 pandemic, and the number of adopted standards translated into local language also increased. Altogether, while still lagging behind most of the WBT economies in the alignment of their quality infrastructure system and regulations, Bosnia and Herzegovina has expanded the access of these services to SMEs.
- **Environmental policies targeting SMEs are gaining momentum.** Green measures targeting SMEs are included in Republika Srpska's Strategy for Development of SMEs (2021-2027) and the Development Strategy of the Federation of Bosnia and Herzegovina (2021-2027), which both include ambitious sets of measures with corresponding budgets and activities. Business associations have slowly been involved in developing and implementing green measures, as well as promoting environmental management systems. Both entities' environmental protection funds increasingly target smaller enterprises, facilitating their green access to finance, and additional financial instruments are planned under the recently adopted strategies.

### The way forward

- **Embed entrepreneurship as a key competence across all education systems.** The EU-funded Education for Employment programme offers opportunities to consider how to best develop key areas such as key competence-based curriculum, practical entrepreneurial experience and teacher competences. This can highlight the practical steps needed to improve the quality and frequency of entrepreneurial learning for learners in schools across the economy.
- **Improve and simplify the institutional and regulatory framework for SMEs.** Further efforts could be made at all levels of governance to ensure that the regulatory environment is responsive to the needs of SMEs. Both entities should introduce regular quality control of regulatory impact assessments to ensure their consistency and proper examination of potential impacts of policies on SMEs. All levels of governance could do more to ensure the quality, consistency and effective SME participation in public-private consultations.
- **Enhance digital government services for SMEs.** Digital government services throughout Bosnia and Herzegovina remain underdeveloped compared to other regional economies, and the implementation of the Strategic Framework for Public Administration Reform (2018-2022) was delayed. Disagreements and lack of alignment between the state level and the entities

regarding the legal framework for electronic signatures lead to businesses experiencing additional hurdles for its use throughout the economy.

- **Reinforce the monitoring and evaluation mechanism of support programmes for SMEs across all levels of government.** Both entities have monitoring mechanisms in place for publicly provided BSSs. However, while they both report on the implementation of their strategies and action plans using publicly available reports, systematic monitoring based on performance indicators is lacking. Moreover, there is no evidence that the results of evaluations have a direct impact on service provision.
- **Improve public procurement legislation, in particular by implementing missing provisions from the EU Public Procurement Directives,** adopt new multi-year strategic documents (and related action plans) and finalise the establishment of electronic procurement tools. The administrative burden of participating in public procurement should be reduced, in particular by simplifying provisions for economic operators to prove their compliance with exclusion and qualification (selection) criteria. Bosnia and Herzegovina also needs to introduce anti-corruption mechanisms into the public procurement legislation, in particular regarding conflicts of interest, and reduce the frequency of application of non-transparent and non-competitive procurement procedures (direct award procedures).
- **Develop a state-wide quality infrastructure strategy or roadmap to improve inter-institutional co-operation and reduce inter-regional differences in the alignment with European legislation and standards.** As the responsibilities of the implementation of technical regulation, accreditation and standardisation are mainly devolved to the entities in Bosnia and Herzegovina, companies in different parts of the economy may be subject to different laws and may be dealing with different quality infrastructure bodies. A strategy that clarifies central and local responsibilities in quality infrastructure and plans activities to align practices within Bosnia and Herzegovina would be an important step to further improve its quality infrastructure system and its accessibility for SMEs.
- **Increase the scale of financial incentives to foster innovation.** To ensure the success of the SME innovation action plans, a sufficient budget should be allocated to design meaningful and co-ordinated financial support schemes. These schemes should be designed in consultation with the private sector and build on lessons learnt from existing initiatives funded by international development co-operation partners and should include regular monitoring and evaluation practices. Funding needs and sources should also be identified when preparing the Smart Specialisation Strategy.
- **Develop a legal framework for the adoption and promotion of e-commerce.** Bosnia and Herzegovina does not have a legal framework governing e-commerce across all three levels of government. Without a well-developed legal framework and incentives for SMEs to increase e-commerce uptake and build capacity in this area, Bosnia and Herzegovina faces lagging behind in their efforts on digitalisation. Having a dedicated institution governing e-commerce legislation and support programmes would greatly facilitate the adoption of the digital sales channel for SMEs, further developing their capacity and streamlining their operations.

## Economic context and role of SMEs

### **Economic overview**

Bosnia and Herzegovina is a small upper-middle-income economy with a population of roughly 3.28 million as of 2021. Its gross domestic product (GDP) purchasing parity power in current USD stood at 15 623 in 2020, having shrunk by only USD 105 since 2019, despite the challenges posed by the COVID-19 pandemic (World Bank, 2022<sup>[1]</sup>). While Bosnia and Herzegovina's production and export base is diverse in comparison to the region, services continue to account for the largest share of the economy, contributing 55.7% to GDP and 50.3% of employment, while industry accounts for 23.9% of GDP and 31.7% of employment. Bosnia's main services sector is trade, followed by business services, transport and construction and, albeit being hampered by the COVID-19 pandemic (Box 14.1), a growing tourism sector for which overnight stays increased by 78% in the first 11 months of 2021 compared to the previous year. Production of raw materials such as steel, coal, iron ore, lead, zinc and aluminium, as well as wood, is the economy's highest portion of industry and industrial exports. While agriculture represents only 6.2% of GDP, the economy's 1.6 million hectares of arable land accounts for the highest contributions to employment in the region at 18%, showing the potential of the labour reallocation from the agricultural sector as a way to boost productivity gains in the economy.

Economic growth in Bosnia and Herzegovina has diversified over the last decade, with export as a share of GDP growing to 44.1% in 2021 due to growth in machinery and power exports, as well as higher service exports, including construction and tourism (Table 14.1). Increases in exports along with surges in private consumption, which stood at 76% in 2019, and public consumption, representing 19.5% in 2019, have led to steady improvements in the current account deficit, decreasing from 9% of GDP in 2011 to 2.8% in 2019, increasing by only 1% in 2020 in light of the pandemic and further decreasing in 2021 (Table 14.1). Bosnia and Herzegovina witnessed one of the lowest contractions of GDP in the Western Balkans and Turkey (WBT) region, after Turkey and Serbia, at only -3.2% for 2020 (Table 14.1). The economy rebounded with a 7.1% GDP growth in 2021, raised from an expected 3.4% growth earlier in the year, fuelled by increased exports and household consumption, and is expected to increase between 3.3% and 3.9% in 2022 and another 3% in 2023, depending on political stability in the coming years (IMF, 2022<sup>[2]</sup>; European Commission, 2022<sup>[3]</sup>; EBRD, 2021<sup>[4]</sup>). Real sector recovery was also driven by rising investments, which increased by 16.2% year on year, while private consumption increased by 3.9%, contributing 3.8% and 2.4% to overall growth, respectively.

Bosnia and Herzegovina has slowly been increasing infrastructure projects aimed at green priorities. Notably, transitioning away from coal has started, but concerns remain about environmental sustainability. One of the three public-owned power utilities in the economy has agreed with the miners' union on a restructuring plan, but there are concerns regarding Bosnia and Herzegovina's compliance with Energy Community *acquis* regarding environmental standards.<sup>1</sup> Although public spending on infrastructural improvements has contributed to growing public debt, the deficit remains the third lowest in the region. While public investment in the economy is relatively high, the contribution of private investment to GDP has been stagnant at below 20% over the last decade and remains the lowest recipient of foreign direct investment (FDI) in the region, accounting for 2% of GDP between 2015 and 2019. The largest share of FDI inflows went into the non-tradable sector, including financial services, wholesale and retail trade, energy, and real estate, while export-oriented FDI went mainly to raw materials with limited value added.

Monetary and fiscal developments in the economy saw stable post-pandemic outcomes, with a slight 2% increase in inflation for 2021 and a decline in non-performing loans and an increase in bank deposits at 5.7% and 10.1%, respectively, in 2021. Tax revenues were also a part of Bosnia and Herzegovina's post-pandemic recovery, recording a collection of indirect taxes 21.5% higher in 2021 than the previous year, primarily due to value-added tax (VAT) revenues. Like all WBT economies, with the exception of Turkey, Bosnia and Herzegovina's general government balance decreased as a result of the pandemic but remained the second-highest in the region at -5.3% of GDP in 2020, albeit having declined by 7 percentage

points from 2.2% of GDP in 2019. The economy also holds the second-lowest public debt ratio in the region at 35.5% of GDP in 2021, decreasing from 36.6% in 2020 but increasing slightly in Q4 2021 due to an increase in long-term foreign debt. Although the annual consumer price index in Bosnia and Herzegovina saw a decrease of 1.1% in 2020, consumer prices increased by 2.4% year on year in Q3 of 2021, 5.3% in Q4 2021, to 7% and 8.1% in January and February 2022 respectively, due to higher costs for transport and rising prices for food and non-alcoholic beverages.

**Table 14.1. Bosnia and Herzegovina: Main macroeconomic indicators (2016-21)**

Indicator	Unit of measurement	2016	2017	2018	2019	2020	2021
GDP growth <sup>1</sup>	% year-on-year	3.4	3.0	3.3	2.8	-3.2	7.1
National GDP <sup>2</sup>	EUR billion	15	16	17.9	17.9	17.7	
GDP per capita growth <sup>2</sup>	% year-on-year	4.5	4.2	4.6	3.5	-2.6	..
Inflation <sup>1</sup>	% average	-1.1	1.3	1.4	0.6	-1.1	2.0
Government balance <sup>1</sup>	% of GDP	1.2	2.5	2.1	1.9	-5.3	..
Current account balance <sup>1</sup>	% of GDP	-4.8	-4.8	-3.3	-2.8	-3.8	-2.1
Exchange rate BAM/EUR <sup>1</sup>	Value	1.96	1.96	1.96	1.96	1.96	1.96
Exports of goods and services <sup>1</sup>	% of GDP	35	40.9	42.6	40.6	34.5	44.1
Imports of goods and services <sup>1</sup>	% of GDP	51	57.1	57.3	55.2	48.5	56.4
Net FDI <sup>1</sup>	% of GDP	1.8	2.3	2.9	1.5	1.7	2.1
External debt stocks <sup>2</sup>	% of gross national income (GNI)	68.7	72.7	66.1	65.5	72.1	
International reserves of the National Bank <sup>1</sup>	EUR million	4 884	5 398	5 943	6 441	7 091	8 359
Gross international reserves <sup>1</sup>	Ratio of 12 months imports of goods and services moving average	7.2	7.1	7.3	7.8	10	9.3
Unemployment <sup>1</sup>	% of total active population	25.4	20.5	18.4	15.7	15.9	17.4

Sources: 1. European Commission (2022<sup>[5]</sup>); 2. World Bank (2022<sup>[6]</sup>).

Unemployment in Bosnia and Herzegovina has been steadily decreasing since 2015, with particular improvements in the manufacturing, tourism and trade sectors, but remains significant at 17.4% in 2021. The COVID-19 pandemic exacerbated labour market challenges by aggravating already high proportions of informality, with the International Labour Organisation (ILO) estimates putting the informal sector at 30.5% of total employment, as well as low employment of youth, women and low skilled workers (ILO, 2019<sup>[7]</sup>). Despite efforts to raise the region's consistently low rates of labour force participation, youth unemployment rose to 37.7% in 2021, up 5.4 percentage points from June 2020, significantly higher than the EU average of 16.8% and further worsening youth employment prospects (European Commission, 2022<sup>[3]</sup>; Eurostat, 2021<sup>[8]</sup>). Meanwhile, the ILO Labour Force Survey indicated that the youth unemployment rate of those ages 15-24 stood at 37.8% in Q3, compared to 34.5% the previous year and remains significantly higher than the EU average of 16.8% (Eurostat, 2021<sup>[8]</sup>). Addressing bottlenecks causing persistent long-term unemployment, such as enhancing formal labour market participation, especially for women, and reducing skills mismatches for youth, will be a key part of longstanding institutional reforms. Moreover, Bosnia and Herzegovina will need to address its high emigration rate (at 20%, it is the third highest of the Western Balkans Six economies for emigration to OECD countries), which leads to deficiencies of human capital in the labour market.

### Box 14.1. COVID-19 in Bosnia and Herzegovina

Bosnia and Herzegovina was adversely affected by the COVID-19 pandemic and the lockdown measures taken in response to it. GDP contracted by 3.2% in 2020, and while this contraction was less severe than in other regional economies, such as Montenegro, for instance, due to its high reliance on tourism, it has still produced negative economic consequences and necessitated policy responses from all levels of government.

As part of its recovery, Bosnia and Herzegovina provided several economic support packages to mitigate the impact of COVID-19, the first having been launched in March 2020 with the last having been presented in April 2021. The sum of the combined economic support packages totalled approximately EUR 65 million with specific provisions at both the state and entity levels:

- **Subsidies:** With the aim to provide assistance for workers and businesses during the pandemic, both entities provided subsidy contributions. Businesses in the Federation of Bosnia and Herzegovina were entitled to subsidies in the amount of BAM 245 (approximately EUR 120) per person until one month after the state of emergency was abolished. In Republika Srpska, approximately EUR 29 million was allocated to cover minimal salary, contributions and taxes through the Compensation Fund, which sources funds through voluntary contributions, the RS budget and tax revenues under special laws and donations. On 7 April 2020, the Federation of Bosnia and Herzegovina also announced the allocation of a total of BAM 7 million (~EUR 3.5 million) to the Federal Civil Protection Administration and the Federal Civil Protection Headquarters. The Federation of Bosnia and Herzegovina allocated around EUR 50 million to support the tourism and catering sectors, purchase and export of market surpluses, and support for the export-oriented agricultural production, measures in the field of road, railway and air transport, support to companies in the field of energy, mining and industry for maintaining current liquidity, working capital and completion of investments started before the pandemic, and support to the health sector.
- **Tax measures:** The obligation to make advanced payments on corporate income tax for businesses and self-employers was abolished during the pandemic, while lease amounts were decreased by 50% for business premises managed by the FBiH Office of Joint Affairs. Corporate income tax liabilities in Republika Srpska were postponed until June 2020. All borrowers from the Republika Srpska Investment-Development Bank (IRBRS) were granted three-month repayment moratoriums, and deadlines for filing tax returns and salary specifications were extended to June 2020 in both entities. In Republika Srpska, the taxes were covered by the government for those subjects who were the most affected by the crisis (merchants, caterers and small entrepreneurs).
- **Loans:** The RS Ministry of Agriculture has also allocated BAM 2.2 million (~EUR 1.1 million) in loans to encourage agricultural output for small producers. Support for the tourism sector was also announced by Republika Srpska. Starting from 15 June 2020, citizens benefited from a BAM 100 (around EUR 50) voucher that can be used to co-finance accommodation costs at any destination in Republika Srpska, provided that the stay lasts a minimum of three nights. All borrowers from the IRBRS are granted a three-month repayment moratorium.
- **Credit lines:** The FBiH Development Bank established a Guarantee Fund with total reserves of around EUR 50 million. In June 2020, released the first injection of funds under the Programme of Economic Stabilisation of the Federation of Bosnia and Herzegovina (2020-2021) of around EUR 50 million to provide guarantees to commercial banks for loans destined to companies whose activities are characterised as those in the strategic development sectors. Republika Srpska announced the establishment of the Fund for Economy Aid, which became

operational in May 2020. Namely, together with the European Bank for Reconstruction and Development and the Guarantee Fund of Republika Srpska, BAM 50 million (~EUR 25 million) was provided as a guarantee for loans (ranging from BAM 5 000 or around EUR 2 500 to BAM 500 000 or around EUR 250 000), which business entities will be able to obtain through commercial banks. In June 2020, the Minister of Finance of Republika Srpska held a meeting with the representatives from the banking sector and micro-credit institutions, during which the Guarantee Programme to support the economic recovery and its Guarantee Fund were presented.

Although numerous short-term economic support measures helped mitigate immediate economic damage, structural issues primarily with regard to the public health sector, employment, social protection and private-sector support were exacerbated by the pandemic and remain in need of reforms.

Sources: OECD (2021<sup>[9]</sup>; 2021<sup>[10]</sup>); European Commission (2021<sup>[11]</sup>).

### **Business environment trends**

Bosnia and Herzegovina has made strong progress in improving the framework for bankruptcy proceedings by aligning and strengthening the regulatory framework throughout its entire territory, ensuring that firms may exit the market more efficiently and with less risk for creditors and debtors. Efforts to harmonise banking regulations with the EU *acquis* at the level of both entities have been recognised by the European Commission. Some progress was also seen regarding business registration procedures. The Register of Business Entities and Natural Persons and the Federation of Bosnia and Herzegovina's clearing system have been upgraded since the last assessment, further aligning the business environment with EU standards. Republika Srpska also finalised the fourth phase of its e-registration project in May 2021, reducing the time and costs of business procedures by opening digital registration options (Directorate for Economic Planning, 2021<sup>[12]</sup>). Meanwhile, although the informal labour market remains significant, some progress was made in improving the degree of registration in the workforce through better labour market controls. The economy also made some efforts at the entity level to proceed with the implementation of electronic registrations of businesses and to facilitate foreign investment, continuing to be one of the most open economies for investment according to the OECD FDI Regulatory Restrictiveness Index. Its score remained 0.037 in 2020, significantly lower than the OECD average of 0.063, indicating that the economy has low barriers to trade and maintains only a handful of restrictions, notably in the media, radio and broadcasting sectors (OECD, 2020<sup>[13]</sup>).

Despite these achievements, Bosnia and Herzegovina's business environment still has several key impediments and obstacles to business development which are acknowledged in the economy's latest Economic Reform Programme (ERP) (Box 14.2). Overall, the economy's business environment continues to be hampered by numerous and lengthy regulatory procedures, political discord, a lack of co-operation and diverging rules between entities, complicating the operation of companies. Businesses are required to navigate through multiple registration processes, increasing the costs of establishing a company and protecting incumbent companies from competition. The economy's judicial branch remains a difficult barrier for businesses to function, particularly weak contract enforcement, problematic commercial dispute settlement, a large court case backlog, complicated real estate procedures and unreliable property rights.

Furthermore, corruption remains a hurdle for businesses across the WBT region, and Bosnia and Herzegovina has made little progress in its anti-corruption efforts. The poor functioning of the judicial system undermines a fair business environment, particularly when it comes to selective and non-transparent prosecution and judicial follow-up of corruption cases which negatively affects business operators and investors (European Commission, 2021<sup>[14]</sup>). Consequently, Bosnia and Herzegovina's score in Transparency International's Corruption Perception Index has continuously deteriorated since 2013,

decreasing from a score of 42 to 35 (out of a possible 100) in 2021. As of the same year, it remains in 110<sup>th</sup> place out of a total of 180 ranked economies, the lowest in the WBT region along with Albania (Transparency International, 2022<sup>[15]</sup>).

### Box 14.2. Economic Reform Programmes

Since 2015, EU accession candidates have been obliged to produce annual ERPs that outline clear policy reform objectives and policies necessary for participation in the economic policy co-ordination procedures of the European Union. The ERPs aim to produce concrete reforms that foster medium and long-term economic growth, achieve macroeconomic and fiscal stability and boost economic competitiveness. Since their initial launch, ERP agendas have been required to include structural reform objectives in key fundamental areas:

- public finance management
- energy and transport markets
- sectoral development
- business environment and reduction of the informal economy
- trade-related reform
- education and skills
- employment and labour markets
- social inclusion, poverty reduction and equal opportunities

In addition to these essential fields, and as the objectives of EU policies continue to evolve to include cross-cutting sustainable sectors, the structural reform agendas of ERPs have embraced new commitments to progressive policy reforms since the last assessment that also cover:

- green transition
- digital transformation
- research, development and innovation
- economic integration reforms
- agriculture, industry and services
- healthcare systems.

Once submitted by the governments, ERP programmes are assessed by the European Commission and European Central Bank, opening the door for a multilateral policy dialogue with enlargement candidates to gauge their progress and priority areas on their path to accession. Discussions and assistance on policy reforms take place through a high-level meeting between member states, EU institutions and enlargement economies, through which participants adopt joint conclusions that include economy-specific guidance for policy reform agendas.

The findings of the *SME Policy Index 2022* provide an extensive technical understanding of the progress made on business sector-related policy reforms that are key to the ERPs of the EU accession candidates at both the regional and economy-specific levels. The SBA delves into the specific barriers to progress in ten policy areas that are essential to applying the larger objectives of the ERP programmes like boosting competitiveness and economic growth to SMEs in the region.

Source: European Commission (2021<sup>[11]</sup>).

## ***EU accession process***

Five years after the recognition of Bosnia and Herzegovina as a potential candidate for EU membership at the Thessaloniki European Council Summit in 2003, the economy signed its Stabilisation and Association Agreement (SAA) with the European Union in 2008, which entered into force in 2015, establishing a free trade area and closer political dialogue with the European Union. Shortly afterwards, Bosnia and Herzegovina became the last WBT economy to have applied for EU accession, having been granted potential candidacy status in 2016 (OECD, 2021<sup>[9]</sup>). After the self-assessment questionnaire, provided to all potential EU accession candidates, was sent to Bosnia and Herzegovina, the economy returned the finalised answers to the European Commission in 2018. The European Commission Opinion of May 2019 established 14 key priorities in the areas of democracy, institutional functionality, the rule of law, fundamental rights and public administration reform that Bosnia and Herzegovina needs to implement in order for the Commission to recommend the opening of EU accession negotiations (European Commission, 2019<sup>[16]</sup>). Bosnia and Herzegovina has made some recent progress in the 14 key priorities, namely by holding municipal elections in Mostar in 2020, holding the Stabilisation and Association Parliamentary Committee in 2021 and starting discussions on constitutional and electoral reforms and public administration reform (European Commission, 2021<sup>[14]</sup>).

While chapters on EU accession are not open for the economy as the negotiation procedures have not yet commenced, the status of Bosnia and Herzegovina's implementation of each criterion is still assessed on an annual basis. However, the economy remains in the early stages for 14 of 33 assessed *acquis* chapters, with no progress on preparations having been made since the 2020 EC report. Positively, between the 2019 and 2020 reports, the economy did advance to "some level of preparation" in the areas of social policy and employment and transport policy while moving forward to 'moderately prepared' in the area of financial services (European Commission, 2021<sup>[14]</sup>).

According to the European Commission's 2021 enlargement report for Bosnia and Herzegovina, the economy remains at an early stage of preparation on enterprise and industrial policies that help encourage a hospitable environment for SMEs. Since the last enlargement report, Bosnia and Herzegovina has only made limited progress in aligning its industrial policy with that of the European Union. Although the Federation of Bosnia and Herzegovina, Republika Srpska and the Brcko District have each adopted new industrial development strategies for the period 2021-27, the economy continues to lack coherence between development strategies as well as a state-level monitoring body to promote consistency among policies that concern industrial competitiveness (European Commission, 2021<sup>[14]</sup>). In this regard, Bosnia and Herzegovina should concentrate on:

- simplifying and harmonising business registration in both entities in order to reduce the administrative burden on entrepreneurs by centralising company registration and licensing under one-stop-shops and by broadening online registration
- updating the industrial policy strategies and action plans at various levels of government, ensuring co-ordination and involvement of industrial enterprises in policy formulation and implementation
- assessing the needs of businesses, particularly SMEs, when it comes to modernising skills and adopting strategic guidelines for harmonisation of SMEs and entrepreneurship support.

Further progress towards opening negotiations will strongly depend on the political commitment of authorities at all levels to co-operate on implementing harmonised policies toward European integration, which continues to be hampered by unconstructive internal political disputes (European Commission, 2021<sup>[14]</sup>). Meanwhile, Bosnia and Herzegovina will be unable to open accession negotiations until the 14 key priorities are implemented. The findings and recommendations published in the *SME Policy Index 2022* can help provide the monitoring and guidance needed for Bosnia and Herzegovina to meet the requirements related to the harmonisation of enterprise and industrial policy with the *acquis*.

### *EU financial support*

The European Union remains the largest provider of financial assistance to Bosnia and Herzegovina, helping the economy realise its reform processes and endeavours that bring it closer to the *acquis*. The European Union's financial support to the economy and the region has been provided through both temporary support such as COVID-19 assistance packages as well as long-term investment programmes and funds through the Instrument for Pre-accession Assistance (IPA), European Investment Bank loans, Western Balkans Investment Framework grants and more.

In addition to a total of EUR 1.9 billion provided to Bosnia and Herzegovina by the European Union between 2007 and 2020 under the Instrument for Pre-accession Assistance I and II, the European Union is providing additional financing to Bosnia and Herzegovina as part of EUR 14.2 billion allocated to the Western Balkans Six economies under IPA III for the period 2021-27 to upgrade environmental management systems, improve transport systems by promoting environmentally friendly transport modes, and provide technical assistance for the management, monitoring, evaluation, information and control of IPA-related activities (European Commission, 2021<sup>[17]</sup>).

In 2020, the European Union pledged EUR 9 billion for the Western Balkans as part of a new economic and investment plan to support sustainable connectivity, human capital, competitiveness and inclusive growth, and the twin green and digital transition. One of the most ambitious projects remains the Bosnian section of Corridor Vc, supported by the European Investment Bank with over EUR 1 billion in financing to date. This important Pan-European Corridor will link Bosnia and Herzegovina with Hungary, eastern Croatia and the Adriatic Sea, as well as shortening the commutes of 1.5 million people. In addition, the economic and investment plan foresees investments into a Trans-Balkan Electricity Transmission Corridor that will provide electricity transmission to Bosnia and Herzegovina, and a gas interconnection with Croatia will facilitate energy supply diversification. Local SMEs will also be able to benefit from the scheme's increased funding to the Western Balkans Guarantee Facility (European Commission, 2020<sup>[18]</sup>). The European Investment Fund has also played a key role in financing the business landscape in Bosnia and Herzegovina, having invested EUR 860 million to support businesses since the start of its operations, sustaining around 100 000 jobs (EIB, 2022<sup>[19]</sup>).

The European Union has played a key role in financially supporting Bosnia and Herzegovina in the wake of COVID-19. The European Commission allocated EUR 250 million of its EUR 3 billion Macro-Financial Assistance (MFA) package for enlargement and neighbourhood partners that aims to help them limit the economic fallout of the COVID-19 pandemic. Bosnia and Herzegovina received the first MFA payment of EUR 125 million in October 2021, upon signing of a memorandum of understanding outlining measures to improve economic governance, financial sector stability, transparency, better functioning of the labour market and the fight against corruption. The disbursement of the second payment will be conditional on the implementation of these reforms (European Commission, 2021<sup>[20]</sup>). The economy has also been the recipient of EUR 330 million of the European Union's Team Europe EUR 3.3 billion COVID-19 support to the region (European Commission, 2021<sup>[21]</sup>).

Bosnia and Herzegovina joined the European Union's Competitiveness of Enterprises and Small and Medium-Sized Enterprises Programme (COSME) in 2016, under which it benefits from support for entrepreneurship and entrepreneurial culture, access to finance for SMEs and access to markets (European Commission, 2021<sup>[22]</sup>). Bosnia and Herzegovina is part of the Horizon 2020 programme, allowing it access to the programme's budget of nearly EUR 80 billion to help develop projects and technologies and conduct research and activities that will contribute to tackling global challenges. Its participation in the SMEs portion of Horizon 2020 has been rather low (European Commission, 2021<sup>[23]</sup>). In 2022, the economy signed an additional Association Agreement to the Horizon Europe programme, promoting closer research and innovation co-operation with the European Union.

### SMEs in the domestic economy

The classification of SMEs in Bosnia and Herzegovina varies throughout the economy, with each entity providing its own definition under two pieces of legislation. Both entities define SMEs under the Law on Accounting and Auditing, which defines enterprises by the number of employees for purposes of accounting and financial reporting, in addition to the Law on Fostering Small Business Development in the Federation of Bosnia and Herzegovina (Table 14.2) and the Law on SME Development in Republika Srpska (Table 14.3). The categories conform to the EU standard definition of SMEs by employee size, with the exception of microenterprises under the Law on Accounting and Auditing in the Federation of Bosnia and Herzegovina, Republika Srpska and the Brcko District, but diverge on the other criteria concerning annual income and assets.

In October 2019, Republika Srpska amended its Law on SME Development by substantially increasing the turnover and balance sheet thresholds. The thresholds increased from a maximum BAM 1 million turnover and BAM 2 million balance sheet total for small enterprises to a common threshold of BAM 19.55 million. For medium enterprises, the threshold was raised from a maximum of BAM 4 million to BAM 97.79 million for turnover and from BAM 8 million to BAM 84 million for balance sheet total (Table 14.2).

**Table 14.2. Definition of micro, small and medium-sized enterprises in the Federation of Bosnia and Herzegovina**

	EU definition	Law on Accounting and Auditing	Law on Fostering Small Business Development
<b>Micro</b>	< 10 employees = EUR 2 million turnover or balance sheet	No definition in place	< 10 employees ≤ BAM 400 000 (~EUR 204 000) turnover and/or balance sheet
<b>Small</b>	< 50 employees = EUR 10 million turnover or balance sheet	< 50 employees < BAM 1 million (~EUR 0.51 million) circulating assets < BAM 2 million (~EUR 1.02 million) turnover	< 50 employees ≤ BAM 4 million (~EUR 2.04 million) turnover and/or balance sheet
<b>Medium-sized</b>	< 250 employees = EUR 50 million turnover = EUR 43 million balance sheet	< 250 employees < BAM 4 million (~EUR 2.04 million) circulating assets < BAM 8 million (~EUR 4.08 million) turnover	< 250 employees ≤ BAM 40 million (~EUR 20.41 million) turnover and/or ≤ BAM 30 million (~EUR 15.30 million) balance sheet

Note: BAM: Bosnia and Herzegovina convertible mark; exchange rate as of December 2021.  
Sources: FBiH (2009<sup>[24]</sup>; 2006<sup>[25]</sup>).

**Table 14.3. Definition of micro, small and medium-sized enterprises in Republika Srpska**

	EU definition	Law on Accounting and Auditing	Law on SME Development
<b>Micro</b>	< 10 employees = EUR 2 million turnover or balance sheet	< 5 employees < BAM 250 000 (~EUR 128 000) balance sheet < BAM 500 000 (~EUR 255 000) turnover	< 10 employees
<b>Small</b>	< 50 employees = EUR 10 million turnover or balance sheet	< 50 employees < BAM 1 million (~EUR 0.51 million) balance sheet < BAM 2 million (~EUR 1.02 million) turnover	< 50 employees < BAM 19.55 million (~EUR 9.95 million) turnover or balance sheet
<b>Medium-sized</b>	< 250 employees = EUR 50 million turnover = EUR 43 million balance sheet	< 250 employees < BAM 4 million (~EUR 2.04 million) balance sheet < BAM 8 million (~EUR 4.08 million) turnover	< 250 employees ≤ BAM 97.79 million (~EUR 49.73 million) turnover and/or

	EU definition	Law on Accounting and Auditing	Law on SME Development
			≤ BAM 84 million (~EUR 42.71 million) balance sheet

Note: BAM: Bosnia and Herzegovina convertible mark; exchange rate as of December 2021.  
Sources: RS (2019<sup>[26]</sup>; 2020<sup>[27]</sup>).

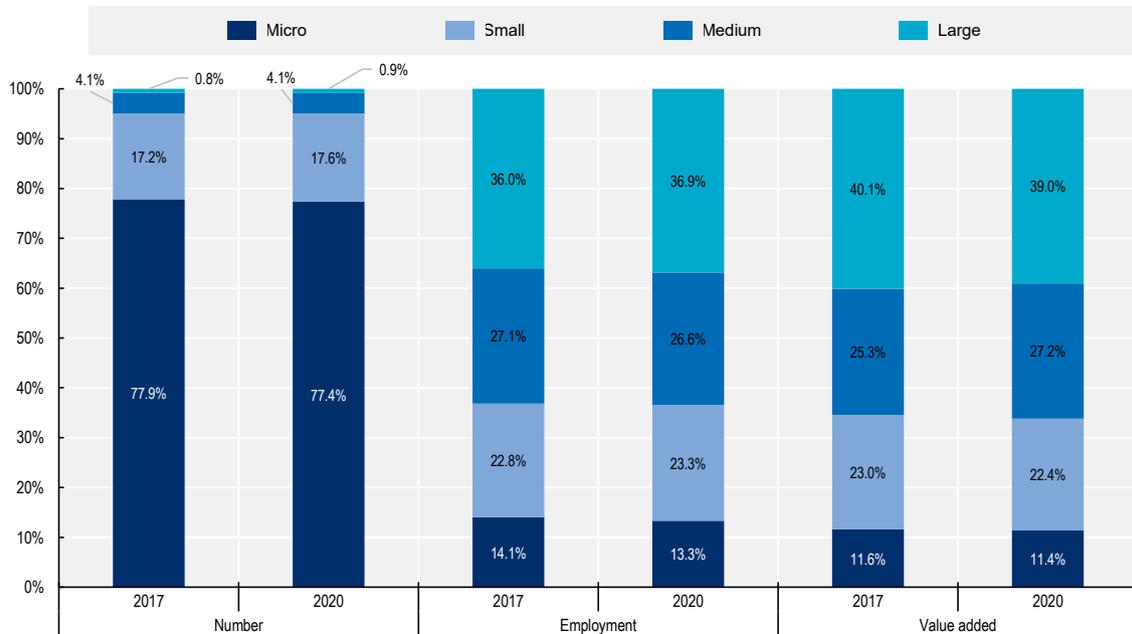
**Table 14.4. Definition of micro, small and medium-sized enterprises in the Brcko District**

	EU definition	Law on Accounting and Auditing
<b>Micro</b>	< 10 employees = EUR 2 million turnover or balance sheet	No definition in place
<b>Small</b>	< 50 employees = EUR 10 million turnover or balance sheet	< 50 employees < BAM 2.8 million (~EUR 1.43 million) turnover < BAM 1.4 million (~EUR 0.71 million) circulating assets
<b>Medium-sized</b>	< 250 employees = EUR 50 million turnover = EUR 43 million balance sheet	< 250 employees < BAM 4 million (~EUR 2.04 million) turnover ≤ BAM 8 million (~EUR 4.08 million) circulating assets

Note: BAM: Bosnia and Herzegovina convertible mark; exchange rate as of December 2021.  
Source: Brcko District (2011<sup>[28]</sup>).

In 2020, Bosnia and Herzegovina's 31 726 SMEs accounted for 99.46% of all enterprises in the economy, with their number increasing by 0.05 percentage point since 2017. The number of small enterprises increased by 1 percentage point since 2017, while the number of micro and medium-sized enterprises decreased by 0.5 and 0.05 percentage point. The number of persons employed by small enterprises increased the most among SMEs, by 8.93 percentage points from 2017 to 2020, while the number of persons employed by medium-sized enterprises increased by 4.97 percentage points over the same period. In 2020, SMEs represented 63.14% of employment in the business sector, an increase of 5.59 percentage points since 2017 (Figure 14.2).

Figure 14.2. Business demography indicators in Bosnia and Herzegovina (2017 and 2020)



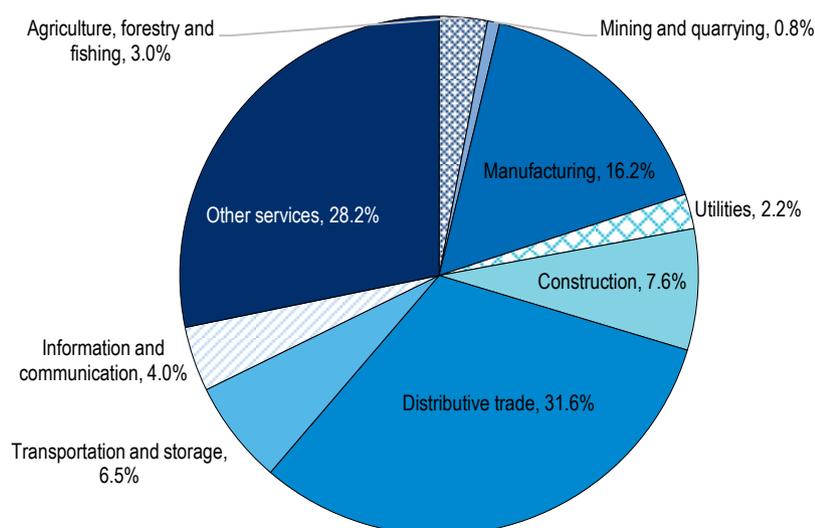
Note: Latest data for the FBiH are from 2019. Unincorporated enterprises are not included. Due to unavailability of state-level data for micro-enterprises, data for Bosnia and Herzegovina have been calculated by aggregating the data from the Federation of Bosnia and Herzegovina and the Republika Srpska.

Source: Statistical offices of the FBiH and the RS.

The economy's total value added in 2020 was approximately EUR 720 million more than in 2017. SMEs in Bosnia and Herzegovina accounted for 60.97% of value added by businesses in 2020, a 16-percentage-point increase from 2017.

The makeup of SMEs by sector in Bosnia and Herzegovina has seen slight changes in the sectoral distribution since 2017 (Figure 14.3). The distributive trade sector, which includes wholesale, retail trade, and the repair of motor vehicles and motorcycles, remains the overwhelming industry of SMEs in the economy at 31.63%. At 16.18%, the manufacturing sector follows as the second-highest number of SMEs in Bosnia and Herzegovina, followed by the construction (7.55%) and transportation and storage (6.47%) sectors.

**Figure 14.3. Sectoral distribution of SMEs in Bosnia and Herzegovina (2020)**



Note: Due to unavailability of state-level data for micro-enterprises, data for Bosnia and Herzegovina have been calculated by aggregating the data from the Federation of Bosnia and Herzegovina and the Republika Srpska. Data for FBiH are from 2019. The sector classification generally follows the Statistical Classification of Economic Activities in the European Community (NACE) Rev.2 classification of productive economic activities with the following exceptions: “Utilities” represents the sum of “Electricity, gas, steam and air conditioning supply” (D); “Water supply” comprises “Sewerage, waste management and remediation activities” (E); “Distributive Trade” covers “Wholesale and retail trade; repair of motor vehicles and motorcycles” (F); and Other Services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification.

Source: SBA Assessment questionnaire

Most of Bosnia and Herzegovina’s companies (over 70%) are located in the FBiH entity, with around 30% in the RS entity (Table 14.5), and are concentrated around the main commercial hubs of the economy, particularly the Sarajevo canton (over 24% of total enterprises in 2020 and 2021).

**Table 14.5. Number of registered companies in Bosnia and Herzegovina, by enterprise size class and entity and FBiH canton (2021 or the latest available year)**

Entities	Cantons (FBiH)	Enterprise size class, by employment				Total	Share of total number of enterprises	
		0-9	10-49	50-249	250+		2020-21	2017
Federation of Bosnia and Herzegovina	Bosnian Podrinje	135	41	8	4	188	0.54%	0.57%
	Herzegovina-Neretva	2 260	413	77	16	2 766	7.93%	7.86%
	Canton 10	556	92	16	2	666	1.91%	2.00%
	Sarajevo canton	7 234	1 084	245	64	8 627	24.73%	23.18%
	Posavina canton	279	55	14	2	350	1.00%	1.14%
	Central Bosnia canton	1 410	305	98	26	1 839	5.27%	5.58%
	Tuzla canton	3 113	653	195	36	3 997	11.46%	11.72%
	Una-Sana canton	1 625	332	63	6	2 026	5.81%	6.02%
	Western Herzegovina canton	1 069	183	50	11	1 313	3.76%	3.83%
	Zenica-Doboj canton	2 308	547	166	28	3 049	8.74%	8.47%
	Total FBiH	19 989	3 705	932	195	24 821	71.16%	70.40%
Republic of Srpska		7 700	1 839	425	96	10 060	28.84%	29.60%
<b>Bosnia and Herzegovina</b>		27 689	5 544	1 357	291	34 881	100.00%	100.00%

Note: Data for Republika Srpska are from 2020. Data from this table were collected from entity governments, using different methodologies from those used by the Bosnia and Herzegovina Institute for Statistics, which is the source of the data mentioned in the main text.

Source: SBA assessment government questionnaires.

## Assessment

### *Description of the assessment process*

The Small Business Act (SBA) assessment cycle was virtually launched on 7 July 2021, when the OECD team shared the electronic assessment material – questionnaires and statistical sheets, accompanied by explanatory documents.

Following the virtual launch, the Ministry of Foreign Trade and Economic Relations distributed the link to the assessment material to the appropriate ministries and government agencies at the state level and the statistical sheets to the National Statistical Office of the Federation of Bosnia and Herzegovina. In parallel, the link to the assessment material and the statistical sheets were also shared with the entity representatives: in the Federation of Bosnia and Herzegovina, the Ministry of Development, Entrepreneurship and Craft; and in Republika Srpska, the Ministry of Economy and Entrepreneurship. These institutions compiled the data and documentation between July and September 2021 and completed the questionnaires. Each policy dimension was given a self-assessed score accompanied by a justification. The completed questionnaires and statistical data sheets were received by the OECD team on 1 October 2021, following which the OECD team began an independent review.

The OECD reviewed the inputs and requested additional information on certain elements from the state Ministry of Foreign Trade and Economic Relations, Ministry of Development, Entrepreneurship and Craft of the Federation of Bosnia and Herzegovina and the Ministry of Economy and Entrepreneurship of Republika Srpska. For several dimensions, virtual consultation meetings with key dimension stakeholders were organised from end-October to mid-November. The meetings aimed to close any remaining information gaps in the questionnaires.

A virtual preliminary findings meeting with Bosnia and Herzegovina was held on 24 November 2021 with an aim to present and discuss the preliminary *SME Policy Index 2022* assessment findings and initial recommendations for Bosnia and Herzegovina. At the same time, it served as an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies and to gauge what more can be done across different policy areas to improve SMEs' performance and competitiveness in Bosnia and Herzegovina, especially in the post-COVID context.

The meeting allowed the OECD to validate the preliminary assessment findings. The draft SME Policy Index publications and the Economy Profile of Bosnia and Herzegovina were made available to the government of Bosnia and Herzegovina for their review and feedback in March 2022.

### **Scoring approach**

Each policy dimension and its constituent parts are assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 14.6). For further details on the SME Policy Index methodology and how the scores are calculated, as well as the changes in the last assessment cycle, please refer to Annex A.

**Table 14.6. Description of score levels**

<b>Level 5</b>	Level 4 plus results of monitoring and evaluation inform policy framework design and implementation.
<b>Level 4</b>	Level 3 plus evidence of a concrete record of effective policy implementation.
<b>Level 3</b>	A solid framework addressing the policy area concerned is in place and officially adopted.
<b>Level 2</b>	A draft or pilot framework exists, with some signs of government activity to address the policy area concerned.
<b>Level 1</b>	No framework (e.g. law, institution) exists to address the policy topic concerned.

## Entrepreneurial learning and women entrepreneurship (Dimension 1)

### Introduction

Entrepreneurial learning raises learners' skills and develops the mindsets needed to change their lives and the world around them through entrepreneurial action for social and economic impact. It is the basis for empowering learners to know they can generate the creative ideas needed in the 21<sup>st</sup> century.

Women's entrepreneurship should be prioritised to support women's economic and social empowerment and drive improved stability and social and economic growth. It can also enable closing gender gaps in the workforce, supported by equality and gender impact analysis of policies affecting family care and social protection.

The overall score for Bosnia and Herzegovina has remained constant since the 2019 assessment. There have been good developments at the state and entity levels across both sub-dimensions (Table 14.7). Some actions remain under development, such as focusing on the entrepreneurship key competence within pre-service teacher training at the state level and practical integration of entrepreneurial learning developments into entity-level policy and implementation within education and training systems. Women's entrepreneurship remains an area where progress is seen, but overall development is fragmented. There is also a strong need to improve the policy area's statistical base, as evidence of the progress and efficacy of actions taken at the state and entity levels is lacking.

**Table 14.7. Bosnia and Herzegovina's scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship**

Dimension	Sub-dimension	Thematic block	Bosnia and Herzegovina	WBT average	
Dimension 1: Entrepreneurial learning and women's entrepreneurship	Sub-dimension 1.1: Entrepreneurial learning	Planning and design	3.13	3.43	
		Implementation	2.90	3.51	
		Monitoring and evaluation	2.17	2.73	
		<b>Weighted average</b>	<b>2.82</b>	<b>3.33</b>	
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	4.20	3.97	
		Implementation	3.49	3.83	
		Monitoring and evaluation	4.25	3.11	
		<b>Weighted average</b>	<b>3.85</b>	<b>3.73</b>	
	Bosnia and Herzegovina's overall score for Dimension 1			<b>3.23</b>	<b>3.49</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

There has been significant progress at the state level in entrepreneurial learning, with the launch of the strategy, Priorities for the Integration of Entrepreneurial Learning and Entrepreneurship Key Competence into Education Systems in Bosnia and Herzegovina (2021-2030) (Council of Ministers of Bosnia and Herzegovina, 2021<sup>[29]</sup>). There is evidence of progress on strategy actions at the state level, supported by state-level EU funding. Implementation at the entity level varies, with evidence of policy co-ordination and integration within the education and training system in the Federation of Bosnia and Herzegovina.

For women's entrepreneurship, progress has been mixed, with a new strategy in Republika Srpska and no renewal of the Women's Entrepreneurship Strategy that was previously in place in the Federation of Bosnia and Herzegovina.

**Table 14.8. Bosnia and Herzegovina's implementation of the SME Policy Index 2019 recommendations for Dimension 1**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Update the entrepreneurial learning strategy</b>	Recent progress can be seen via the launch of a new state-level strategy in 2021 addressing the integration of entrepreneurial learning and key competence into education and training systems. EU international partners funding is supporting further developments related to strategy actions at the state level, while the level of practical implementation differs across entity-level education systems.	Strong
<b>Embed women's entrepreneurship within economic reform plans</b>	No significant progress has been made in this area. There is limited reference to women's entrepreneurship in the 2021-2023 ERP, though there are broad actions relating to SME development, but without specific priority placed on women entrepreneurs.	Limited

*There has been good progress in developing entrepreneurial learning as a key competence at the state level*

Bosnia and Herzegovina has established a strong framework for the development of entrepreneurial learning at the state level, supported by inter-institutional co-ordination and in direct response to the recommendations made in previous SBA assessments. The recently published strategy on Priorities for the Integration of Entrepreneurial Learning and Entrepreneurship Key Competence into Education Systems in Bosnia and Herzegovina (2021-2030) (Council of Ministers of Bosnia and Herzegovina, 2021<sub>[29]</sub>) is a positive step forward, with priorities echoed across wider government documents, including Improvement of Quality and Relevance of Vocational Education and Training (VET) in Bosnia and Herzegovina in the Light of Riga Conclusions (2021-2030) (Ministry of Civil Affairs of Bosnia and Herzegovina, 2021<sub>[30]</sub>). The 2021-2030 strategy offers a comprehensive and detailed development pathway for lifelong entrepreneurial and key competence development at the state level. However, there is a lack of insight into how this will be implemented at the entity level, and a budget has not been allocated to the actions.

Funding from international development co-operation partners, through the EU-funded Education for Employment programme,<sup>2</sup> has been shaped to support the implementation of the state strategy, particularly through working groups on entrepreneurial/digital competences and teacher training. Seven working groups were launched in June 2021,<sup>3</sup> including the Working Group on Digital and Entrepreneurship Learning (WGDEL), the Career Guidance Working Group, the Teacher Training Competence Expert Working Group and the Working Group for Continuous Professional Development. Within its first six months, WGDEL defined learning outcomes for ISCED (International Standard Classification of Education) Levels 1-3 based on EntreComp and DigComp,<sup>4</sup> through an extensive state-wide consultation process involving teachers and experts from all levels of education and pedagogical institutes.<sup>5</sup> Building on this, there is also interest by the Ministry of Civil Affairs in opening dialogue with BiH education systems on ways to integrate the new European Sustainability Competence Framework (GreenComp). The work being undertaken at the state level offers an opportunity and can be translated into all education systems in the economy, reinforcing the drive for more developed competence-based education systems across Bosnia and Herzegovina and supporting the need to improve the quality of education at all levels (European Training Foundation, 2021<sub>[31]</sub>; OECD, 2019<sub>[32]</sub>).

*There remains a need to fully integrate entrepreneurship key competence development into all learner experiences at the entity level*

The Federation of Bosnia and Herzegovina has continued its commitment to this policy area through government funding programmes and entity-level policy co-ordination. A multi-stakeholder policy partnership was established in 2016, but there has been less visibility of its activity since the last

assessment. However, government-financed programmes (Official Gazette of Bosnia and Herzegovina, 2020<sup>[33]</sup>) have been put in place to support projects aimed at integrating key competences into preschool, primary and secondary schools, based on the European key competence framework.<sup>6</sup> There is evidence of learning outcomes relating to the entrepreneurship key competence at all levels of education and training except higher education in the Federation of Bosnia and Herzegovina, in line with the state-level common core curriculum where entrepreneurship is included as a cross-curricular competence.<sup>7</sup>

In Republika Srpska, practical implementation of the entrepreneurship key competence at the curriculum level is still developing, while entrepreneurship has been an element of the secondary school curriculum since 2006. The Education Development Strategy of Republika Srpska places a priority on actions to embed entrepreneurship key competence into the education system, with a particular focus on vocational and higher education in the Education Development Strategy Action Plan until 2020 (Government of Republika Srpska, n.d.<sup>[34]</sup>). Recent advances in the VET sector include further work to develop the dual education model alongside guidelines to support business-education co-operation, developed in collaboration with regional chambers of commerce and businesses (Chamber of Commerce and Industry of Republika Srpska, 2021<sup>[35]</sup>). In higher education, a university entrepreneurial ecosystem is being developed through business support centres within universities.<sup>8</sup>

Practical entrepreneurial experiences are not yet fully integrated as a feature of the core curriculum in Bosnia and Herzegovina. In the Federation of Bosnia and Herzegovina, these are widespread across all levels of education but on an ad hoc basis that is not monitored or evaluated. While there are interesting examples, including those addressing green and digital themes,<sup>9</sup> there remains a lack of practice sharing on effective approaches to improve learning and increase quality. In Republika Srpska, practical entrepreneurial experiences are not yet an explicit feature across all levels of education. At the VET level, there is an ad hoc provision, and there has been recent development of the dual education approach,<sup>10</sup> which can support practical entrepreneurial learning. Both business co-operation and practical entrepreneurial experiences appear to happen primarily in VET and higher education sectors, and there is an opportunity to increase the availability of these opportunities to all students, including those in primary and secondary levels in Republika Srpska.

*There has been less development of the entrepreneurship key competence at the level of pre-service teacher training, but there is a renewed commitment to take this forward*

In-service teacher training is ongoing through engagement in the EU-supported Education for Employment programme, government-financed actions in the Federation of Bosnia and Herzegovina with ad hoc training opportunities across both entities.<sup>11</sup> There has been less progress in developing the entrepreneurship key competence within pre-service training provision to support entrepreneurial learning. Pre-service teacher training is, however, a priority within the state-wide strategy (Council of Ministers of Bosnia and Herzegovina, 2021<sup>[29]</sup>), and it appears that the EU Education for Employment programme is taking this forward through the Expert Working Group on Teacher Training Competence. The work of this expert group started in mid-2021, and while there is a strong vision toward the quality provision of both pre-service and in-service teacher training for entrepreneurial learning, progress is not yet visible.<sup>12</sup>

*Monitoring and evaluation of entrepreneurial learning is lacking at the state level and across both entities*

There is a lack of comprehensive monitoring and evaluation of the actions outlined in the state-level strategy (Council of Ministers of Bosnia and Herzegovina, 2021<sup>[29]</sup>) and no clear indication of how this will be taken forward in line with constitutional competences. While the previous state-level strategies were evaluated, the new strategy emphasises entity-level actions to monitor and evaluate implementation. There are school-level inspections and evaluations across both entities, but the extent to which these place an explicit focus on learning related to the entrepreneurship key competence is unclear.

*Overall, there are stronger co-ordination efforts to promote and develop women's entrepreneurship, but these are more evident at the entity level*

There is an increased focus on developing women's entrepreneurship at both entity and state levels. At the state level, the focus is on gender equality, and within this, there are clear actions to promote and support women's entrepreneurship. At the state level, the Agency for Gender Equality in Bosnia and Herzegovina leads the work and is supported by the Commission for Gender Equality of the Parliamentary Assembly of Bosnia and Herzegovina. These structures are mirrored at the entity level, with entity-specific gender centres<sup>13</sup> working alongside the Commission for Gender Equality in the Federation of Bosnia and Herzegovina and the Equal Opportunities Committee in Republika Srpska. Women's entrepreneurship is highlighted as a priority for women's social and economic empowerment through actions within the Gender Action Plan of Bosnia and Herzegovina (2018-2022)<sup>14</sup> co-ordinated by the Agency for Gender Equality and entity-level gender centres. In contrast, women entrepreneurs are only briefly mentioned in the ERP 2021-2023 (Council of Ministers of Bosnia and Herzegovina, 2021<sup>[36]</sup>), and there is no currently active state-level group or partnership addressing women's entrepreneurship.

This policy area is more visible at the entity level through strategies that focus more closely on women's entrepreneurship and SME development. However, the level of policy co-ordination and practical implementation of women's entrepreneurship differ between the Federation of Bosnia and Herzegovina and Republika Srpska.

In Republika Srpska, there is strong co-ordination of women's entrepreneurship through a comprehensive strategy approach in the Women's Entrepreneurship Strategy (2019-2023) (Government of Republika Srpska, 2019<sup>[37]</sup>), adopted in October 2019, and which includes a detailed analysis of the state of play alongside broad-based actions on areas impacting women's entrepreneurship. The strategy is supported by the multi-stakeholder Council for Women's Entrepreneurship,<sup>15</sup> led by the Chamber of Commerce and Industry<sup>16</sup> and includes representation from the Ministry of Economy and Entrepreneurship, women entrepreneurs and a range of stakeholders. Actions included addressing financial, networking and training support for women entrepreneurs, in addition to actions to ensure equality for working mothers and make it easier for them to run their businesses. Other actions work to include women as decision makers within regulatory structures, such as business councils and other decision-making bodies that have an impact on women's entrepreneurship. The broad nature of these strategy actions is important to address the change needed to achieve social and economic equity across genders.

The strategy for women's entrepreneurship in the F BiH ended in 2020, and a follow-up strategy has not yet been developed. However, actions continue, and there is evidence of a range of government-financed support available to encourage women's entrepreneurship, supported by the Ministry of Education and Science. These include programmes to support women entrepreneurs in digitalisation, leadership and online business development following the impact of the COVID-19 pandemic.<sup>17</sup> These function alongside actions to share good practice and provide skills development programmes, primarily as partnership actions between the F BiH Gender Centre and the Chamber of Commerce, which are also active in developing and implementing the state-level Gender Action Plan.

*A range of online portals promote access to information, support and networks for women's entrepreneurship*

Several entrepreneurship portals are available in the economy, including those targeting all entrepreneurs as well as portals providing women-specific information. The Poduzetna portal for women's entrepreneurship is led by the Bosnia and Herzegovina Association of Women Entrepreneurs and supported through European Bank for Reconstruction and Development (EBRD) funding.<sup>18</sup> This is a new initiative that provides information from across the economy and engages a range of stakeholders in the sources of information and training it draws from, including information on financial support, micro-credit,<sup>19</sup> legislation changes affecting women entrepreneurs, training opportunities and women's networks. The

Zeda Development Agency in the City of Zenica provides a regional portal, including information relevant to the region, such as networks, events, incubation centres and available support projects, including those specific to women entrepreneurs. In Republika Srpska, there is a government-led entrepreneurship portal with information on public calls, available support, news and events relevant to all entrepreneurs.<sup>20</sup> To provide a specific focus on women's entrepreneurship, the Council for Women's Entrepreneurship website provides insights into policy development, activities, and training through a dedicated online portal.<sup>21</sup>

*Monitoring and evaluation actions in the area of women's entrepreneurship exist, but these are limited in scope, while statistical data sources are lacking*

Republika Srpska reports on the implementation of its Women's Entrepreneurship Strategy through annual reports on SME development, prepared by the Ministry of Economy and Entrepreneurship and the Development Agency (Government of Republika Srpska, 2020<sup>[38]</sup>). These reports bring together data from wider stakeholders<sup>22</sup> involved in developing women's entrepreneurship. Data collected are intended to form the basis of a database on women's entrepreneurship accessible through the Council for Women's Entrepreneurship website,<sup>23</sup> but this is not yet active.

In the Federation of Bosnia and Herzegovina, there is less focus on monitoring and evaluation. This may be linked to the expiration of the strategy focusing on this policy area and reports relating to the evaluation of women's entrepreneurship not being publicly available.

The Agency for Gender Equality at the state level and the gender centres at the entity level are drivers of the initiatives and measures toward gender equality and mainstreaming in Bosnia and Herzegovina. Comprehensive evaluation and data collection on the progress and impact of actions relating to women's entrepreneurship needs to be developed further across the economy. Progress is already seen in Republika Srpska, where there is an annual report on gender statistics to provide the evidence base needed to analyse and monitor gender equality,<sup>24</sup> offering a starting point to move forward towards analysing trends, women-owned SME growth pathways and considering this data as part of the smart specialisation mapping processes. Moving forward, consistent evaluation and data collection will be vital to understanding the efficacy and impact of different actions on women's entrepreneurship.

### ***The way forward for Dimension 1***

- **Build a multi-stakeholder policy partnership for entrepreneurial learning, as set out in the new state-level strategy.** Consolidating and formalising this partnership can drive ongoing commitment to strategy implementation at state and entity levels. With multiple actors involved in the work of actions funded by international partners, such as Education for Employment, it is important to use a state-level partnership to drive practical implementation at the entity level toward increasing the cross-curricular developments and overall quality of entrepreneurial learning that students experience during their education and training pathways. A good practice example from Montenegro is found in Box 14.3.

#### **Box 14.3. Building a national policy partnership in Montenegro**

Montenegro has successfully brought together and sustained a multi-stakeholder policy partnership that drives the co-ordination and development of lifelong entrepreneurial learning, gradually increasing the focus on this policy area and resulting in progress on the practical implementation of entrepreneurial learning at all levels of lifelong learning.

The consistent partnership between government ministries and key national stakeholders was linked to the design and implementation of national strategies. The relevance and importance of participation were clear to each partner organisation and closely aligned to their organisational objectives, with a named representative from each organisation. The partnership was initially informal, and organisations worked

together to place the focus on increasing the profile of lifelong entrepreneurial learning at the policy level and gaining recognition for their partnership approach. This finally resulted in formal recognition by the government in 2021, as a working group of the National Council for Competitiveness led by the Ministry of Economy.

The nascent policy partnership at the state level of Bosnia and Herzegovina has the potential to inform and guide the development of entrepreneurial learning, with actors from both entities involved in the strategy development as well as the ongoing Education for Employment programme. Bringing partners together can place a focus on actions supporting lifelong entrepreneurial learning, enhance the work of all partners in this field and lead to further recognition of the importance of this policy area across both entities.

Sources: Government of Montenegro (2021<sup>[39]</sup>) and McCallum et al. (2018<sup>[40]</sup>).

- **Match pre-service teacher training provision to the needs of the core curricula, the newly developed entrepreneurial and digital learning outcomes developed through the Education for Employment programme, and support the new entrepreneurial learning strategy.** This should be achieved through the ongoing work of the Expert Groups on Teacher Competence and Continuing Professional Development, with a strong focus on ensuring that pre-service teacher training is future-proofed to include explicit reference to entrepreneurship key competence development. A good practice example from the United Kingdom is presented in Box 14.4.

#### Box 14.4. Matching initial and continuing teacher education to the needs of the new Curriculum for Wales (United Kingdom)

In the United Kingdom, the University of Wales Trinity Saint David has successfully integrated the development of the entrepreneurship key competence into pre-service teacher training programmes and a new Education Doctorate supporting continuing professional development for experienced educators. Participant feedback shows that those who participate in the programme go on to use EntreComp to underpin their own teaching or wider teacher training initiatives, such as head-teacher training for the new curriculum led by Wales' National Academy for Educational Leadership.

The approach taken first places explicit focus on teachers' professional and entrepreneurial competences, using learning outcomes from EntreComp, to build an understanding of the relevance of this key competence. The courses developed also introduce knowledge and practical application of the entrepreneurship key competence for learners across diverse subject areas and with cross-curricular relevance. The university has embraced the EntreComp framework as a guide for this work, matching it with the new Curriculum for Wales, which emphasises four purposes of learning, including supporting learners in becoming "enterprising, creative contributors, ready to play a full part in life and work."<sup>1</sup>

One of the recommendations in this assessment is that universities and pedagogical institutes realign their training provision to match the needs of the national curriculum to the content of university-based training of new teachers. Through the Education for Employment programme, Bosnia and Herzegovina has developed learning outcomes encompassing the DigComp and EntreComp framework competences. The opportunity now is to integrate these new developments, alongside the existing focus on entrepreneurship as a cross-curricular key competence within the economy's state-level core curriculum, into pre-service teacher training to ensure new teachers are equipped to deliver the innovative pedagogies and approaches required for the future.

1. For more information on the Curriculum for Wales, see <https://hwb.gov.wales/curriculum-for-wales> (accessed on 20 January 2022). Sources: Welsh Government (2021<sup>[41]</sup>); Penaluna, Penalune and Polenakovikj (2021<sup>[42]</sup>); Weicht and Jónsdóttir (2021<sup>[31]</sup>); McCallum et al. (2018<sup>[40]</sup>).

- **Strengthen the commitment to the practical implementation of the 2021-2030 strategy for entrepreneurial learning at the entity level.** It will be important to clearly show how the actions of the strategy will be implemented across each education and training system, to ensure it supports the specificities of each system and context/stage of development of entrepreneurial learning. This should include a confirmed budget allocation to implement the state-level strategy and a clearly defined pathway for monitoring and evaluation. Progress should be reported annually with the education chapter of the ERP.
- **Ensure there are active women's entrepreneurship strategies covering all areas of the economy addressing actions related to financial support, training, leadership, inclusion of women in key decision-making bodies and actions that support women who are primary carers in accessing entrepreneurship as a valid career pathway.** Consideration should be given to creating effective actions to support practice sharing and learning between key government, private sector and non-governmental organisation (NGO) stakeholders who are active in the delivery of women's entrepreneurship policy and practice at all levels.
- **Upgrade the depth and quality of monitoring and evaluation of actions related to women's entrepreneurship and increase the availability of gender-disaggregated data relevant to women's economic engagement and SME development.** This should be included in and add value to the breadth of data captured by entity-level Statistical Offices in close co-operation with entity-level gender centres and in support of the Gender Action Plan for Bosnia and Herzegovina. This would provide a stronger evidence base on the progress and efficacy of policy actions related to women's entrepreneurship, relevant to entity-level actions, smart specialisation development and key state-level documents such as the ERP. New statistical data sources developed should align with requirements for harmonisation with Eurostat.

## Bankruptcy and second chance for SMEs (Dimension 2)

### Introduction

Firms enter and exit the market as a natural part of the business cycle, and policies can ensure that such transitions occur in a smooth and organised manner. Well-developed insolvency procedures and regimes can protect both debtors and creditors, striking the right balance between both parties, for example. This is particularly relevant for smaller firms as they lack resources compared to bigger firms. Therefore, governments need to make sure that bankruptcy proceedings are efficient, ease reorganisation procedures (instead of bankruptcies) and ensure that those starting again have the same opportunities in the market they had the first time.

In Bosnia and Herzegovina, as in other Western Balkan economies where SMEs make up a large share of total businesses, effective liquidation and discharge procedures are particularly important as they can allow entrepreneurs to reintegrate into the market. This was particularly relevant in the context of the COVID-19 pandemic, where a number of firms faced financial difficulties or were at risk of financial distress (OECD, 2021<sup>[43]</sup>).

Bosnia and Herzegovina has made the most significant improvement since the last assessment. Its performance increased from 2.55 in 2019 to 3.38 and is performing above the WBT average of 3.03 (Table 14.9). Bosnia and Herzegovina became the regional leader primarily due to its efforts to harmonise the bankruptcy legal frameworks across the entire territory.

**Table 14.9. Bosnia and Herzegovina's scores for Dimension 2: Bankruptcy and second chance**

Dimension	Sub-dimension	Thematic block	Bosnia and Herzegovina	WBT average
Dimension 2: Bankruptcy and second chance	Sub-dimension 2.1: Preventive measures		2.80	2.74
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	4.00	3.47
		Performance, monitoring and evaluation	3.50	3.23
		<i>Weighted average</i>	3.80	3.38
	Sub-dimension 2.3: Promoting second chance		2.20	1.96
<b>Bosnia and Herzegovina's overall score for Dimension 2</b>			<b>3.38</b>	<b>3.03</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

Bosnia and Herzegovina has improved its performance since the 2019 assessment. Its insolvency framework is regulated at the entity level and is harmonised across the entire territory. However, bankruptcy proceedings are not resolved in a timely manner, and the use of reorganisation processes remains limited.

The existing preventive measures<sup>25</sup> have been enhanced, albeit indirectly, with the introduction of new business advisory and mentoring services provided under projects funded by international partners (from the European Union and the Japan International Cooperation Agency [JICA]). A fully-fledged early warning system is yet to be adopted (Table 14.10). The Danube Chance 2.0 EU Interreg project implemented by the Development Agency of Republika Srpska (RARS) contributed to the promotion of restructuring measures and provided support to financially distressed enterprises facing imminent insolvency and entrepreneurs who had already declared bankruptcy and were ready for a fresh start (RARS, 2022<sup>[44]</sup>). Thanks to the Danube project and the promotion of second chance in the Strategy for the Development of

SMEs of Republika Srpska (2021-2027), Republika Srpska became the only jurisdiction in the WBT region to include and implement second chance in its policy framework during this assessment.

**Table 14.10 Bosnia and Herzegovina's implementation of the SME Policy Index 2019 recommendations for Dimension 2**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Develop a fully-fledged early warning system</b>	An early warning system is still missing in Bosnia and Herzegovina, but both entities introduced business advisory and mentoring services to SMEs that indirectly contribute to insolvency prevention. Additionally, Republika Srpska is promoting the benefits of an early warning system through the Danube Chance 2.0 project.	Limited
<b>Continue to harmonise the insolvency legal framework with the EC recommendations</b>	The bankruptcy laws in the Federation of Bosnia and Herzegovina, Republika Srpska and the Brcko District are harmonised, but none of them includes simplified, fast-track bankruptcy proceedings for SMEs.	No progress
<b>Enhance and adapt the administrative capacities of the bodies implementing the insolvency legislation</b>	The governments introduced higher qualification standards and examinations/licensing for bankruptcy administrators. However, no special follow-up capacity building on implementing new pre-insolvency restructuring was organised for implementation bodies.	Moderate
<b>Create a monitoring and evaluation process for bankruptcy mechanisms</b>	No major progress has been made on evaluation in Bosnia and Herzegovina. In the Federation of Bosnia and Herzegovina, with the enactment of the new bankruptcy law in July 2021, a digital insolvency register at the FBiH Financial Information Agency was introduced. However, this register includes only data from newly opened bankruptcy proceedings.	Limited

*The insolvency framework has gradually been harmonised across the entities in Bosnia and Herzegovina*

Since 2003, international organisations have played a major role in each entity in developing a legal basis for bankruptcy proceedings, with important discrepancies between the entities (FBiH Parliament, 2003<sup>[45]</sup>). Following a series of reforms in each entity, the regulatory framework was harmonised in 2021 for the first time across the entire territory and with the United Nations Commission on International Trade Law (UNCITRAL) Legislative Guide on Insolvency Law (UNCITRAL, 2004<sup>[46]</sup>).

In 2016, Republika Srpska introduced the hybrid proceeding of pre-insolvency restructuring in line with the out-of-court restructurings in the European Union (RS Parliament, 2016<sup>[47]</sup>; European Commission, 2016<sup>[48]</sup>). In 2019, the Brcko District made substantial changes to their insolvency law,<sup>26</sup> thus harmonising its legal framework with Republika Srpska (Brcko District Parliament, 2019<sup>[49]</sup>). Similarly, in July 2021, the Federation of Bosnia and Herzegovina aligned its insolvency law<sup>27</sup> with Republika Srpska and the Brcko District (FBiH Parliament, 2021<sup>[50]</sup>).

The overall legal framework's main novelty is the introduction of pre-insolvency proceedings as preventive financial and operational restructuring based on an imminent insolvency threat. Overall, this important legislation upgrade process could be viewed as a major achievement in terms of the coherence of the insolvency framework within the economy.

Following the harmonisation, the current legal framework allows for two types of restructuring procedures: 1) a pre-insolvency restructuring plan, which is a major insolvency prevention measure; and 2) a regular bankruptcy reorganisation plan, which can be submitted together with the filing of the bankruptcy petition or decided later at the first creditors' meeting in a regular bankruptcy proceeding. Both procedures are finalised upon the confirmation of the reorganisation plan by the insolvency judge or under the court's authority, which provides for the greater legal security of all parties. The restructuring/reorganisation plan is possible if it provides a more favourable settlement for the creditors in relation to what they would receive in a bankruptcy liquidation. The form of the plan is not restricted to any legal measure of debtor-creditor

settlement, such as debt rescheduling; change of maturity, interest rates or other terms of the loan, credit or other claim or replacement of security instrument; debt-equity swap; or debt write-off. However, these novelties cannot be qualified as simplified, fast-track procedures per se as the targeted potential beneficiaries are not clearly defined (e.g. SMEs under a certain maximum debt threshold at the time of filing for bankruptcy).

In the Federation of Bosnia and Herzegovina, another novelty regarding the bankruptcy process is the digitalisation of notifications, meaning that all important notices are announced on the FBiH Financial Information Agency (FIA) site (FBiH Financial Information Agency, 2020<sup>[51]</sup>). The FIA also works as a credit rating bureau and provides an assessment, upon a company's request for BAM 50 (around EUR 25), of their liquidity, solvency, and efficiency of assets' usage, operational efficiency and profitability. This system serves somewhat as an alternative early warning tool, but not a fully-fledged one, as information is collected on a yearly basis and does not focus on SMEs facing potential imminent insolvency. The FIA also provides an electronic register for all opened pre-insolvency and bankruptcy proceedings. However, the register does not provide information on unresolved proceedings initiated under the previous bankruptcy law. According to the latest data provided by the FIA, since August 2021, no pre-insolvency proceeding or regular bankruptcy reorganisation plan has been submitted to courts in the Federation of Bosnia and Herzegovina, while 115 regular bankruptcy liquidation proceedings have been opened. Given that this is a new initiative, the amount of publicly available information is expected to increase in the coming years.

In Republika Srpska, data collected are published on the official website of the Ministry of Justice and comprise information regarding cases resolved under the old and the new law (from 2016), such as the duration and costs of the procedure; and the value of the creditors' settlement. Moreover, for companies going through the reorganisation process, information regarding the value of the assets and the value obtained from the debtor's settlement are publicly available.

*Preventive measures are still not fully developed, whereas programmes to promote second chance are slowly emerging*

None of the entities has established a fully-fledged early warning system. In both the Federation of Bosnia and Herzegovina and Republika Srpska, business advisory and mentoring services are provided; however, they only indirectly contribute to the prevention of insolvency among SMEs, as firms that are in financial distress or have not paid their taxes are excluded from these services (JICA, 2020<sup>[52]</sup>).

The Danube Chance 2.0 EU Interreg project provides support to companies in financial distress (Interreg Danube Transnational Programme, n.d.<sup>[53]</sup>). It promotes early warning support and a quick restart for entrepreneurs who failed (second chance). It carries out three groups of activities: 1) continuously improving the legislation related to bankruptcy; 2) strengthening consulting support to entrepreneurs who want to restart a business, through trainings and exchange of experiences, mentoring services and appropriate financial incentives for a new beginning; and 3) providing early warning support for entrepreneurs who have business problems, to reduce the number of SMEs going bankrupt. This programme and the promotion of second chance is included in the Strategy for the Development of SMEs of Republika Srpska (2021-2027), making Republika Srpska the only jurisdiction in the WBT region to include second chance in its policies. For this measure, an annual budget of BAM 100 000 (approximately EUR 50 000) is envisaged, both from the RS budget and international partners' funds (RS Parliament, 2021<sup>[54]</sup>). However, the legal framework does not distinguish honest<sup>28</sup> from fraudulent entrepreneurs, and there is no clear indication of how the authorities would encourage or ensure the reintegration of honest entrepreneurs into the economy.

The Federation of Bosnia and Herzegovina and the Brcko District did not promote second chance in this assessment cycle.

## The way forward for Dimension 2

- **Develop a fully-fledged early warning system as an insolvency prevention measure.** The government should provide SMEs with access to an early warning tool that red flags identified financial distress signals and recommends adequate remediation. It could start by further developing its existing mentoring and advisory services to extend the offer to SMEs in financial distress. Box 14.5 offers two models of how an early warning system tool could be introduced. Furthermore, FIA in the Federation of Bosnia and Herzegovina should enhance its current activities by taking over the monitoring and evaluation of cases to process under the law on bankruptcy proceedings. In addition, digital monitoring and an evaluation system of insolvency proceedings, similar to FIA in the Federation of Bosnia and Herzegovina, should be established in Republika Srpska and the Brcko District. The information collected should be aggregated and analysed for higher legislation development purposes, assessing the preventive insolvency policy implementation, including the impact of the early warning system, as recommended under the EU Directive 1023/2019 (European Commission, 2019<sup>[55]</sup>).

### Box 14.5. Early warning systems in the European Union

Early warning tools may include different instruments: alert mechanisms when the debtor has not made certain types of payments; advisory services provided by public or private organisations; and incentives under national law for third parties with relevant information about the debtor, such as accountants, tax and social security authorities, to flag to the debtor a negative development.

In the European Union, there are two competing models for early warning systems:

1. **Self-assessment tool:** Creating tools for SMEs and entrepreneurs to anonymously assess their economic situation. The self-test tool can be a simple software application on a public website. SMEs and entrepreneurs have only to enter basic financial data about their business. The application will produce a preliminary diagnostic with recommendations for remediation actions, like searching for a specific business advisory or mentoring support service. The application conducts a financial ratios diagnostic analysis. The quality of the diagnostic analysis depends on the quantity and quality of the data intake by the entrepreneur.  
  
This model is useful as a quick financial health check and should be complemented with a business advisory support service by a public institution or access to a commercial or professional association.
2. **Intervention mechanism:** This includes a series of steps to remedy the distress situation under external supervision. The mechanism is based on an early warning signal triggered for the SME, identification of problematic areas causing financial distress and reporting to company management with recommendations to take remedial measures. The process to remedy the identified issues then follows through a series of interventions by different actors, aiming to avoid company insolvency. The process can include:
  - A company bookkeeper or external auditor spots an observation that may lead to financial distress. The early warning mechanism can be built on an obligation of the bookkeeper or auditor to inform the company's management of the issue.
  - If management does not take action to remedy the situation, there may be subsequent communications with the board or even at the shareholders' meeting.
  - If there is no adequate reaction of the enterprise organs, the mechanism can prompt the intervention of outside bodies, such as special mediation or even trigger a special preventive measure court procedure.

- Finally, if there is no intervention, the system may provide for creditors' actions related to the use of alternative dispute resolution.

Public creditors can play a significant role in an early warning system as they can identify a delay in tax and social security payments – a warning that enterprises are experiencing financial difficulties. Information on late payments should be carefully used together with diagnostic analysis, as companies tend to pay only public debt to avoid early warning detection mechanisms.

Source: IMF (2021<sup>[41]</sup>).

- **Finalise the digitalisation of liquidation proceedings by introducing the electronic sale portal covered under the new draft amendments.** Digitalising the liquidation process would enhance transparency; save time and the costs of currently lengthy liquidations; anticipate potential conflicts between the creditors' committee; and protect creditors' rights as claims are recovered from the best market price reached through a competitive bidding procedure. This could be achieved by introducing e-auctions and automatic e-distributions mechanisms regarding the liquidation process.
- **Introduce simplified bankruptcy proceedings for SMEs.** As microenterprises and SMEs have smaller scales of business and simpler operations, short-track proceedings, for example, for SMEs with a maximum debt set at a certain threshold, determined based on the average size of the economy's micro and small size firms at the time of filing for bankruptcy would ease the cumbersome and expensive administrative burdens for small companies. Only SMEs as debtors should be able to file for bankruptcy reorganisations. Requirements for restructuring plans should also be simplified. Furthermore, administrative proceedings should be financially affordable for SMEs, and the procedure should be simplified, e.g. there is no need for a creditors' committee. Simplified and fast-track procedures would be more relevant in the aftermath of COVID-19 as they could allow for a quicker reintegration of businesses into the economy and save social payments that might result from potential unemployment.
- **Promote second chance to honest entrepreneurs.** The economy should promote second chance as an option to honest entrepreneurs to have a fresh start and thus reduce the cultural stigma related to business failure. Some positive developments on this front are observed in Republika Srpska, which could potentially serve as a good practice example within the economy. Moreover, the legal framework should provide for debt discharge and clearly distinguish honest from fraudulent entrepreneurs to allow for quicker reintegration. The policy should be widely promoted through public-awareness campaigns that promote a fresh start among those starting over after bankruptcy.

## Institutional and regulatory framework for SME policy making (Dimension 3)

### Introduction

A strong institutional and regulatory framework is the basis for SME policy making. SMEs are often disproportionately affected by regulatory changes and pay a higher price for legislative compliance, given their limited resources compared to larger companies. Therefore, policy makers should consider the unique needs of SMEs when designing policies that impact the private sector, especially given SMEs' importance for the economy in terms of employment, value added and business demographics.

In an economy like Bosnia and Herzegovina, where SMEs represent an even greater share of total enterprises (99.5%) and value added (61%) than the EU average, it is vital to “think small first” when designing and implementing SME policies. Given Bosnia and Herzegovina's constitutional structure, it is especially important to ensure that policies do not cause additional layers of administrative burden or increased compliance costs for SMEs. The COVID-19 pandemic has further exacerbated the remaining challenges that Bosnian SMEs were exposed to, including the informal economy (European Commission, 2021<sup>[56]</sup>).

Bosnia and Herzegovina's performance in Dimension 3 has seen an incremental increase since the previous assessment (when it was 2.62). Minor improvements are noted in the frequency of public-private consultations (PPCs) at the state level and in the rules for conducting regulatory impact assessments (RIAs) at the level of the entities. Overall, Bosnia and Herzegovina performs below the regional average in this dimension due to its highly complex regulatory environment and lack of effective quality control mechanisms for the use of policy-making tools that can improve the application of the “think small first” principle throughout the economy (Table 14.11).

**Table 14.11. Bosnia and Herzegovina's scores for Dimension 3: Institutional and regulatory framework for SME policy making**

Dimension	Sub-dimension	Thematic block	Bosnia and Herzegovina	WBT average
Dimension 3: Institutional and regulatory framework for SME policy making	Sub-dimension 3.1: Institutional framework	Planning and design	3.50	4.28
		Implementation	3.10	3.96
		Monitoring and evaluation	3.00	3.81
		<b>Weighted average</b>	<b>3.20</b>	<b>4.03</b>
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis (RIA)	Planning and design	2.80	3.84
		Implementation	2.30	3.47
		Monitoring and evaluation	2.00	2.95
		<b>Weighted average</b>	<b>2.39</b>	<b>3.48</b>
	Sub-dimension 3.3 : Public-private consultations (PPCs)	Frequency and transparency of PPCs	3.00	4.00
		Private sector involvement in PPCs	2.10	3.92
		Monitoring and evaluation	1.90	3.10
		<b>Weighted average</b>	<b>2.42</b>	<b>3.79</b>
	<b>Bosnia and Herzegovina's overall score for Dimension 3</b>			<b>2.72</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

Bosnia and Herzegovina's entities have made efforts to align their SME policy frameworks with the different levels of governance, as well as with the SBA. Although they have not yet been formally adopted, the

process of creating the Guidelines for Harmonisation of Support to SMEs has led to increased alignment of SME policies throughout the economy (Table 14.12). Nevertheless, significant challenges remain in building a regulatory environment that is considerate of and responsive to the needs of SMEs at all levels of governance. Namely, despite upgrading their frameworks for conducting RIA, neither entity is effectively conducting quality control of RIA. Moreover, while efforts have been made to ensure consistent, transparent and inclusive PPCs at the state level, these consultations still miss the necessary level of engagement and struggle to engage the business community as stakeholders. In the entities, PPCs lack effective monitoring and evaluation mechanisms to measure their quality and consistency.

**Table 14.12. Bosnia and Herzegovina's implementation of the SME Policy Index's 2019 recommendations for Dimension 3**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Establish effective co-ordination of SME policy across the different levels of government	Guidelines for the harmonisation of support to SMEs and entrepreneurship have been developed at the state level. They have been drafted in concertation with the relevant line ministries in the entities as well as with state-level institutions. While this is an achievement, the guidelines have not yet been adopted, and this delay limits their usefulness.	Moderate
Ensure full implementation of RIA, including aspects affecting SMEs	At the entity level, updates to the guidelines for conducting RIA broadened the range of impacts assessed to include impacts on SMEs. At both the entity and state levels, quality control and monitoring and evaluation of the use of RIA across different institutions are still lacking.	Limited
Enhance the quality of the public-private consultation process and ensure SMEs can participate effectively	At the state level, the number of consultations through the online portal has increased, as has the use of the portal by state-level institutions. However, stakeholder engagement remains low, and reporting could be improved to better measure the engagement of SMEs and the private sector and increase transparency for individual consultations. At the level of the entities, quality control and monitoring are not conducted, and neither entity has a functioning online portal for public-private consultations, although the Federation of Bosnia and Herzegovina is in the early stages of launching one.	Limited

*The development of state-level guidelines for harmonising support to SMEs has led to increased alignment of entity SME policies*

There have been important developments regarding the coherence and co-ordination of Bosnia and Herzegovina's SME policies since the last assessment. Previously non-existent, state-level Strategic Guidelines for the Harmonisation of Support to SMEs (2021-2027) have been developed, although not yet formally adopted by the BiH Council of Ministers. This lack of adoption means that the state-level government cannot continue its alignment with the areas of the SBA for which it has competencies, namely public procurement, standards and technical regulations, and internationalisation. The guidelines were developed by the state-level Ministry of Foreign Trade and Economic Relations with input from entity governments and the Brcko District, and seek to ensure the coherence and co-ordination of state-level policies with the entity and Brcko District-level strategies as well as their alignment with the SBA. Despite not being formally adopted, the guidelines led to the indirect harmonisation of policy frameworks between the different levels of governance through a bottom-up approach (Miovčić, 2021<sup>[57]</sup>).

At the entity level, SME policies are defined and implemented by the entities' respective strategic documents, namely Republika Srpska's SME Strategy (2021-2027) and the Development Strategy of the Federation of Bosnia and Herzegovina (2021-2027).<sup>29</sup> Policy co-ordination and monitoring and evaluation of implementation are ensured by the Ministry of Economy and Entrepreneurship in Republika Srpska and by the Federal Ministry of Development, Entrepreneurship and Crafts in the Federation of Bosnia and Herzegovina. Monitoring and evaluation of the state-level guidelines are planned to be entrusted to the Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, alongside reporting by the

entities. However, as the guidelines have not yet been adopted, this state-level monitoring is not taking place, even though entities have begun implementing their policy frameworks.

RARS, the entity's implementing institution, reports that over 90% of its annual work plan was implemented in 2020, in spite of a level of funding that has remained constant since the last assessment, an issue which has in the past led to delays in implementation. Despite this success, RARS remains overly reliant on funding from international partners for the reliable implementation of its SME policy objectives. The Federation of Bosnia and Herzegovina's plans to create its own implementation body, an SME Agency of Federation of Bosnia and Herzegovina, have not yet materialised, meaning that implementation is still under the responsibility of the Federal Ministry of Development, Entrepreneurship and Crafts.

Informality is still a significant challenge in Bosnia and Herzegovina and is estimated to represent around one-third of GDP (European Commission, 2021<sup>[58]</sup>). Both entities have made efforts to combat the informal economy, with efforts in Republika Srpska, for instance, focusing on strengthening inspection services and reducing the administrative burden for companies that operate formally. However, given the wide-ranging effects of informality on the competitiveness of the whole economy, increased efforts to combat it would be welcome.

*The business environment remains fragmented and complex, despite entities' efforts to simplify business-related legislation*

Bosnia and Herzegovina continues to have a complicated and costly business environment for companies to navigate, characterised by fragmentation in its internal market, differing regulatory policies between the two entities and a generally high level of administrative burden (European Commission, 2021<sup>[58]</sup>).

The entities have nonetheless made encouraging efforts towards simplifying administrative procedures and amending or repealing laws that negatively impact businesses. In Republika Srpska, as a continuation of previous efforts to improve the business environment, action was taken to reduce administrative, utility and court fees, and special republic taxes, and the government launched a Project for the Optimisation of Administrative Procedures and Formalities, with a corresponding action plan in 2021, which should identify administrative procedures that require simplification. In 2021, the Federation of Bosnia and Herzegovina developed a register of fees and charges, and adopted a Law on Crafts, simplifying the registration of crafts businesses and creating a craft registry. However, these measures are rather ad hoc, and a more systemic approach to simplifying legislation for businesses in the Federation of Bosnia and Herzegovina is lacking. Furthermore, the lack of co-ordination risks further exacerbating the fractures in Bosnia and Herzegovina's internal market by causing different administrative and compliance requirements for businesses between entities (European Commission, 2021<sup>[58]</sup>).

*SME aspects have been included in RIA guidelines, but there is room to improve quality control and effective application of RIA*

Since the previous assessment, both entities have adopted updated guidelines for their RIA procedures. In the Federation of Bosnia and Herzegovina, the Decree on RIA (September 2020) broadens the scope of mandatory impacts for consideration to take into account impacts on SMEs. The decree also transfers the responsibility for quality control of RIA from the General Secretariat of the federal government to its Office for Legislation. In Republika Srpska, the Decision on the Implementation of RIA (2019) similarly broadens the scope of analysed impacts and includes those on SMEs.

Despite having requirements for conducting RIA at both the state and entity levels, consistently and effectively applying these requirements remains a challenge. At the state level, although guidelines on drafting legislation exist, there is no regular reporting to monitor state-level institutions' compliance with them, and a lack of human resources and administrative capacity prevents effective quality control of RIA. At the level of the entities, quality control is conducted, but none of the institutions charged with ensuring

the quality of RIA have the right to return RIA to line ministries if they are incomplete or of insufficient quality (OECD, 2021<sup>[59]</sup>).

The quality of RIA accompanying policy proposals at both the state and entity levels could be improved (European Commission, 2021<sup>[58]</sup>). Moreover, legislation at both the state and entity levels allows for a shortened procedure for RIA, lessening the scope of analysis that is conducted at the early stages of policy design (OECD, 2021<sup>[59]</sup>).

*The framework for ensuring effective public-private consultations has significant room for improvement at both the state and entity levels*

A framework for PPCs exists at both the state and entity levels in Bosnia and Herzegovina. However, the level of development of the tools for conducting effective PPCs and engaging stakeholders is uneven. At the state level, an online portal (<https://www.ekonsultacije.gov.ba>) aims to aggregate PPCs from all state-level institutions to improve their accessibility. Co-ordinators have been appointed from all state-level institutions registered on the portal, and the number of institutions using the portal has increased. At the level of the entities, the Federation of Bosnia and Herzegovina has developed an online portal for PPCs, which is not yet fully operational, as no consultations have been posted yet. Line ministries in the Federation of Bosnia and Herzegovina continue to share calls for PPCs on their individual websites, limiting the ease of access for stakeholders. Republika Srpska does not have a portal (OECD, 2021<sup>[59]</sup>).

The quality control practices of conducting PPCs could be significantly improved throughout Bosnia and Herzegovina. While a legal framework for conducting consultations exists at both the state and entity levels, only the state level has effective quality control of the consultation process (OECD, 2021<sup>[59]</sup>). Namely, the state-level Ministry of Justice reports on the adherence of state-level bodies to the quality standards for PPCs. This monitoring has shown that the number of consultations held by state-level institutions has increased in recent years (from 281 in 2018 to 543 in 2020), as has the number of institutions holding PPCs through the online portal (from 39 in 2018 to 64 in 2020). However, results also show significant room for improvement regarding stakeholder engagement, as in 2020, of the 51 surveyed institutions, 67% reported having no public participation or a low level of it for the PPCs they conducted (Bosnia and Herzegovina Ministry of Justice, 2021<sup>[60]</sup>). Moreover, the reporting conducted by the Ministry of Justice does not disaggregate the engagement data collected by the types of stakeholders that participate in PPCs. Therefore, it is impossible to accurately measure SMEs' level of engagement or to identify in which areas further outreach efforts are necessary. Businesses in Bosnia and Herzegovina have the lowest satisfaction rate with procedures for public consultations in the Western Balkans region (12%, compared to a regional average of 22%) (RCC, 2021<sup>[42]</sup>). Efforts to engage with the business community will be key in building trust and dialogue, given the low level of trust and enthusiasm of Bosnia and Herzegovina's businesses for participating in PPCs.

Another issue that impedes the effective conduct of PPCs throughout Bosnia and Herzegovina is the high level of use of urgent procedure, which circumvents the requirement for PPCs, to pass legislation. In the Federation of Bosnia and Herzegovina, 64% of laws passed in 2020 were adopted through urgent or shortened procedures, and in Republika Srpska, 50% of laws were adopted in this way (European Commission, 2021<sup>[58]</sup>).

### ***The way forward for Dimension 3***

- **Strengthen quality control of regulatory impact assessment and ensure it is effectively used.** At the state level, investments should target additional human and administrative capacities to allow for effective quality control and monitoring of RIA for state-level legislation. At the level of the entities, the institutions conducting quality control of RIA (the Office for Legislation in the Federation of Bosnia and Herzegovina and the Ministry of Economy and Entrepreneurship in Republika Srpska) should be empowered to return unsatisfactory and incomplete RIA to the

originating ministries, along with mandatory feedback for improvement. In both entities, regular reporting on the conduct of RIA and its compliance with quality and comprehensiveness standards across all line ministries and institutions should become common practice to identify in which areas capacities are lacking and priority investment is needed. The reports prepared by Montenegro's Ministry of Finance on the quality of RIA across different line ministries can serve as an example of good practice (Box 14.6).

#### Box 14.6. Montenegro's reports on the quality application of regulatory impact assessment

Making full use of its quality control function, the Ministry of Finance and Social Welfare of Montenegro publishes regular reports on the state of the RIA process in Montenegro and the progress made in improving its quality.

As in some other economies in the WBT region, these reports contain a statistical aggregation of all RIAs conducted as a share of all primary and secondary legislation adopted and the degree to which they meet the requirements for conducting RIA by line ministries. However, what makes Montenegro's reports stand out is that the RIAs conducted are then divided into categories, showing what share of RIAs was satisfactory in terms of quality in the areas of problem definition, goal definition, options definition, impact assessment, fiscal impact assessment, consultation with stakeholders, and monitoring and evaluation. This kind of analysis allows the Ministry of Finance to measure the progress made in these different areas compared to previous years.

In its latest report, the Ministry identified that 68% of RIAs conducted in 2020 were "done with quality" versus 61% in 2019, showing a slight improvement in overall quality. More specifically, the areas with the greatest room for improvement were options definition, impact assessment, fiscal impact assessment, consultations with stakeholders, and monitoring and evaluation. This allows the government to focus its efforts on building capacity for conducting useful and effective RIA in these areas.

The other WBT economies would benefit from making their reports on the use of RIA more analytical, as the key to effective use of RIA as a policy-making tool lies beyond respect for formal requirements, requiring regular measurement of policy makers' ability to conduct detailed, evidence-based analysis in several areas.

Source: Montenegrin Ministry of Finance and Social Welfare, (2021<sup>[61]</sup>)

- **Introduce regular reporting on public-private consultations and encourage businesses to participate in public-private dialogue.** At the state level, the Ministry of Justice should upgrade its reports on the conduct of PPCs to include data on the types of stakeholders engaged, and in the case of businesses, special attention should be given to differentiating between the sizes of businesses participating in PPCs, to be able to measure the engagement of SMEs in particular. Entity governments can use the example of the reports published by the state-level Ministry of Justice to develop their own monitoring and evaluation mechanisms, which should take into account the same considerations. At all levels of governance, efforts should be made to encourage businesses to participate in consultations. Alongside the online portals for consultations that exist at the state level and in the Federation of Bosnia and Herzegovina (and which Republika Srpska may consider introducing), proactive outreach campaigns could help increase SMEs' level of engagement.

## Operational environment for SMEs (Dimension 4)

### Introduction

From registering a company and obtaining a business licence to filing and paying taxes, SMEs interact with public institutions, physically or digitally, at all stages of their development. The operational environment in which SMEs must navigate is determined by the ease of using digital services, the number of procedures and the costs associated with their interactions with the government. Complex requirements imposed on businesses have adverse impacts on SMEs' abilities to operate, take advantage of market opportunities efficiently and grow.

For an economy like Bosnia and Herzegovina, characterised by a complex institutional structure and highly decentralised governance framework, the development of digital government services poses a unique challenge, as it is, in general, an effort that requires substantial co-ordination between different levels of government (OECD, 2014<sup>[62]</sup>; 2021<sup>[63]</sup>). The COVID-19 pandemic has revealed to what extent digital services for SMEs can be vital in certain situations and useful in saving time and resources otherwise.

Bosnia and Herzegovina's performance in this dimension has improved since the last assessment, from 2.34 in 2019 to 2.49 in 2022. Performance in delivering digital government services for SMEs has improved slightly since the last assessment (when it was 1.81), translating progress in developing a state-level policy framework. Incremental progress has also been achieved in optimising company registration and business licensing processes.

**Table 14.13. Bosnia and Herzegovina's scores for Dimension 4: Operational environment for SMEs**

Dimension	Sub-dimension	Thematic block	Bosnia and Herzegovina	WBT average	
Dimension 4: Operational environment for SMEs	Sub-dimension 4.1: Digital government services for SMEs	Planning and design	2.80	4.28	
		Implementation	1.73	3.33	
		Monitoring and evaluation	1.48	2.48	
		<b>Weighted average</b>	<b>1.99</b>	<b>3.40</b>	
	Sub-dimension 4.2: Company registration	Planning and design	3.50	4.42	
		Performance	2.80	3.93	
		Monitoring and evaluation	2.50	4.06	
		<b>Weighted average</b>	<b>2.96</b>	<b>4.18</b>	
	Sub-dimension 4.3: Business licensing	License procedures	3.75	3.88	
		Monitoring and streamlining of license system	3.35	3.73	
		<b>Weighted average</b>	<b>3.55</b>	<b>3.80</b>	
	Sub-dimension 4.4: Tax compliance procedures for SMEs	SME tax compliance and simplification procedures	No scores		
		Monitoring and evaluation of SME-specific tax measures			
	<b>Bosnia and Herzegovina's overall score for Dimension 4</b>			<b>2.49</b>	<b>3.64</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

Digital government services for SMEs in Bosnia and Herzegovina remain underdeveloped compared to other WBT economies. Although a common framework for public administration reform that aims to improve service delivery and increase the availability of digital services across all of Bosnia and Herzegovina's administrative divisions has been adopted, it has not yet been implemented. Lack of alignment in policy and legal frameworks between Bosnia and Herzegovina's two entities leads to a

fragmented digital service environment and stagnation in the development of key enablers of digital services such as electronic signature and the interoperability of government data. Somewhat encouraging initial steps have been taken in developing open data at the state level; however, their usefulness for SMEs remains limited. Positive developments are ongoing with regard to company registration in both entities. While the Federation of Bosnia and Herzegovina has amended its legislative framework to establish a one-stop-shop for company registration, Republika Srpska is in the process of making e-registration fully operational. Business licences are centralised on line in both entities, and Republika Srpska is streamlining reforms to simplify licensing procedures for businesses. Unincorporated SMEs face a high tax burden under the standard tax regime, but some SMEs can benefit from simplified tax regimes, which reduce tax compliance costs. In addition to regular taxes, businesses need to pay stamp duties, which might result in a significant additional tax burden for SMEs. Co-operation between the Indirect Taxation Authority and the entities' tax administrations is weak (Table 14.14).

**Table 14.14. Bosnia and Herzegovina's implementation of the SME Policy Index's 2019 recommendations for Dimension 4**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Create a single portal and expand digital services, allowing SMEs to complete all processes on line</b>	As the rollout of digital government services is done at the entity level, there is no central portal for the whole economy. While the entities have their own portals which aim to centralise and facilitate access to digital services, most pages are purely informational (businesses still need to complete part or all of the service physically). The user-friendliness of both portals could be improved.	Limited
<b>Harmonise and continue efforts to implement digital authentication or e-signatures in order to allow SMEs to complete services fully on line and across the entire territory</b>	Electronic signature is still developed unevenly between the entities, and the state-level Law on E-signature is still outdated.	No progress
<b>Harmonise the business registration process and widen online registration opportunities for SMEs</b>	The Federation of Bosnia and Herzegovina has undertaken the relevant reforms to make its one-stop-shop operational, although the process will only be available in person. Optimisation of administrative procedures is underway in Republika Srpska, and an online registration portal has been established, although it is not yet fully operational.	Moderate
<b>Pursue efforts to streamline company registration and licensing under one-stop-shops</b>	There have not been any developments in streamlining company registration and licensing together under one-stop shops. Nevertheless, efforts were made to optimise company registration in both entities. The Federation of Bosnia and Herzegovina's one-stop-shop should be operational in 2022. Moreover, Republika Srpska is in the process of streamlining business licensing.	Limited
<b>Regularly monitor and evaluate tax simplification measures</b>	Bosnia and Herzegovina has implemented measures to simplify the tax administration procedures and increase the tax literacy of entrepreneurs; this has contributed to reducing compliance costs for SMEs. However, additional simplification procedures could help reduce tax compliance costs even further.	Moderate

*Despite the creation of a common framework for public administration reform, digital government services are unevenly developed between the two entities*

In 2018, Bosnia and Herzegovina adopted an economy-wide Strategic Framework on Public Administration Reform (2018-2022), which was developed jointly with the entities and Brcko District and contains a section on digitalisation and the development of digital government services throughout the economy and its subdivisions. The Public Administration Reform Co-ordinator's Office co-ordinated the development of the Strategic Framework on Public Administration Reform (2018-2022) and is charged with overseeing its implementation together with the Public Administration Reform Co-ordination structure. However, the structures for its implementation have not yet been put in place, and the corresponding action plan was not adopted by the entities and Brcko District until late 2020, despite the term of the framework nearing its

end, and as such, the implementation of the framework has been delayed. The entities have their respective frameworks for the development of digital government, and it is mainly at their level that digital government reforms are being implemented, leading to different levels of progress in developing digital government services.

Republika Srpska is implementing its E-Government Development Strategy (2019-2022), and one of its goals is the creation of “an interoperable, user-oriented and economically sustainable process of digitalisation of public services”. Republika Srpska has an online portal ([www.esrpska.com](http://www.esrpska.com)) that aims to serve as a one-stop-shop for digital services; however, the goal has not yet been achieved, as the portal’s content is mainly informational and only in some cases redirects to the domains of institutions in which services can be completed on line (such as for filing declarations for taxes or social security contributions). There is room to improve the user-friendliness of the portal, as the links to the relevant institutions are not provided in a clear way,<sup>30</sup> leaving room for doubt in identifying the competent institution for a given service. In the future, the Government of Republika Srpska plans to redesign the portal or develop a new one in order to enable the use of transactional services.

The Federation of Bosnia and Herzegovina’s Development Strategy (2021-2027), adopted in February 2021, aims to advance the digital transformation of the public administration. The strategy recognises that public services in the Federation of Bosnia and Herzegovina are designed around the administration and are not user-centric. Moreover, it announced plans to draft a digital government strategy for the Federation of Bosnia and Herzegovina, which would aim to empower a body with strong political legitimacy to steer and co-ordinate digitalisation reforms in the entity, as well as to co-ordinate relations with international partners for investing in the necessary information and communication technology (ICT) infrastructure. As in Republika Srpska, the Federation of Bosnia and Herzegovina’s online portal (<http://euprava.fbih.gov.ba>) contains information on a range of services and administrative procedures and redirects to the site of the competent administrations without allowing users to complete many key services directly on line.

Businesses’ satisfaction with digital services in Bosnia and Herzegovina is the lowest among all of the Western Balkan economies, with only 19% of businesses surveyed in the latest Balkan Business Barometer survey responding that they are satisfied with digital services provided by the public administration (compared to a regional average of 39%). One-third (33%) are dissatisfied.<sup>31</sup> This could be due to digital services in Bosnia and Herzegovina being generally underdeveloped compared to its regional peers and due to their fragmented nature (RCC, 2021<sub>[42]</sub>). Neither entity has established mechanisms to monitor and evaluate the performance of its digital services.

*Progress on ensuring the key enablers of digital services is advancing slowly, and data interoperability, electronic signature and open data remain underdeveloped*

In 2018, Bosnia and Herzegovina adopted a framework for economy-wide interoperability of information systems. However, implementation is advancing slowly, as a working group for the co-ordination of the framework’s implementation was established only in June 2021, three years after the framework was adopted, and no action has been taken since. Advancing interoperability is essential for ensuring more efficient and integrated digital services throughout Bosnia and Herzegovina, in line with the once-only principle.<sup>32</sup> It is also a prerequisite for Bosnia and Herzegovina’s integration with European information systems as the economy advances on its goal to join the European Union (OECD, 2021<sub>[9]</sub>).

The current electronic signature legislation in Bosnia and Herzegovina is outdated at the state level, as the Law on Electronic Signature dates back to 2006, and is thus not aligned with the more recent EU eIDAS Regulation. Despite this, there is a state-level accreditation body that has so far accredited one private company, Halcom d.d, with the right to provide qualified electronic certificates necessary for use in electronic signatures, while the Indirect Taxation Authority also issues qualified electronic signatures which are usable for its own services. However, due to the lack of consensus for updating the state-level legislation, the entities have adopted diverging approaches, with Republika Srpska developing its own

legislation and accreditation institutions which are up to date with the EU legal framework (which is not the case in the Federation of Bosnia and Herzegovina and at the state level). This means that companies from one entity need to provide additional documents in order to use electronic signatures in the other entity, contributing to the administrative burden. Having diverging legal frameworks and approaches and different regulatory institutions also complicates the integration of Bosnia and Herzegovina's electronic signature system with the European Union, where a single national accreditation authority is recognised per economy.

Bosnia and Herzegovina has begun implementing its first Open Government Partnership (OGP) Action Plan (2019-2021), since it joined the OGP in 2014. The action plan focuses on improving transparency and opening data in state-level areas of competence, such as public procurement, macroeconomic data and official statistics. So far, the State Statistical Office and Central Bank of Bosnia and Herzegovina have opened their data in a machine-readable format (OECD, 2021<sup>[9]</sup>). While this is an encouraging first step in fostering an open data culture in the government, much more could be done to improve the level and accessibility of open data that could be relevant for SMEs in their business practices. In 2020, open data readiness assessments, supported by international partners, were conducted at the state level and in Republika Srpska, and showed that more effort was needed to create a favourable environment for open data initiatives at the state level, while in Republika Srpska, the outlook was more positive.

*The common framework for public administration reform needs to be operationalised in order to deliver its objectives*

Bosnia and Herzegovina's Strategic Framework for Public Administration Reform provides a comprehensive framework for the development of digital government services, and identifies the need to design services around the needs of users and improve monitoring and evaluation of digital services. However, due to the Strategic Framework not being properly implemented, it remains a visionary document whose validity will need to be extended in order to remain relevant. A budget for the Strategic Framework's Action Plan must also be adopted by all relevant parties in order for the actions to be properly implemented.

A comprehensive and aligned framework is essential to help both the state and the entities jointly establish a clear vision, goals and objectives that could help Bosnia and Herzegovina utilise the opportunities of digital transformation to create public value and reduce administrative burdens for businesses, and particularly SMEs that often have fewer resources. The operationalisation and co-ordination of this framework's implementation are essential and can only be achieved through budgeted activities and a joint monitoring and evaluation mechanism.

*Key developments were undertaken to optimise company registration in both entities, although the process is more advanced in Republika Srpska*

Positive developments have been made in both entities to reduce the time and costs associated with business registration processes. While the Agency for Intermediary, IT and Financial Services (APIF) has been acting as a one-stop-shop in Republika Srpska since 2015, in 2021, the Federation of Bosnia and Herzegovina adopted the long-awaited adjustments to its administrative laws as a legal basis for making its one-stop-shop operational. In particular, the amendment to the Law on Administrative Procedures foresees the online collection of data between institutions instead of requiring businesses to do so, and the Law on Crafts and Related Activities prescribes the silent-is-consent principle for business registration. The system is expected to be fully operational in 2022 and should lower the costs and shorten the procedures required for registering a company, which are considerably higher in the Federation of Bosnia and Herzegovina than in other economies in the region. The Law on Crafts and Related Activities envisages a maximum of 7 procedures, compared to 13 in 2019 (representing 80 days and 13.7% of GNI per capita (World Bank, 2020<sup>[64]</sup>)). Nevertheless, no progress has been achieved in eliminating the paid-in minimum capital requirement, which amounts to EUR 500 (10.2% of GNI per capita (World Bank, 2020<sup>[64]</sup>)).

In Republika Srpska, the 2019 amendment to the Law on Registration of Business Entities sets the stage for online registration through a single portal and payment slip system, which should ensure high interoperability between the 76 relevant institutions at entity and local levels. This portal was established in 2021 (<https://eregistracija.vladars.net>),<sup>33</sup> but is not yet fully operational due to delays in the commissioning of the electronic signature mechanism. Online registration training for APIF officers, individuals and companies is planned until the portal becomes fully functional. The online system should considerably reduce costs (entrepreneurs will receive a 50% discount on administrative fees) and the time for company registration, estimated at three days by the APIF. The RS government launched a project for the “Optimisation of Administrative Procedures and Formalities” in 2021 (see Institutional and regulatory framework for SME policy making (Dimension 3)), which aims to further reduce the number of procedures required to register a business (those prior and subsequent from registering on line or physically).

Monitoring and evaluation mechanisms are in place in Republika Srpska, although public monitoring reports on company registration are not available. Evaluation has been conducted and is particularly beneficial to developing e-registration for businesses. Such mechanisms are planned in the Federation of Bosnia and Herzegovina with the establishment of its one-stop-shop.

Little progress has been achieved in improving the connection and co-ordination of company registers among the entities (European Commission, 2021<sup>[58]</sup>). To operate across all of Bosnia and Herzegovina, multiple registrations are still required, increasing the costs of registering a company.

*Information on business licences is centralised in both entities, and streamlining reforms are ongoing in Republika Srpska*

Licences are obtained at the entity level from a number of public institutions. Applicants from Bosnia and Herzegovina have access to clear information on all licences and permits on online entity-level registers: a Single Point of Contact for Business portal in Republika Srpska: <https://pccsrpska.vladars.net/sr> and as part of the e-Government portal in the Federation of Bosnia and Herzegovina: <http://euprava.fbih.gov.ba/#admin-procedures>. The portals provide guidelines for obtaining a licence, in particular regarding the responsible institution, necessary fees and compliance standards. However, application processes remain in person, and there is no plan to digitalise them in the near future, which remains a big or very big obstacle for one-third of businesses in Bosnia and Herzegovina (RCC, 2021<sup>[42]</sup>).

Delays in obtaining licenses can be costly to entrepreneurs, as they add uncertainty and additional costs to much-needed business transactions. According to the latest data available, 16 days were required to obtain an operating licence, 19 for an import licence and 103 for a construction permit on average in Bosnia and Herzegovina, the last two being higher than WBT averages (which were 24, 11 and 72, respectively) (World Bank, 2019<sup>[65]</sup>). The burdensome number of procedures, requirements, paperwork and cost for obtaining business licences are considered overall a big or very big obstacle in Bosnia and Herzegovina for 42% of the respondents to the Balkan Business Barometer survey, albeit slightly less than in 2019 (53%) (RCC, 2021<sup>[42]</sup>). Promisingly, streamlining of the licensing process has been ongoing in Republika Srpska since 2021, as part of the aforementioned “Optimisation of Administrative Procedures and Formalities” project. With the involvement of the business community (PCCSRPSKA, 2021<sup>[66]</sup>), 944 formalities available on the Single Point of Contact for Business portal were being reviewed at the time of writing, a large number of which concern business licensing. A final Action Plan was adopted at the end of 2021 and includes a clear timeline to simplify administrative procedures and reduce the length of time and costs associated with them (including which ones should be abolished). Moreover, a five-year economy-wide USAID E-Governance Activity project was launched in 2021 to support initiatives to increase transparency and efficiency in administrative procedures conducted by the competent authorities, with a specific focus on digitalisation. As part of this project, it is planned to improve and develop the electronic issuance of construction permits in five selected pilot municipalities.

*A comprehensive set of tax policy measures has been introduced to maintain employment and support business cash flow during the COVID-19 pandemic*

Some measures were targeted at SMEs specifically. VAT exemptions were introduced for imports and domestic sales of products directly linked to the fight against the COVID-19 pandemic, such as medical equipment and disinfection tools and products. The Federation of Bosnia and Herzegovina subsidised a temporary reduction in employer and self-employed social security contributions (SSCs); the flat tax for self-employed entrepreneurs was reduced by 50% (Ministry of Finance of the Federation of Bosnia and Herzegovina, 2020<sup>[67]</sup>). Republika Srpska subsidised a temporary reduction in employer and self-employed SSCs. Additionally, the minimum personal income tax (PIT) liability for self-employed workers was reduced from BAM 600 (approximately EUR 307) to BAM 240 (approximately EUR 123) (Tax Administration of Republika Srpska, 2020<sup>[68]</sup>).

In addition, tax administration measures facilitated tax compliance during the pandemic. The Federation of Bosnia and Herzegovina waived advance PIT, and corporate income tax (CIT) payments for self-employed workers and interest was not charged on the deferred tax liabilities (Ministry of Finance of the Federation of Bosnia and Herzegovina, 2020<sup>[67]</sup>). The tax administration stopped forced tax collections. Republika Srpska extended the deadlines for filing and paying the PIT and the CIT; interest was not charged on the deferred tax liabilities (Tax Administration of Republika Srpska, 2020<sup>[68]</sup>). Overall, these measures were broadly aligned with measures that have been taken in economies around the world.

*Unincorporated SMEs face a high tax burden under the standard tax regime*

Self-employed entrepreneurs are subject to high SSCs, especially in the Federation of Bosnia and Herzegovina. This increases compliance costs and reduces incentives for SMEs to operate partly or fully in the formal economy. In the Federation of Bosnia and Herzegovina, self-employed SSCs were levied at a rate of 41% on net income in 2021 (IBFD, 2021<sup>[69]</sup>). In Republika Srpska, the self-employed SSC rate is 31% from 1 January 2022 onwards. In addition to SSCs, self-employed workers pay a flat PIT rate of 10% in both entities (but a presumptive tax system may apply, see below); there is a basic allowance in the PIT of BAM 3 600 (approximately EUR 1 842) in the Federation of Bosnia and Herzegovina and BAM 12 000 (approximately EUR 6 100) in Republika Srpska (IBFD, 2021<sup>[69]</sup>).

Gig-workers are subject to the standard flat PIT; however, in most cases, they pay SSCs at special rates. In the Federation of Bosnia and Herzegovina, gig-workers pay 10% of their income for health and pension contributions. In Republika Srpska, they pay SSCs at a rate of 31% levied on 60% of the average gross salary in the previous year. However, gig-workers that fall under a specific type of employment contract, such as a temporary contract, pay pension and disability insurance contributions at a rate of 18.5% and health insurance contribution at a rate of 10.2%.

*CIT incentives are available to SMEs and larger businesses that incentivise capital formation and employment*

In Bosnia and Herzegovina, the standard CIT rate in 2021 was 10% (IBFD, 2021<sup>[70]</sup>). In the Federation of Bosnia and Herzegovina, businesses that employ new staff for at least 12 months can deduct twice the gross salary of these new staff members from their CIT base. In Republika Srpska, businesses that increase the salary of their employees qualify for a partial refund of employer SSCs. Since 2019, businesses can reduce their tax liabilities by the amount invested in manufacturing equipment and plants.

*Simplified tax regimes are available for a selection of SMEs*

In the Federation of Bosnia and Herzegovina, a lump-sum tax regime is available for a selection of self-employed entrepreneurs, which reduces their tax compliance costs. The lump-sum tax regime only applies to self-employed entrepreneurs that are not registered for VAT and operate in specific business sectors;

overall, 14% of the self-employed qualify for the regime; the remaining 86% are subject to the standard PIT regime. The annual PIT liability for these self-employed ranges from BAM 360 (approximately EUR 184) to BAM 960 (approximately EUR 490), depending on the business sector in which they operate. This tax design is relatively simple, as tax liabilities are fixed as long as businesses continue to carry out the same business activity. However, as PIT liabilities are fixed, businesses that have a low turnover or low profits can face a high effective tax rate (when the PIT liability is expressed as a percentage of their profit). An in-depth evaluation of business tax returns and a dialogue with all self-employed entrepreneurs would provide information on whether there is scope to improve the tax regime for the self-employed and/or implement the standard tax regime across all sectors.

To reduce compliance costs, self-employed entrepreneurs in Republika Srpska are allowed to calculate their taxable income with a lump-sum method or to pay tax under a presumptive tax regime, rather than income being taxed at a rate of 10% (sole proprietorship), 8% (personal income) or 13% (copyrights, capital income and gains). Under the lump-sum method, businesses that meet the set criteria in the law are taxed on turnover (that cannot be less than a set amount). Under the presumptive tax regime, PIT liabilities are 2% of annual turnover, regardless of the business sector the firm operates in (Tax Administration of Republika Srpska, 2020<sup>[68]</sup>). Businesses that qualify for the presumptive regime should have an annual turnover of less than BAM 50 000 (approximately EUR 25 600), benefit from a VAT exemption, operate in specific business sectors, do not employ more than three employees (in addition to the entrepreneur him/herself) and do not carry out the activity with other entrepreneurs. Presumptive income taxes imply that businesses with low profits will face a higher effective tax rate than businesses that have high profits, which raises horizontal equity concerns. Republika Srpska should therefore assess whether there is scope to improve the design of its two simplified tax regimes, for instance, by integrating both regimes into a presumptive tax regime with rates that increase with turnover, to encourage SMEs to grow into the regular PIT regime.

*No VAT simplification measures are implemented for SMEs, but the VAT design is simple, and the VAT refund system seems to work relatively well*

In both entities, businesses with an annual turnover exceeding BAM 50 000 (approximately EUR 25 600) have to register for VAT. Voluntary registration for VAT is possible for businesses with lower turnover, provided they remain VAT liable for a minimum of five years. In 2021, the standard VAT rate was 17%, and there were no VAT reduced rates (IBFD, 2021<sup>[70]</sup>). In addition, businesses can claim VAT refunds on a monthly basis, and the tax administration indemnifies businesses in case of late reimbursement of the excess VAT paid. This constitutes good VAT design practice and helps ease VAT compliance costs. Bosnia and Herzegovina could evaluate whether it wants to introduce additional measures to facilitate VAT compliance for SMEs, such as simplified input tax credit calculation schemes and reduced restrictions for businesses to qualify for VAT voluntary registration.

*Co-operation between the Indirect Taxation Authority and the entities' tax administrations is weak*

Neither entity can verify business tax returns with information from the VAT due to limited information exchange with the Indirect Taxation Authority.

SMEs benefit from tax administration simplification measures, but they do not widely use digital services.

SMEs benefit from simplified bookkeeping rules, except for VAT purposes, and all businesses are required to pay taxes on a monthly basis. Cash accounting is allowed for PIT purposes in the Federation of Bosnia and Herzegovina and Republika Srpska, provided businesses have annual turnover below BAM 500 000 (approximately EUR 256 000). However, cash accounting is not allowed for VAT purposes in either entity. In the Federation of Bosnia and Herzegovina, businesses subject to the lump-sum tax regime do not have to keep books. In Republika Srpska, businesses under the regular regime are required to keep several

books (income and expense, permanent assets, receivables and liabilities), but self-employed workers only have to keep a book of income and expenses. Moreover, businesses make PIT and CIT pre-payments on a monthly basis (considered as final payments for self-employed workers in Republika Srpska). In addition, VAT returns are filed monthly, regardless of the size of the business.

While online tax filing and payment reduce tax compliance costs, they are not widely used in Bosnia and Herzegovina. However, efforts have been made to increase tax literacy amongst SMEs. E-filing is not mandatory, except for VAT, resulting in only 55% of tax returns being filed electronically in the Federation of Bosnia and Herzegovina and 43% in Republika Srpska (OECD, 2021<sup>[9]</sup>), although the signature used for electronic filing is free of charge. Electronic tax payments are not mandatory and remain difficult in practice due to the complexity of the online procedure and technical problems with the online portal. The Indirect Tax Compliance Strategy (2019-2021) launched by the Indirect Taxation Authority has contributed to informing and educating taxpayers. These types of initiatives are welcome as part of a strategy to reduce compliance costs for SMEs.

### ***The way forward for Dimension 4***

- **Operationalise the Strategic Framework for Public Administration Reform.** As the extension of the Strategic Framework for Public Administration Reform's validity is planned, priority should be given to achieving consensus between all levels of government in Bosnia and Herzegovina on concrete common and individual goals, resources and timelines. The efficient development of digital government can only be ensured through common horizontally accepted priorities and objectives that are valid for all levels of government, in line with Bosnia and Herzegovina's constitutional structure, and through which progress can be regularly and accurately monitored and evaluated. Having an aligned framework for digital transformation would also ensure easier digital integration with the EU networks in the future.
- **Develop a comprehensive and aligned framework on open data.** Building on the momentum from its first OGP Action Plan, Bosnia and Herzegovina should look to develop a more ambitious policy framework for promoting open data across its different levels of governance. Designed jointly by the state level and the entities, in line with Bosnia and Herzegovina's constitutional structure, a strategic framework should look to establish a joint open data portal; establish clear, aligned and mandatory guidelines for open data publishing, annotation and formatting applicable to all institutions at all levels of governance; increase the availability of open data relevant for the private sector; and promote the reuse of open data for the creation of innovative products by SMEs.
- **Ensure the implementation of key enablers of digital government services.** A joint working group comprising representatives from both entities, the state level, Brcko District and the Public Administration Reform Co-ordinator's Office, should be formed to ensure that outstanding issues in digital service delivery, such as alignment of electronic signature legislation, do not further impede Bosnia and Herzegovina's digital transformation, and that the legal environment allows for the rollout of digital services at the level of the entities. Additionally, a joint one-stop-shop portal redirecting users to the portals of the entities for relevant digital services could facilitate user-friendliness and information accessibility for SMEs in Bosnia and Herzegovina.
- **Consider digitalising the business licensing application process.** While both entities have centralised licensing registers, businesses are still required to apply in person to each institution responsible for granting a licence. Digitalising the licensing application process would save time and lighten the administrative burden on SMEs by reducing the number of steps required. It would also improve access for smaller firms operating at a distance from the relevant offices. A prerequisite for this would be the introduction of electronic signature, aligned across the entire economy, which would allow companies to complete this process digitally end-to-end.

- **Evaluate the taxes paid by businesses and the tax simplification procedures that aim to facilitate tax compliance; also evaluate to which extent stamp duties can be reduced, especially for SMEs.** The Federation of Bosnia and Herzegovina could consider abolishing stamp duties or, if this is not possible, reducing them to decrease compliance costs for SMEs. Both entities could evaluate whether the monthly tax payment obligation leads to high compliance costs, and whether tax pre-payments could be made less frequently instead for smaller businesses.
- **Enhance co-ordination, co-operation and data exchange among the economy's different tax administrations.** More intensive information exchange between the entities and the Indirect Taxation Authority would improve the quality of the tax audits and reduce compliance costs for businesses that have to provide VAT information to the respective entities.
- **Both entities could consider introducing mandatory e-filing under the personal income tax and the corporate income tax and simplifying tax e-payment procedures.** Enable the interoperability of the electronic signature and simplify the procedure of paying taxes on line.

## Support services for SMEs (Dimension 5a)

### Introduction

SMEs are more prone than larger companies to suffer from a lack of managerial and technical skills, suboptimal technology, limited access to markets and information, and a lacking entrepreneurial skillset, which can hinder their growth. BSSs provided or supported by the government – ranging from general information and advice to training, mentoring and technical services – seek to address these challenges, thus providing a tool to boost SME productivity. While the COVID-19 pandemic had negative effects on the provision of BSSs across the globe, particularly those involving direct contact with SMEs, it also provided an opportunity to reduce the cost of participation for SMEs by moving part of the activities on line.

SMEs in Bosnia and Herzegovina continue to encounter difficulties accessing BSSs to improve their competitiveness. Low productivity and growth among SMEs are prevalent across entities. To remedy this, Bosnia and Herzegovina needs to provide capacity building and skill development activities to its SMEs. Granting them access to a mix of financial and non-financial support is a key element of the current policy approach, where both access to finance and technical assistance have been negatively affected by the COVID-19 pandemic.

Bosnia and Herzegovina improved its last assessment score of 3.41 on support services for SMEs, scoring 3.65 in this cycle (Table 14.15). Progress stems mostly from a strengthened strategic framework for BSSs provision. The economy scored relatively high in the implementation thematic block assessing the BSSs provided by the government, even though the majority of programmes was initiated by international development co-operation partners. Additional improvements are still needed across entities in monitoring and evaluation.

**Table 14.15. Bosnia and Herzegovina's scores for Dimension 5a: Support services for SMEs**

Dimension	Sub-dimension	Thematic block	Bosnia and Herzegovina	WBT average
Dimension 5a: Support services for SMEs	Sub-dimension 5a.1: BSSs provided by the government	Planning and design	3.17	4.17
		Implementation	3.86	4.24
		Monitoring and evaluation	3.06	3.88
		<b>Weighted average</b>	<b>3.49</b>	<b>4.15</b>
	Sub-dimension 5a.2: Government initiatives to stimulate private BSSs	Planning and design	4.80	4.63
		Implementation	3.75	4.21
		Monitoring and evaluation	2.50	3.84
		<b>Weighted average</b>	<b>3.82</b>	<b>4.26</b>
<b>Bosnia and Herzegovina's overall score for Dimension 5a</b>			<b>3.65</b>	<b>4.20</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

Public provision of BSSs was emphasised in various strategic documents adopted since the last assessment cycle. While Bosnia and Herzegovina advanced in implementing support programmes for SMEs, the majority of them are backed by international development cooperation partners, increasing the economy's reliance on external support. Moreover, the programmes risk being mismatched to SMEs' needs, as neither of the entities conducted any training needs analysis (TNA) or demand assessments. There has been little advancement in monitoring and evaluation in Republika Srpska, with OECD's recommendation mostly unrealised. In contrast, the Federation of Bosnia and Herzegovina introduced an

independent evaluation of the impact of provided BSSs (Table 14.16). Progress under this dimension thus remains uneven.

**Table 14.16. Bosnia and Herzegovina's implementation of the SME Policy Index 2019 recommendations for Dimension 5a**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Analyse the needs and supply of BSSs more effectively and regularly to fill the gaps in BSS provision, better target the support provided and create more effective BSS provision systems</b>	Little progress has been made in matching BSS demand to BSS supply. Republika Srpska conducted an assessment of training needs in collaboration with the Chamber of Commerce, but details on the results are lacking. No progress has been made in analysing SMEs' training needs in the Federation of Bosnia and Herzegovina.	Limited
<b>Strengthen the monitoring and evaluation of BSS programmes in both entities</b>	The Federation of Bosnia and Herzegovina has made progress in strengthening the monitoring system by introducing an independent review of BSS impact and delivery and creating a database of available incentives and beneficiaries to monitor the achievement of set targets and the allocation of funds. At the time of assessment, Republika Srpska is preparing to launch a Register of Incentives, with the goal of exchanging information between institutions that offer support programmes for SMEs. The register will contain a record of granted support funds and public calls for programmes and incentives for SMEs.	Moderate
<b>Introduce a quality assurance mechanism, such as an accreditation system for private-sector consultants, which SMEs are required to use under co-financed support programmes</b>	No formal accreditation systems have been introduced, but Republika Srpska introduced training and education requirements to be included in a database of private-sector consultants available to SMEs.	Limited

*Both entities in Bosnia and Herzegovina reinforced their strategic frameworks for public BSS provision*

Government provision of BSSs and their impact on SME competitiveness in Bosnia and Herzegovina is a cornerstone in new government strategies. The Federation of Bosnia and Herzegovina adopted the Action Plan for the Development of SMEs in the Federation of Bosnia and Herzegovina (2019-2020) (Federal Ministry of Development, Entrepreneurship and Crafts, 2019<sup>[71]</sup>), which served as a transitional document until the entry into force of the Development Strategy of the Federation of Bosnia and Herzegovina (2021-2027) (Federal Ministry of Development, Entrepreneurship and Crafts, 2021<sup>[72]</sup>). The key priorities of the Action Plan<sup>34</sup> ranged from establishing a dedicated agency for SMEs and increasing their access to finance to boosting technical development and conducting capacity-building activities. Due to the limited resources of the Federal Ministry of Development, Entrepreneurship and Crafts, the number of priorities and measures envisioned was reduced.<sup>35</sup> While the Action Plan's targets focused more on promoting entrepreneurship and reducing administrative barriers for SMEs, the Development Strategy of the Federation of Bosnia and Herzegovina (2021-2027) places more emphasis on improving the digital infrastructure of SMEs and supporting industrial clustering. However, the government also highlights SME access to mentoring programmes, facilitated networking and financial support as key targets of the strategy. The targets are well-defined, though not measurable, hindering further efforts in monitoring. The Development Strategy identifies the lack of resources as one of the main constraints and highlights the necessity for external funding.

In addition, the Federation of Bosnia and Herzegovina adopted the Action Plan for Innovation in SMEs (2021-2023) (Federal Ministry of Development, Entrepreneurship and Crafts, 2021<sup>[73]</sup>) and the Action Plan for the Implementation of the SBA Principles (2020-2021)<sup>36</sup> (Federal Ministry of Development, Entrepreneurship and Crafts, 2020<sup>[74]</sup>). The former has a clear focus on financial support for green and innovative practices, while the latter aims to strengthen the institutional framework for implementing activities in accordance with the SBA Principles. By emphasising support for innovative practices for SMEs

and placing BSSs within the SBA assessment framework, the Federation of Bosnia and Herzegovina has strengthened its strategic framework for government-provided support services. The Action Plan for the Implementation of the SBA Principles (2020-2021) is monitored through a series of meetings of a dedicated SBA group, which is in charge of the qualitative monitoring process.

In Republika Srpska, the government adopted a new Strategy for the Development of SMEs (2021-2027) (RS Parliament, 2021<sup>[54]</sup>). The strategy serves as a continuation of the previous one, with added focus on social entrepreneurship, SME competitiveness, access to EU markets and support for innovation. The Action Plan was being drafted at the time of assessment; therefore, information on specific measures to achieve the strategy targets is lacking. In order to reinforce the strategic framework for government-provided BSSs, Republika Srpska established the Centre for Digital Transformation within the Chamber of Commerce. The centre serves as a one-stop-shop for SMEs in their efforts concerning digital transformation, providing advisory and consulting services, training and information. Due to the onset of the COVID-19 pandemic, approximately 30% of the activities planned in the Strategy for the Development of Small and Medium Enterprises were not realised. In addition to the pandemic, there is a significant lack of resources impeding implementation, as well as a strong reliance on external funds.

Nevertheless, SMEs in both entities have access to informational and educational workshops, trainings, tailored mentoring, advisory services in the area of management, sales and marketing, as well as access to incubators and business accelerators. However, as neither of the entities conducted a TNA or an assessment of SME demand for specific BSSs, the governments are risking a mismatch between the needs of the private sector and the provided BSSs.

*Bosnia and Herzegovina relies on international development partners for the provision of public BSSs, and a co-ordinated approach to BSS provision is lacking*

Since the last assessment cycle, the RS government has launched a number of initiatives<sup>37</sup> that involve collaborating with international development co-operation partners; however, they do not specifically target increasing SME competitiveness or capacity. The Federation of Bosnia and Herzegovina made progress in implementing the mentoring project, “Establishment and promotion of mentoring services for small and medium enterprises in the Western Balkans”,<sup>38</sup> initiated together with JICA. Republika Srpska<sup>39</sup> is also part of this mentoring project with JICA, providing advisory support to 53 entities in 2020 through the services of 45 certified mentors.

Most of the projects in both entities are funded through external support, which signals high reliance on external funding. While the Federation of Bosnia and Herzegovina does have entity-governed technical assistance programmes for SMEs,<sup>40</sup> they have a local focus, limited to one region or city. Entity-wide programmes in the Federation of Bosnia and Herzegovina also rely on external support. While international co-operation is noteworthy and should be continued as it can have a positive impact on knowledge transfer between international agencies, governments and SMEs, as well as build capacity for local BSS providers, it should not become a substitute for functional and effective government programmes to provide BSSs (UNCTAD, 2005<sup>[75]</sup>). Over-reliance on external funds and technical assistance can reduce the economy's ability to develop and fund government support programmes due to a lack of institutional infrastructure for programme implementation. External partner-co-ordinated projects also tend to be temporary, thus limiting a regular, systematic approach to providing public and private BSSs.

While both entities in Bosnia and Herzegovina have frameworks for implementing their strategic targets related to BSS provision, the mandates of institutions across entities are complicated and risk duplication of efforts. The implementation of the SBA Principles falls under the mandate of the Ministry of Foreign Trade and Economic Relations at the state level, but SBA-related policies and strategies are within the purview of entity-level institutions (European Commission, 2021<sup>[76]</sup>). In the Federation of Bosnia and Herzegovina, there are five<sup>41</sup> regional development agencies governed by the mandate of the FBiH Ministry of Development, Entrepreneurship and Crafts, tasked with BSS provision for SMEs. In Republika

Srpska, the agency responsible<sup>42</sup> is RARS, with additional support provided through a network of local development agencies.

A co-ordinated inter-agency approach is needed to streamline the public provision of BSSs and maximise their utility for SMEs. At the time of assessment, despite the prevalence of international partner programmes to provide technical assistance, domestic companies did not seem to perceive the support as substantial. Some 94% of enterprises reported they did not receive public and/or support from international partners in 2018-20 (RCC, 2021<sup>[42]</sup>). This may signal low awareness or outreach of the programmes and a lack of co-ordination between agencies responsible for the provision of BSSs.

*Both entities support the private-sector provision of BSSs, though co-financing is only available in the Federation of Bosnia and Herzegovina*

As in the case of public BSS provision, the government's initiatives to stimulate private-sector BSSs are included in key strategy documents. The newly adopted Action Plan for the Development of SMEs in the Federation of Bosnia and Herzegovina (2019-2020) and the RS Strategy for Development of SMEs (2021-2027) both state the importance of good private-sector provision of BSSs and improved SME access to support services; however, the documents lack concrete measures.

While international development co-operation partners mostly fund public BSSs, private BSSs remain incentivised by the governments across entities. In the last assessment cycle, co-financing of BSSs was available to SMEs in both entities. The Federation of Bosnia and Herzegovina still provides co-financing from government funds and has increased the co-financed amount from 50% to 60%<sup>43</sup> of the costs since the last assessment cycle. Republika Srpska, however, does not currently provide co-financing schemes for SMEs from government funds. Nevertheless, through RARS, the government launched the Network of Consultants project, which seeks to contribute to developing the consulting services market in Republika Srpska. SMEs have access to a comprehensive database of a wide range of business consultants,<sup>44</sup> trained and educated to support SMEs in their development. Legal entities performing consulting activities and NGOs are also eligible to be included in the database to provide a wider range of services for SMEs. The services are co-financed on the basis of a voucher system. At the time of assessment, 96 service providers were registered in the database.

*Monitoring and evaluation are uneven across entities*

Both entities have monitoring mechanisms in place for public BSSs. However, while both entities report on the implementation of their strategies and action plans with publicly available reports, systematic monitoring based on indicators is lacking. Moreover, there is no evidence that the results of evaluation have a direct impact on service provision.

Since the last assessment cycle, the Federation of Bosnia and Herzegovina introduced an online registry, serving as a monitoring mechanism for all BSS recipients. The government created a centralised database of all incentives and their beneficiaries to be updated annually. The system facilitates a comprehensive analysis of the effectiveness of allocated funds and monitors target achievement by all beneficiaries back to 2013. Moreover, the Federation of Bosnia and Herzegovina's introduction of an independent review of BSS delivery and impact is a notable development.

There has been no change in monitoring systems in Republika Srpska, as it is done through annual reports, which are now publicly available. However, the reports do not evaluate the effectiveness of introduced BSS programmes.

Similarly, government incentives for private BSSs are not monitored thoroughly on either entity level. Since Republika Srpska does not provide co-financing initiatives using government funds, the monitoring system is non-existent. The Federation of Bosnia and Herzegovina uses expenditure monitoring mechanisms without a particular focus on programme outcomes or feedback, limiting the scope of evaluation.

### ***The way forward for Dimension 5a***

- **Reduce reliance on international development co-operation partners and external funding, and prioritise entity-level development of business support services (BSSs) for SMEs.** Developing a comprehensive across entity programme focused on improving SME competitiveness through training, mentoring, technical assistance, and access to finance would make SME support more predictable. External funding and projects are sporadic and do not constitute regular and consistent support on which SMEs can rely. A government programme with outreach across entities could contribute to higher cohesion among SMEs and broader inter-agency collaboration in improving SME capacity domestically and abroad.
- **Strengthen the monitoring and evaluation mechanisms for public and private BSS provision.** Evaluation of provided BSSs should be integrated into BSS policy design (Box 14.7). Impact assessment is a useful tool in determining the effectiveness of services and monitoring outcomes. A framework to measure the performance of SMEs after taking up provided initiatives could provide valuable insight into both positive and negative effects of selected incentives, which could later demonstrate the viability of provided BSSs.

#### **Box 14.7. The United Kingdom's Business Support Evaluation Framework**

The UK Department for Business, Energy and Industrial Strategy (BEIS) has created a dedicated framework for evaluating business support interventions in the United Kingdom. The tool aims to help policy makers create comparable support programmes and establish a set of standards to which all initiatives can adhere to provide the highest quality services. The framework focuses on quantitative evaluation and is complemented by qualitative monitoring. The evidence gathered through the evaluation framework serves as a basis for an impact and cost-effectiveness assessment. BEIS provides numerous support programmes for businesses, which are monitored and evaluated on a regular basis; therefore, the framework serves as a compilation of the evidence already gathered with the goal of identifying good practices in the area of evaluation. The framework focuses on support programmes' comparability through standardisation, data collection and reporting.

The framework is designed along a logic model, which accounts for different data components to be collected. The key elements include inputs, e.g. resources used for a support programme, deliverables, programme output and impact. The envisioned timeline of the impact evaluation is set at a minimum of three years. The business support interventions are evaluated based on a set of pre-defined indicators, such as gross value added, turnover, employment and productivity proxy measures, such as turnover/headcount ratio. The indicators are well targeted to ensure programme comparability. BEIS aims to create uniform standards for provided support programmes and increase the transparency of the evaluation process.

Monitoring and evaluation of BSS programmes are uneven across entities in Bosnia and Herzegovina; thus, introducing a common, comparable evaluation framework would improve the quality of provided support services. Given Bosnia and Herzegovina's governmental structure, comparable programmes and a common assessment framework would reduce the administrative burden for both entities and ensure higher quality support services for SMEs. Bosnia and Herzegovina can leverage its co-operation with international development co-operation partners, which can assist the economy in developing an evidence-based framework for impact evaluation.

Source: Department for Business, Energy and Industrial Strategy (2019<sup>[77]</sup>).

- **Conduct effective, regular analysis of the demand and supply of BSSs in order to fill the gaps in BSS provision so as to provide more targeted and customised support for SMEs** (Box 14.8). Both entities should aim to match the supply of BSSs available to satisfy the needs of SMEs, evaluated on a regular basis from the angle of their expertise, stage of development and experience. In order to maximise the utility of BSSs and ensure their uptake, they should be tailored to the specific characteristics of local SMEs.

#### Box 14.8. Turkey's approach to training needs analysis

Turkey's SME Development and Support Organisation (KOSGEB)'s Information Management and Decision Support Department is responsible for analysing the supply and demand for BSSs and SMEs' training needs. The assessments are conducted systemically, regularly and in a formalised manner. KOSGEB extends the evaluation practice to regional institutions to assess their institutional capacity to support SMEs on the ground. KOSGEB also conducts regular TNA and updates the dedicated training portal accordingly. Analysis results are then used in future support programme design.

The regularity and consistency in conducting TNAs contribute to SME support measures being well targeted and successful in Turkey. In addition, KOSGEB collaborates with regional Development Agencies in Turkey; therefore, their SME outreach is broader, allowing them a more comprehensive view of SME needs across the economy.

Despite Bosnia and Herzegovina's complex administrative environment, the economy has the capacity to conduct systematic research on SME demand for BSSs in both entities. In the Federation of Bosnia and Herzegovina, five regional development agencies are tasked with providing BSSs for SMEs. Expanding their mandate to conduct a thorough analysis of the training needs of their BSS beneficiaries would ensure that their BSS offer matches the demand, thus increasing BSS uptake and effectiveness. In Republika Srpska, RARS is the main body responsible for SME support, along with local development agencies, the Innovation Centre of Banja Luka, the Chamber of Commerce and the Chamber of Crafts providing additional assistance. The Chamber of Commerce has already made efforts to conduct a TNA among SMEs, but the approach is not systematic and works on an ad hoc basis. Republika Srpska could build on this analysis by conducting regular analysis of the demand and supply of available SMEs.

Source: KOSGEB (2022<sup>[78]</sup>).

- **Increase efforts to introduce a quality assurance mechanism**, such as an accreditation system for private-sector consultants whom SMEs are required to use under co-financed support programmes. Though efforts have been made in assuring the quality of private-sector consultants, further development of formal control mechanisms is needed for private-sector BSS providers.

## Public procurement (Dimension 5b)

### Introduction

Easy access to public procurement markets for SMEs and increasing their participation can boost competition by ensuring equal treatment and open access, thus promoting inclusive growth. Policy makers should therefore take into consideration the unique needs of SMEs, as they are disproportionately affected by complex procedures and often discouraged by the effort needed to take part in these procedures, while being unsure of the outcome.

The value of awarded contracts in Bosnia and Herzegovina decreased during the COVID-19 pandemic (BAM 2 771 billion (approximately EUR 1 418 billion) in 2020 compared to BAM 2 844 billion (approximately EUR 1 455 billion) in 2019) (OECD, 2021<sup>[59]</sup>). No changes to the Public Procurement Law (PPL) were introduced in response to the COVID-19 pandemic, as tools and procedures for emergency procedures were readily available (OECD, 2021<sup>[59]</sup>). The Public Procurement Agency issued instructions to contracting authorities related to the possibility of using negotiated procedures without prior notice, based on grounds of urgency, as well as exemption from the scope of the PPL for contracts which required special security measures (OECD, 2021<sup>[59]</sup>). The outbreak of COVID-19 was also used as justification to enhance the application of domestic preferences in public procurement, which is contrary to Bosnia and Herzegovina's commitments to the European Union (OECD, 2021<sup>[59]</sup>).

Bosnia and Herzegovina scored 3.49 on Dimension 5b, the lowest score on this dimension in the region (Table 14.17). It is also slightly lower than in 2019 (3.57), mainly due to limited progress in the area of implementation. All in all, progress in the field of public procurement may be qualified as limited, mostly because of the lack of improvements in public procurement legislation, delays in adopting updated strategic documents (action plans) and limited progress in the establishment of electronic procurement tools.

**Table 14.17. Bosnia and Herzegovina's scores for Dimension 5b: Public procurement**

Dimension	Thematic block	Bosnia and Herzegovina	WBT average
Dimension 5b: Public procurement	Planning and design	3.76	4.16
	Implementation	3.36	4.15
	Monitoring and evaluation	3.40	3.27
<b>Bosnia and Herzegovina's overall score for Dimension 5b</b>		<b>3.49</b>	<b>3.98</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

The Council of Ministers adopted a Proposal on the Law on Amendments to the Public Procurement Law, but the new provisions have not yet been adopted by the parliament (OECD, 2021<sup>[59]</sup>). While the application of domestic preferences was supposed to phase out on 1 June 2020, the Council of Ministers adopted a new temporary decision (Council of Ministers, 2020<sup>[79]</sup>) on preferential domestic treatment (with a 30% margin of preference) that was valid from 1 June 2020 until 1 June 2021. This decision was in breach of the SAA of Bosnia and Herzegovina with the European Union (OECD, 2021<sup>[59]</sup>). No new measures concerning domestic preferences have been adopted since the expiry of this decision. The grounds for re-establishing domestic preferences in the future, however, still exist in the PPL (Public Procurement Agency of Bosnia and Herzegovina, 2014<sup>[80]</sup>), and new preferences may be adopted by the government by means of implementing regulations.

**Table 14.18. Bosnia and Herzegovina's implementation of the SME Policy Index's 2019 recommendations for Dimension 5b**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Further align national legislation with EU rules and international best practice</b>	There have been no changes to the legal framework related to public procurement. The Public Procurement Law is partly in line with the <i>acquis</i> , but it provides for some exemptions that are not compliant with the <i>acquis</i> ; the draft amendment of the PPL was prepared by the Public Procurement Agency and submitted to parliament but has not yet been adopted.	No progress
<b>Ensure that economic operators have access to public procurement on equal footing regardless of their origin</b>	The application of domestic preferences, which were supposed to be phased out in June 2020, was extended until 1 June 2021, and their amount increased to 30%. The decision was not extended in 2021, but the risk of being re-imposed still exists as the PPL contains provisions authorising the government to regulate the issue of domestic preferences; the economy needs to ensure and continue the equal treatment of domestic and EU/international bidders in line with the provisions of the Stabilisation and Association Agreement. The Procurement Review Body's (PRB) website has finally been launched, and the PRB no longer has to rely on the Public Procurement Agency's (PPA) website. Information about review procedures and the PRB is accordingly published there, while the PRB's rulings are published on the Public Procurement Portal.	Moderate
<b>Remedy the issue of lack of expert staff of the PRB</b>	Bosnia and Herzegovina still needs to strengthen the PRB's administrative capacity by increasing staff, as many positions are still vacant (OECD, 2021 <sup>[59]</sup> ).	No progress
<b>Constantly monitor and analyse obstacles faced by SMEs in access to public procurement markets</b>	According to the information available at the time of writing this assessment, no progress was made to improve the monitoring and analysis of the obstacles faced by SMEs when accessing public procurement markets.	No progress
<b>Lower the fees to be paid by economic operators complaining to the PRB against the decisions of contracting authorities</b>	The fees paid by economic operators filing complaints with the PRB against the decision of a contracting authority remained the same (they are set by the PPL). No changes were adopted to the PPL.	No progress

*Public procurement procedures, although transparent and open, attract relatively little competition among economic operators*

In 2020, Bosnia and Herzegovina's public procurement market amounted to 8.05% of GDP, slightly below the 2019 level (European Commission, 2021<sup>[58]</sup>). Procurement contracts are mostly concluded under transparent and guaranteed competition procedures: 92% of contracts were awarded in 2020 under procedures with a public call for competition (OECD, 2021<sup>[59]</sup>). However, the average number of tenders submitted in procurement procedures was only 2.05 (OECD, 2021<sup>[59]</sup>), a decrease from 2019 when it was 2.16 (OECD, 2021<sup>[59]</sup>). Even more worrisome, 71% of all contracts in 2020 were concluded following a procedure in which only one tender was submitted (an increase from 67% in 2019) (OECD, 2021<sup>[59]</sup>).

*The regulatory framework still does not provide for some solutions envisaged in the 2014 EU Procurement Directives*

Public procurement is regulated in the Law on Public Procurement of 2014 (Public Procurement Agency of Bosnia and Herzegovina, 2014<sup>[80]</sup>). The PPL is based on the EU Procurement Directives adopted in 2004, but the 2014 EU Procurement Directives are yet to be implemented. The Strategy and Action Plan for the Development of the Public Procurement System in Bosnia and Herzegovina for the period 2016-2020 foresaw a gradual harmonisation with the new EU Procurement Directives (OECD, 2021<sup>[59]</sup>). However, the scheduled measures were not implemented (OECD, 2021<sup>[59]</sup>). On 18 February 2021, the Council of Ministers adopted the Proposal on the Law on Amendments to the Public Procurement Law (OECD, 2021<sup>[59]</sup>) and submitted it to parliament (OECD, 2021<sup>[59]</sup>). The draft law provides improvements

with regard to transparency in various phases of the procurement process and brings the PPL closer to the 2014 EU Procurement Directives, for example, with provisions concerning labels, life-cycle tools, preliminary market consultations and the obligation to indicate the main reasons why a contract is not subdivided into lots (OECD, 2021<sub>[59]</sub>).

The PPL's provisions provide various solutions to facilitate the access of SMEs to public procurement procedures: division of procurement into lots,<sup>45</sup> joint bidding (participation of consortia),<sup>46</sup> the possibility of relying on the resources of other economic operators,<sup>47</sup> and the application of proportionate and non-discriminatory requirements concerning the participation of economic operators.<sup>48</sup> The PPL also allows the winning tenderer the possibility to subcontract parts of a contract to third parties<sup>49</sup> and does not limit the maximum share of subcontracting. It does require, however, that subcontracting essential parts of the contract be subject to advance approval by the contracting authority.<sup>50</sup>

The PPL's current provisions do not promote the application of social, environmental and innovative or sustainability considerations. It is acknowledged that the application of such considerations is particularly beneficial for SMEs. While they may often be at a disadvantage in delivering off-the-shelf mass products at the cheapest possible purchase price, they may be able to offer customised, innovative goods or services that perform better in terms of quality, or that have a broader economic, social and environmental impact (European Commission, 2020<sub>[81]</sub>). The current PPL only mentions environmental characteristics among legitimate contract award criteria,<sup>51</sup> and contracting authorities are allowed to also take into account social and environmental requirements when establishing contract performance conditions.<sup>52</sup> The PPL also provides the possibility of restricting participation in procurement procedures to economic operators that employ disabled employees, but the provisions, based on the 2004 EU Procurement Directives, are stricter than those provided in the 2014 EU Procurement Directives.<sup>53</sup> Contracting authorities do not have the possibility to use a special procedure for social and other specific services in accordance with the 2014 EU Procurement Directives.

Selection of the best tender is based on the lowest price or the most economically advantageous tender criterion: contracting authorities are free to choose between those two options.<sup>54</sup> Unlike in some other economies of the region, the PPL does not provide any preferences for the application of quality criteria. Indeed, the lowest price criterion remains the most often used criterion in public procurement procedures (and amounted, in 2020, to 86% of procedures) (OECD, 2021<sub>[59]</sub>). It remains, however, less frequent than in other economies in the region.

*The regulatory framework requires a formalistic approach to verifying economic operators' qualifications*

Implementation of the PPL is very formalistic and fails to achieve some of its main objectives (OECD, 2021<sub>[59]</sub>). For example, mandatory self-declaration of economic operators, introduced in the PPL with the intention to replace documentary evidence as the condition for participating in the tender, in effect imposes more burden and costs on participants. First, any self-declaration submitted by bidders must be certified by a competent authority (municipality or public notary).<sup>55</sup> Second, only originals or certified copies of documentary evidence not older than three months from the date of submission of the tender may be accepted by contracting authorities from the winning bidder (if the winner fails to deliver such documents, the contract is proposed to the second-best bidder).<sup>56</sup> This results in many economic operators submitting documentary evidence along with the obligatory self-declaration with their tenders, completely devaluing the concept of a self-declaration (OECD, 2021<sub>[59]</sub>). Moreover, economic operators are forced to regularly obtain up-to-date original documents from institutions and certify the copies thereof to have them readily available in case they are required to deliver them to the contracting authority (OECD, 2021<sub>[59]</sub>).

*The institutional set-up supports conducting public procurement, but the current electronic procurement system does not enable fully electronic communication*

The Public Procurement Agency (PPA, n.d.<sup>[82]</sup>) is an independent administrative body responsible for policy making, preparing draft legislation, monitoring, and advisory and training activities in the field of public procurement and managing and developing the Public Procurement Portal. It has two branch offices, one in Banja Luka and one in Mostar. The PPA carries out monitoring of public procurement; provides advisory and operational support to contracting authorities and economic operators, such as ad hoc advice on legal as well as technical issues (through a hotline and in writing); conducts training and examinations of public procurement staff; and manages and operates the Public Procurement Portal.

The Public Procurement Portal (EJN, n.d.<sup>[83]</sup>), established with the support of the Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ), allows the publication of procurement notices and documents as well as the generation of reports on procurement procedures by the PPA. The portal also posts legislation (new and previous), opinions interpreting the provisions of the law, periodic and annual monitoring reports, and decisions of the Procurement Review Body. The PPL does not foresee the electronic submission of requests to participate in tenders. They are still handled, in principle, in a traditional paper manner, although there are examples of contracting authorities requesting electronic submission or indicating the possibility of submitting bids electronically and using electronic auctions in specific cases. The use of digital technologies in the tendering process (e-procurement) to overcome the lengthy paper-based procedures is regarded as being convenient for all kinds of enterprises, and particularly for SMEs, as it contributes to simplifying public procurement processes and reducing transaction costs (OECD, 2018<sup>[84]</sup>).

*The rights of economic operators in public procurement are protected by a review of appeals by an independent Procurement Review Body*

The PRB (PRB, n.d.<sup>[85]</sup>) is an independent and autonomous institution responsible for reviewing complaints submitted by economic operators. Responsibility for review is divided between the office in Sarajevo and two branch offices (one in Mostar and the other in Banja Luka) depending on the value of procurement concerned and the type of contracting authority. Any economic operator with or having had an interest in a public procurement contract award is allowed to appeal if they can make the case that damage was or could have been caused by the public procurement procedure because of the actions of the contracting authority. Those appealing need to pay a fee before the appeal is reviewed by the PRB. The fees are set according to the value of the entire public procurement contract and range from BAM 500 (around EUR 255) to BAM 25 000 (around EUR 12 800).

The review of the appeals process comprises two stages, as prior to an appeal being submitted to the PRB, it should be examined by the contracting authority in question. While the PPL is mainly compliant with the EU Remedies Directive, the time limits for bringing appeals before the PRB (five days)<sup>57</sup> are manifestly too short and do not comply with the requirements of the Remedies Directive.

After years of relying on the PPA's website for the publication of relevant information, in 2018, the PRB launched its own website. Rulings adopted by the PRB are published on the Public Procurement Portal.

### ***The way forward for Dimension 5b***

- **Complete the implementation of the 2014 EU Procurement Directives.** The current legal framework for public procurement has remained unchanged and is largely aligned with the basic EU principles but requires further alignment with the 2014 EU Procurement Directives. A draft amendment has been prepared and submitted to parliament but has not yet been adopted. It would also be beneficial to introduce anti-corruption mechanisms into the public procurement legislation,

in particular regarding conflicts of interest, and reduce the frequency of application of non-transparent and non-competitive procurement procedures (direct award procedures).

- **Complete the establishment of electronic public procurement.** Communication and exchange of information in Bosnia and Herzegovina is not fully conducted by electronic means, which is a standard under the 2014 EU Procurement Directives. The PPL does not foresee the electronic submission of requests to participate, and tenders are still handled on paper. The use of e-procurement contributes to the simplification of public procurement processes and reduces transaction costs, and, as such, is particularly beneficial for SMEs.
- **Reduce the administrative burden of participating in public procurement,** in particular, by simplifying provisions for economic operators to prove their compliance with exclusion and qualification (selection) criteria (Box 14.9).

### Box 14.9. Self-declarations in the EU Public Procurement Directives: European Single Procurement Document

Economic operators participating in public procurement procedures in European Union member states can prove compliance with exclusion and qualification (selection) criteria by means of self-declarations. Those self-declarations are submitted with tenders or requests to participate, in principle, instead of certificates issued by public authorities or third parties. Those certificates, statements and other means of proof – the supporting documents – are then required only from the bidder to whom the contracting authority has decided to award the contract.

In EU member states, at least above the thresholds of application of the Public Procurement Directive, this self-declaration takes the form of the European Single Procurement Document (ESPD). Contracting authorities are obliged to accept ESPDs from economic operators as preliminary proof that the economic operator fulfils the following conditions:

- a) is not in one of the situations in which economic operators should or may be excluded
- b) meets the relevant selection criteria that have been set by the contracting authority
- c) where applicable, fulfils the objective rules and criteria that have been set out by the contracting authority for the purposes of short-listing (in the case of multi-stage procedure).

The ESPD has a form established by the European Commission and is obligatory for EU member states in procurement covered by EU Procurement Directives. The ESPD consists of a formal statement by the economic operator that the relevant ground for exclusion does not apply and/or that the relevant selection criterion is fulfilled, and the economic operator should provide the relevant information as required by the contracting authority. The ESPD should also identify the public authority or third party responsible for establishing the supporting documents and contain a formal statement to the effect that the economic operator will be able, upon request and without delay, to provide those supporting documents.

The ESPD is used in Poland, and documents and certificates (proof) are only required from the bidder who is being offered the contract. The contracting authority, if required for the proper conduct of the procedure, may, at any stage of the procedure, including the pre-selection stage or immediately following receipt of requests to participate, request that economic operators submit all or some proof, valid at the moment of their submission. In case of reasonable suspicion that proof submitted earlier in the process has ceased to be valid, the contracting authority may request that the economic operator(s) submit proof that was valid at the time of their submission. The contracting authority may, but is not obliged to, request specific proof. Such a demand may be addressed to one particular supplier or several. Such a request is possible, in particular in the case of a two-stage procedure, at receipt of

requests to participate or immediately after the submission of such requests – it concerns thus the qualification stage of such a procedure. Submission of proof may also be requested after the submission of tenders if there are doubts concerning the validity of previously submitted documents. The possibility of using self-declaration should encourage the participation of economic operators, and in particular SMEs, by reducing the costs related to their participation in public procurement. Instead of evaluating numerous documents, contracting authorities only need to evaluate that self-declarations are submitted by all participants of the procedure – bidders submitting tenders (in an open procedure) or candidates submitting requests for participation in two-stage procedures (for example, a restricted procedure) to decide whether they should be excluded or admitted to the procedure. Self-declarations and information included therein should be sufficient for the contracting authority to take a decision on whether a given bidder (candidate) should be excluded or admitted to the public procurement procedure.

Sources: European Commission (2016<sup>[86]</sup>; n.d.<sup>[87]</sup>; 2017<sup>[88]</sup>).

## Access to finance for SMEs (Dimension 6)

### Introduction

Access to finance remains critical for economic growth and inclusive development, allowing companies to expand their operations and invest to gain in efficiency and productivity. However, the availability and affordability of credit are typically strongly correlated with firm size, meaning the smaller the company, the more difficult it is to access funding, thereby requiring targeted policy measures to encourage and complement private-sector financing without crowding it out.

Like elsewhere across the globe, the COVID-19 pandemic suddenly increased pressures on firm finances in Bosnia and Herzegovina, especially for smaller firms that do not have large financial buffers. It brought access to credit to a sudden halt, requiring a swift short-term targeted policy response to shore up firm finances without, however, losing sight of more long-term measures to provide sustainable financing opportunities for small businesses.

Against this background, Bosnia and Herzegovina has made limited progress in supporting access to credit for SMEs. Compared to the previous assessment in 2019, it has marginally improved its score from 3.26 to 3.34 (Table 14.19) but continues to lag behind the other economies in the region. Nevertheless, some progress has been made in aligning banking regulations and improving the legal framework for non-bank finance.

**Table 14.19. Bosnia and Herzegovina's scores for Dimension 6: Access to finance for SMEs**

Dimension	Sub-dimension	Thematic block	Bosnia and Herzegovina	WBT average
Dimension 6: Access to finance for SMEs	Sub-dimension 6.1: Legal and regulatory framework	Creditor rights	3.90	4.27
		Registers	4.50	4.63
		Credit information bureaux	4.50	4.37
		Banking regulations	3.20	4.09
		Stock market	3.00	3.23
		<b>Weighted average</b>	<b>3.94</b>	<b>4.20</b>
	Sub-dimension 6.2: Bank financing	Bank lending practices and conditions	2.80	3.23
		Credit guarantee schemes	2.40	2.61
		<b>Weighted average</b>	<b>2.64</b>	<b>2.98</b>
	Sub-dimension 6.3: Non-bank financing	Microfinance institutions	4.40	3.37
		Leasing	3.00	3.24
		Factoring	1.60	2.71
		<b>Weighted average</b>	<b>2.99</b>	<b>3.09</b>
	Sub-dimension 6.4: Venture capital ecosystem	Legal framework	2.00	2.73
		Design and implementation of government activities	1.40	2.57
		Monitoring and evaluation	1.00	1.47
		<b>Weighted average</b>	<b>1.53</b>	<b>2.40</b>
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	1.40	2.83
		Monitoring and evaluation	1.00	1.19
		<b>Weighted average</b>	<b>1.32</b>	<b>2.50</b>
<b>Bosnia and Herzegovina's overall score for Dimension 6</b>			<b>3.34</b>	<b>3.68</b>

Note: WBT: Western Balkans and Turkey.

## State of play and key developments

The complex institutional structure of Bosnia and Herzegovina and the subsequent lack of a single financial market continues to significantly impede access to finance, especially for smaller firms. Competencies related to financial market regulations fall within the remit of the entities, while the Central Bank maintains a rather limited co-ordination function. Progress has been made in aligning regulations to EU standards, triggering harmonisation also across entities, and the banking sector has weathered the economic downturn caused by the COVID-19 pandemic relatively well amid strengthened resilience prior to the pandemic. The establishment of dedicated COVID-19 sovereign credit guarantee schemes, complementing the existing public Guarantee Fund in Republika Srpska, have further helped to soften the impact on lending. Legislative reform has somewhat strengthened the framework for non-bank financial instruments, though limited data collection continues to hamper effective monitoring of non-bank financial institutions' activity. No progress has been made in establishing equity-based financial instruments, and there is no systematic and co-ordinated approach to promote financial awareness.

With regard to progress made on the key recommendations made for Dimension 6, Table 14.20 provides an overview of specific actions undertaken since the previous assessment.

**Table 14.20. Bosnia and Herzegovina's implementation of the SME Policy Index's 2019 recommendations for Dimension 6**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Continue to align the financial space</b>	Some progress has been made to harmonise the regulation and supervision of the banking sector with European standards, which was recognised by the European Commission in 2021. However, lack of co-ordination across entities and fragmentation of the supervision of the banking sectors remain major impediments to the long-term stability of the financial sector and hinder effective lending.	Moderate
<b>Strengthen the non-bank financing ecosystem and standardise data collection</b>	Despite a solid legal framework for non-bank financial products, uptake of factoring and, to a lesser extent leasing, remain subdued. Data on non-bank financial services remain unavailable in the Federation of Bosnia and Herzegovina, hindering comprehensive monitoring and evaluation to identify additional actions to promote these types of finance.	Limited
<b>Introduce a financial literacy strategy</b>	No progress has been made in developing a strategic, inclusive approach to financial literacy, as initiatives remain untargeted and ad hoc.	No progress

*Progress has been made in aligning legal frameworks, but continuous fragmentation in the regulatory set-up impedes financial sector supervision and co-ordination*

A legal framework regulating the financial sector is in place and broadly aligned to Basel III requirements, although the complexity of the institutional set-up limits harmonised supervisory and regulatory policy making in support of SME access to finance across all of Bosnia and Herzegovina, thereby impeding lending. Some progress has been made by both entities to align their legal and regulatory frameworks to EU standards. Since 2017, both the Banking Agency of Republika Srpska and the Banking Agency of the Federation of Bosnia and Herzegovina have undertaken steps to harmonise regulations with the *acquis*. Since 2019, the European Banking Authority has directly supported this process. As a result, in October 2021, the European Commission confirmed that the banking sector regulations are broadly aligned with EU standards, therefore reaching an important milestone in the creation of a harmonised financial space across the economy. Further underlining good intentions to improve co-ordination and exchange, amongst others, a memorandum of understanding between the two entities and the state level has been prepared, which would greatly increase predictability and the long-term stability of the financial system. However, at the time of writing, the memorandum of understanding was still pending signature. Finally, the Central Bank of Bosnia and Herzegovina has greatly increased its capacity for adequate forecasting and risk

assessment – however, due to the constitutional split of competences, it cannot comprehensively supervise the financial sector.

Both Republika Srpska and the Federation of Bosnia and Herzegovina operate their own cadastre, which, combined, cover all of the territory of Bosnia and Herzegovina. Both systems are available on line. However, they are not harmonised, not easily linked or verifiable, and there are no concrete plans to create a unified cadastre. Online usage of the registration system over movable assets, administered at the state level, was eased in 2019, while private data protection has been strengthened. A public credit registry, operated under the supervision of the Central Bank, has increased its coverage in recent years, from 36.6% in 2016 to 47.1% of Bosnia's adult population in 2019 (World Bank, 2020<sup>[89]</sup>). The registry includes data from all the actors in the financial sector but still does not draw on data from retail or utility providers. There is also a private credit bureau, covering 14% of all adults; however, it is not regulated by a public agency.

Capital markets are regulated at the entity level and are governed by dedicated legislation on security markets, though capital market activities remain subdued. Both entities have their own local markets, the Sarajevo and Banja Luka Stock Exchanges. Both participate in the regional SEE Link, but neither offers a dedicated listing market for smaller enterprises. In 2019, the Securities Commission of the Federation of Bosnia and Herzegovina lost some of its required members, rendering it unable to perform its regular duties and temporarily halting major capital market operations until new members were appointed in 2021.

*The banking sector remains stable amid strengthened supervision and temporary crisis mitigation measures, but lending remains relatively expensive*

Bank finance continues to be the most commonly used source of finance, and the number of banks (23, of which two-thirds are foreign-owned) remains high, given the size of the economy. After a temporary decline in lending in 2020 and early 2021, credit rebounded at 1.6% in Q2 2021 (Central Bank of Bosnia and Herzegovina, 2021<sup>[90]</sup>), though mainly driven by loans to the public sector. Lending to the private sector has been slow to recover. Banking sector stability has been maintained throughout the economic crisis caused by the COVID-19 pandemic amid tighter rules and improved risk management – aligned to EU standards – in the period preceding the pandemic. The level of application, however, appears to differ between foreign- and locally owned banks. Nevertheless, across the industry, however, non-performing loans have further declined as a result of these measures, down from 10% at the end of 2017 to 6% at the end of Q1 2021 (European Commission, 2021<sup>[58]</sup>).

The FBiH Development Bank, the IRBRS, as well as some cantons, provide credit lines at favourable lending conditions. In 2021, the FBiH Development Bank launched dedicated credit lines to support information technology (IT), energy efficiency and renewables. Equally, in 2020, the IRBRS introduced a new credit line for the acquisition of new technologies and equipment. However, data are not consistently collected or monitored, and initiatives are not well co-ordinated, thereby raising concerns about sustainability, impact and crowding out. The FBiH Development Bank also provides financial support specifically targeting digitalisation, energy efficiency and investment into renewable energy. However, there is no specific focus on SMEs and scope, and uptake remains unclear.

In addition, both entities introduced dedicated credit guarantee funds to help mitigate the impact of the pandemic on lending. The FBiH Development Bank launched the entity's first Guarantee Fund in 2020, with an initial reserve of EUR 40 million, targeting SMEs and craftspeople. It was designed to support liquidity and working capital, as well as to provide ongoing financial support to investments that had started pre-crisis. In Republika Srpska, the authorities set up a special EUR 25 million COVID-19 Guarantee Fund, co-financed by the EBRD. This specific fund, issued at the portfolio level, is operative until the end of 2022, while the RS Guarantee Fund, operative since 2010, continues to provide guarantees and enjoys increasing uptake. Following a significant drop during the previous assessment period, down from

EUR 1.8 million in 2015 to less than EUR 500 000 in 2016, the fund provided guarantees worth EUR 32.9 million in 2021.

*Access to alternative sources of finance remains below potential despite improved legislation*

Some progress has been made to strengthen legislation promoting alternative sources of finance for SMEs, but overall the sector remains underdeveloped. Non-bank finance is embedded in a well-developed legal and regulatory framework across both entities. In 2020, Republika Srpska adopted a new Law on Factoring, followed by several by-laws in 2021, envisaged to make factoring available via non-bank financial institutions and enable reverse factoring. In the Federation of Bosnia and Herzegovina, a new Law on Microfinance was proposed in 2018 to ease the establishment of microfinance institutions but is still pending adoption. In addition, some minor modifications to strengthen the legal framework for leasing and factoring have also been undertaken since the last assessment. Amid limited availability of data, in particular from the Federation of Bosnia and Herzegovina, across the economy, however, it is difficult to gain full insight into the effect of the improved legislation and assess the uptake of alternative finance.

Where data are available, they suggest an increase in non-bank financial institutions' activity. The number of microfinance institutions has nearly doubled since the last assessment. There are now 25 micro-credit organisations operating largely self-sufficiently across Bosnia and Herzegovina. In Republika Srpska, where some data on non-bank finance activities are being collected, total assets of microfinance institutions increased substantially by 17% between 2019 and 2020, though microfinance is predominately used for household consumption. All four leasing companies active in Bosnia and Herzegovina are registered in the Federation of Bosnia and Herzegovina, and activities have grown slightly since 2019 by 8% from low levels, standing at BAM 117 million (approximately EUR 58 million).

Equity finance is non-existent, and no venture capital funds operate in Bosnia and Herzegovina. Laws on Investment Funds in both entities regulate venture capital; however, there is no dedicated framework to regulate or define venture capital or crowdfunding. No activity has been reported on crowdfunding and initial coin offering during the assessment period. In Republika Srpska, a recent study conducted on the obstacles to venture capital identified the need to establish a venture capital fund for Republika Srpska and to increase efforts to connect local companies to international investors. In addition, preliminary plans are underway to amend the Law on Investment Funds of Republika Srpska, which may facilitate the establishment of alternative investment funds. The Innovation Centre Banja Luka is registered as a business angel network and offers incubation services to start-ups; however, it has not undertaken any angel investments.

Furthermore, SMEs should be better informed and supported to use financial resources from EU-funded programmes (e.g. Horizon Europe, Single Market Programme etc.) that are seen as important financial tools for SME development and technological advancement.

*The development of a systematic approach to promoting financial literacy remains nascent*

No progress has been made to promote financial awareness and education among private enterprises or the broader population. The Association of Microfinance Institutions offers some financial awareness training across the economy and financial literacy, and RARS incorporates elements of financial literacy in its entrepreneurship training. However, the impact of these initiatives is limited by the lack of a centrally co-ordinated strategy and of a baseline assessment and monitoring and evaluation measures. The portal "U plusu" funded by international partners has become largely inoperative.

### ***The way forward for Dimension 6***

- **Continue to harmonise financial market regulation and enable the exchange of information.** Building further on the efforts made to align both financial markets to EU standards, additional steps should be taken to facilitate inter-entity exchange of information on the financial sector and good practice. The Central Bank could facilitate this process while respecting entity competencies. The ultimate goal remains the creation of a frictionless financial space across the whole of Bosnia and Herzegovina, irrespective of the level at which it is regulated.
- **Strengthen the mandate and structure of the credit guarantee funds.** The two credit guarantee funds, in addition to the existing one in Republika Srpska, have proven vital to support access to finance during the COVID-19 pandemic, and the experience gathered should be used to introduce and sustain this type of support beyond the COVID-19 pandemic. A review of the existing performance of the funds would help identify bottlenecks, and together with stakeholders, the mandate and design of the credit guarantee schemes should be revisited to ensure that measures are targeted and support those needing them the most. Provisioning long-term funding, including from the private sector, coupled with vigorous risk management and monitoring and evaluation, would additionally ensure the credibility and sustainability of the schemes.
- **Raise awareness about the opportunities of non-bank finance and improve data collection.** Together with financial service providers, conduct awareness-raising campaigns to promote alternative access to finance and showcase its benefits. This should be linked to an increased and harmonised collection of data related to non-bank finance, which would help monitor uptake and assess the impact of legislative changes made in recent years.
- **Develop a more compressive and co-ordinated approach to promote financial literacy, in collaboration with all stakeholders.** This strategy should include both measures for entrepreneurs and the broader public, including pupils, and should suggest a clear implementation mechanism and the body responsible for its execution.

## Standards and technical regulations (Dimension 7)

### Introduction

Access to the European Single Market is conditional upon compliance with EU regulations and directives, which due to the New Approach Directives, also increasingly rely on conformity to European standards. While standards and technical regulations can enable trade by defining (minimum) criteria for products and processes, they may also represent a barrier to trade, particularly for SMEs. To lower these barriers, WBT economies need to have a national quality infrastructure (QI) system that is accessible and supportive of SMEs. At the same time, a high level of alignment with the *acquis* is a pre-condition for recognition of an economy's procedures and institutions by the relevant European QI bodies and associations.

Bosnia and Herzegovina sold 72% of its exports to the European Single Market in 2020, which is the third-highest share among WBT economies after Albania and North Macedonia (Eurostat, 2021<sup>[91]</sup>). This share has continuously increased, from 69% in 2010 to 72% in 2020. Hence, the alignment of its QI legislation and implementation with the *acquis* and procedures is ever more important for Bosnia and Herzegovina's economy.

Despite a better score on this dimension compared to the previous assessment (from 2.78 to 3.22) (Table 14.21), Bosnia and Herzegovina continues to rank last in the region on this dimension. While the basic aspects of a functional QI system are in place, alignment with the *acquis* continues to be comparatively low, and there are few measures to support SMEs in standards development and implementation.

**Table 14.21. Bosnia and Herzegovina's scores for Dimension 7: Standards and technical regulations**

Dimension	Sub-dimension	Thematic block	Bosnia and Herzegovina	WBT average	
Dimension 7: Standards and technical regulations	Sub-dimension 7.1: Overall co-ordination and general measures	-	3.77	3.90	
	Sub-dimension 7.2: Harmonisation with the EU <i>acquis</i>	Technical regulations	3.91	4.38	
		Standards	2.38	3.77	
		Accreditation	2.67	3.89	
		Conformity assessment	2.86	4.22	
		Metrology	3.97	4.13	
		Market surveillance	3.44	3.96	
		<b>Weighted average</b>	<b>3.20</b>	<b>4.06</b>	
	Sub-dimension 7.3: SME access to standardisation	Frequency and transparency of PPCs	3.53	3.88	
		Private-sector involvement in PPCs	2.50	3.21	
		Monitoring and evaluation	2.20	3.57	
		<b>Weighted average</b>	<b>2.74</b>	<b>3.55</b>	
	<b>Bosnia and Herzegovina's overall score for Dimension 7</b>			<b>3.22</b>	<b>3.96</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

Despite an improvement in its overall score, albeit from a comparatively low level, Bosnia and Herzegovina's progress in the area of technical regulations has been limited. The main recommendation

of both the OECD's and the European Commission's previous reports (European Commission, 2021<sup>[58]</sup>), namely the establishment of an economy-wide QI strategy, remains unaddressed. Such a strategy is essential to further improve the co-ordination on QI, as the level of authority (central government or local government) differs across different QI pillars. Entity-level strategies such as the Quality Infrastructure Strategy 2019-2023 of Republika Srpska (Government of Republika Srpska, 2019<sup>[92]</sup>) are also important elements, but they do not replace the need for economy-wide co-ordination of QI activities.

There has been some progress on improving SME access to standardisation, as the pandemic and the resulting web conferences lowered the barriers to participating in technical committees and the ISBIH. The ISBIH also offers a newsletter and undertook numerous awareness-raising activities during the assessment period. However, there are still no SME-specific incentives for technical committee participation nor a financial support programme to help SMEs implement standards.

**Table 14.22. Bosnia and Herzegovina's implementation of the SME Policy Index's 2019 recommendations for Dimension 7**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Develop a state-wide strategy on quality infrastructure (QI) and implement a co-ordination mechanism across different levels of government</b>	A state-wide strategy has still not been developed. Republika Srpska has adopted a Quality Infrastructure Strategy at the subnational level.	Limited
<b>Improve SME access to standardisation</b>	Information provisions have improved (newsletter and regular activities), but there are no direct measures or incentives to increase the participation of SMEs in standards and financially support them with implementation.	Moderate

*There is no state-level QI strategy or central information platform for exporters, but Republika Srpska introduced an entity-level QI strategy in 2019*

There has been very little progress in this first sub-dimension. While QI is an important chapter of the Ministry of Foreign Trade and Economic Relations' mid-term Work Plan 2020-2022, there is still no economy-wide QI strategy (for all of Bosnia and Herzegovina). Overall, there remain discrepancies with respect to QI strategy development and centralised information provision at the entity level. While Republika Srpska has adopted (on the parliamentary level) a Strategy for QI (2019-2023) (Government of Republika Srpska, 2019<sup>[92]</sup>), the Federation of Bosnia and Herzegovina does not have such a strategy. Similarly, the state level still lacks a central website that lists all of the relevant horizontal and/or sectoral legislation as well as information about standards and the conformity assessment process for firms that are interested in exporting to the EU and require information about conformity requirements with EU regulations and standards. Republika Srpska's Ministry of European and International Cooperation has established a subpage where it introduces the regulatory requirements and also provides lists of standards, technical regulations and the QI strategy (Ministry of European Integration and International Cooperation, 2022<sup>[93]</sup>). While the availability of this information is, of course, positive, the absence of similar QI fact pages at the state level means that the level of information provided is not the same across the whole economy. Companies that want to get certified for a certain standard or assure their legislative compliance may need to search for and browse through different organisations' web pages, which creates informational barriers, particularly for SMEs, as they do not have the same resources nor the informed staff like larger companies. Regional co-operation with other QI institutions from the region appears to be limited

to the Central European Free Trade Agreement (CEFTA) working groups and the Southeast Europe Quality Infrastructure programme.

*There has been slow progress in the alignment with the acquis, but the market for conformity assessment continues to increase as well as the scope for accreditation*

Technical regulations are not applied uniformly across Bosnia and Herzegovina, as Republika Srpska implements its legislation separately. Furthermore, Bosnia and Herzegovina lacks an updated plan that identifies legislation that is not harmonised with the *acquis*, as the latest list dates back to 2006 and needs to be updated. In Republika Srpska, a list of all valid regulations with their legal basis and the standards to which they refer (if applicable) is available on line, but it does not specify whether they are harmonised with the *acquis* or not (RS, 2022<sup>[94]</sup>). Having an updated list of non-harmonised regulations is also important for the private sector, as it demonstrates in which areas compliance with national technical regulations may be insufficient for exports to the European Single Market. There is no specific body to fulfil the obligation of notifying technical regulations (European Commission, 2021<sup>[58]</sup>). Overall, this leads to low alignment with the *acquis* in both sectoral as well as horizontal legislation compared to the other WBT economies.

The ISBIH continues to be a full member of the European Telecommunications Standards Institute and an affiliate member of CEN/CENELEC (European Committee for Standardisation/European Committee for Electrotechnical Standardisation). The adoption rate of European standards has not significantly improved during the reporting period and is currently at 89%, an improvement of 2% compared to the previous report. The ISBIH adopted around 2 000 standards per year between 2019 and 2021 (European Commission, 2021<sup>[58]</sup>). However, there continue to be mandatory standards in place that conflict with European standards and that have not been withdrawn in a systematic manner (European Commission, 2021<sup>[58]</sup>). This can be an issue for firms that want to export to the European Union and sell in the local market at the same time and as they need to comply with national standards to sell their products and services in the local market, but by doing so do not respect the European standards. This, in turn, may result in their products and services being non-conform with EU rules. In addition to that, the ISBIH also publishes a small number of national standard documents. In 2021, 10 standards were published compared to 30 in 2020 and 14 in 2019. Concerning education on standards, the ISBIH is currently preparing a service so that students can access standards on line for educational purposes, but there is no broader incorporation of standards into educational curricula.

There has been comparatively more progress in accreditation, as two additional accreditation fields are covered by multilateral agreements with the European co-operation for Accreditation, namely medical laboratories and product certification. As a response to the challenges posed by the COVID-19 pandemic, the Institute for Accreditation of Bosnia and Herzegovina (BATA) offered remote accreditation for both re-accreditation as well as for first-time accreditation, which allowed accreditation services to continue without disruption. However, BATA continues to be understaffed, as it operates with only 20 employees, which is one less than during the previous assessment and less than the 28 originally foreseen. As the number of accredited conformity assessment bodies is increasing (see below), this may also increase the coordinative effort for BATA, without any additional human resources available.

The number of nationally accredited conformity assessment bodies increased from 116 to 151 during the assessment period. This 30% increase is the second largest in the WBT region. More specifically, 81 testing laboratories, 2 medical laboratories, 9 calibration laboratories, 4 product certification bodies and 55 inspection bodies have been accredited by BATA across Bosnia and Herzegovina. A list of the conformity assessment bodies is published on BATA's website.<sup>58</sup>

In the area of metrology, since the previous assessment, Republika Srpska implemented the European directives on non-automated weighing and measurement instruments as rulebooks into their legal framework, and they are applied since 1 January 2022. Metrology operations are carried out both by the Institute of Metrology of Bosnia and Herzegovina (IMBiH) as well as by metrology bodies at the entity level.

Staff shortages continue to be a limiting factor for these institutions. The IMBiH, for example, has currently 55 staff members. While this is three more employees than during the previous assessment, the figures remain well below the 72 employees required under the implementing legislation. The appointment of the Metrology Council has been completed, which is a positive development, as it had been pending since 2012.

The responsibilities for market surveillance are shared between the market surveillance agency of Bosnia and Herzegovina (state level) and the inspectorates of the Brcko District, Republika Srpska and the Federation of Bosnia and Herzegovina. Legislative alignment is particularly low in the market, as the current state-level law dates back to 2004 and is thus neither aligned with the previous *acquis* 768/2008 nor with the new Regulation 1020/2019. Both regulations include important provisions on the market surveillance required in the EU Single Market, and transposing these into national law is important for lowering the barriers to the free movement of goods between the European Union and Bosnia and Herzegovina. While the annual work plans for the market surveillance agency as well as information about dangerous products are available on line, the agency lacks a strategy. A market surveillance strategy or at least a dedicated section within a broader QI strategy that would set a target both for the operations as well as for the alignment of internal procedures with EU market surveillance procedures would be important. In terms of operations, 218 proactive inspections and 7 reactive inspections were carried out as well as 7 203 pieces of unsafe products were withdrawn from the market in 2020. During 2021, 201 proactive and 17 reactive inspections were carried out as well as 33 620 pieces of unsafe products were withdrawn from the market.<sup>59</sup> Overall, these figures show that the level of market surveillance activities remained stable between 2020 and 2021, unlike decreases observed in some of the other WBT economies.

*Access to standardisation: Basic awareness-raising measures are in place, but no financial support programme covers standard-related costs for SMEs*

The ISBIH has basic information provision measures such as a newsletter, a regularly updated news section on its website and regular social media postings. Furthermore, it publishes an event calendar, which lists all its committee and council meetings. The ISBIH offers international standards in both English and Bosnian for purchase on its website. It translated 38 international (ISO or European) standards in 2021, compared to 18 in 2020 and 25 in 2019.<sup>60</sup> The increasing tendency in translation is a positive sign for improved accessibility of standards in the local language. Furthermore, several webinars were held for new committee members and awareness-raising purposes during the reporting period. Topics included a discussion on ISO management and construction standards (ISBIH, 2020<sub>[95]</sub>). While the website offers some basic information about the conformity assessment and the benefits of standards, it lacks a concrete guide outlining the different steps a company needs to take if it wants to implement a standard. Such a guide would be of particular importance for SMEs, which have higher information barriers than larger companies.

Other than offering digital committee meetings and the public feedback mechanism on standard documents, there are no specific incentives in place to increase the participation of SMEs in standards development. As SMEs account for 62.7% of the value added of Bosnia and Herzegovina's economy (European Commission, 2021<sub>[56]</sub>), having their expertise and opinion represented accordingly in the standards development processes and in the needs assessment of standards undertaken by BATA is important. While not SME-specific, purchases of standards are exempted from VAT in Bosnia and Herzegovina, which is a financial incentive not provided by other WBT economies.

Finally, Bosnia and Herzegovina currently does not have a centrally-coordinated programme in place to financially support SMEs or other firms with the implementation-related costs of standardisation. In the Republika Srpska, the Enterprise Development Agency (EDA) implemented a small EUR 25 000 programme in cooperation the Ministry of Economy and Entrepreneurship, but this was restricted to

the certification of 5 companies and 17 auditors in energy management (EDA, 2020<sup>[96]</sup>). In addition to that, there is a support programme for “Innovation and Digitalisation in SMEs” funded by GIZ, but it is not related to QI.<sup>61</sup> A programme that supports certification efforts, independent of sector and region, would be important to make standardisation more financially accessible for SMEs.

### ***The way forward for Dimension 7***

- **Create an action plan/strategy for harmonising with the *acquis*.** Compared to other Western Balkan economies and Turkey, there is still a considerable gap in the alignment of both horizontal and sector-specific regulations. To close this gap, it is important to establish a list of regulations that are not yet aligned with the *acquis* and create an action plan with clear objectives to close these gaps. This should also include legislation in the non-harmonised areas and assess their compliance with Articles 34-36 of the Treaty on the Functioning of the European Union.
- **Develop a state-wide quality infrastructure strategy and improve co-ordination across different governmental institutions and levels.** This recommendation was made in the previous assessment. As many activities are carried out by different institutions at different levels (state or entities), co-ordination of the different QI pillars through the means of a state-wide strategy and a co-ordinating authority remains crucial to assuring effective policy implementation. One good practice example from the region is Serbia’s QI Strategy 2015-2020 (Box 14.10). The strategy developed by the authorities in Republika Srpska, based on Serbia’s example, can also help to inform a state-wide strategy.
- **Improve access to regulations, standards and conformity-relevant information through a central web page and contact point.** Export-relevant information regarding standards, technical regulations and conformity assessment is scattered across different websites, complicating access to information for firms that want to export products to the EU Single Market. Information should be available and easily accessible through a central website. In addition to the website, the ISBIH’s existing 13 contact points across Bosnia and Herzegovina could potentially be broadened to also provide information on technical regulations and other QI-relevant information.

#### **Box 14.10. A joint QI strategy: Serbia’s Quality Infrastructure Strategy (2015-2020)**

Despite having an institution co-ordinating the economy’s QI activities (usually the Ministry of Economy), most WBT economies lack a joint QI strategy. A joint strategy can, however, provide important guidance for identifying common as well as dimension-specific challenges, co-ordinating the activities of the different QI institutions, and setting joint as well as dimension specific targets.

One notable exception in the region is Serbia, which has developed a five-year QI strategy for the period 2015-2020. The strategy begins by analysing the status quo in each of the QI pillars (technical regulations, standardisation, accreditation, conformity assessment, metrology and market surveillance). For some areas, this is done through a so-called SWOT (strength, weakness, opportunity and threat) analysis. This is then followed by a list of objectives per QI pillar. Finally, the QI strategy is accompanied by annual action plans, which operationalise the more generic objectives from the strategy into concrete, measurable activities. Each activity lists the responsible entity, a timeline and the budget from which the respective activity is financed.

This traditional combination of a multi-year strategy and annual action plans is a good approach to break down large strategic goals into smaller pieces and keep track of them, which is particularly useful in a policy area like QI which includes so many different institutions.

As the authorities for QI services differ in Bosnia and Herzegovina across the different pillars (i.e. technical regulations, standards, accreditation, etc.), with some services being co-ordinated and implemented at the state level and others at the entity level, having a joint QI strategy is of particular importance. The strategy could set joint and pillar-specific objectives that would then be implemented by the different institutions at the different levels of governance but monitored by a central authority, thereby assuring co-ordination and adherence in activities over the medium and long term.

Source: Serbian Ministry of Economy (2021<sup>[97]</sup>).

## Enterprise skills (Dimension 8a)

### Introduction

SMEs, the cornerstone of job creation, provide a significant share of employment, with two out of three employed people working for an SME, acting as an engine for social development and economic growth. Yet to drive growth and reduce the tendency for start-ups to result in lower-paying jobs, SMEs need to invest in skills, digitalisation and innovation to boost productivity and higher paid employment. However, they lack the capacity of larger enterprises to invest in training for founders and the workforce. They can be supported by relevant government-financed training, however, to close skills gaps and upskill the workforce. This is emphasised when it comes to greening businesses, for example, where environmental sustainability cannot be achieved within SMEs, as the potential is limited by lack of awareness and skills as well as the additional costs involved. Supporting SMEs through developing enterprise skills can create far-reaching impacts for families, local communities and countries.

Bosnia and Herzegovina's score for this dimension remains static (Table 14.23), though there has been increased focus on the collection and analysis of skills intelligence and practical implementation of enterprise skills training across more diverse topics. Weak approaches to monitoring and evaluation persist.

**Table 14.23. Bosnia and Herzegovina's scores for Dimension 8a: Enterprise skills**

Dimension	Thematic block	Bosnia and Herzegovina	WBT average
Dimension 8a: Enterprise skills	Planning and design	2.04	2.86
	Implementation	3.42	3.85
	Monitoring and evaluation	2.00	2.67
Bosnia and Herzegovina's overall score for Dimension 8a		2.72	3.32

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

Bosnia and Herzegovina has seen significant progress in structured actions supporting skills intelligence, backed by EU-funded programmes, with good potential to be sustained (Table 14.24). Enterprise skills are more evident within strategies across both entities. There is an increased level of practical implementation, complemented by good adaptation to online provision during the COVID-19 pandemic across many training providers.

**Table 14.24. Bosnia and Herzegovina's implementation of the SME Policy Index 2019 recommendations for Dimension 8a**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Embed skills development in economic strategies</b>	Enterprise skills have been included as a priority in various strategies at state and entity levels. This has not yet resulted, however, in their inclusion in the ERP, and the vocational sector is not yet highlighted as a provider of SME training for key economic sectors.	Moderate
<b>Hold policy dialogue on smart specialisation</b>	The Smart Specialisation Strategy (S3) process is in its early stages. While Bosnia and Herzegovina stakeholders have attended regional workshops led by the Joint Research Centre, no concrete action plan provides a development path toward S3. Stakeholder engagement should remain a priority throughout the process.	Limited

*Strategic actions are taking place to strengthen and co-ordinate skills intelligence at the state and entity levels*

The development of skills intelligence has advanced during this assessment period, with the launch of the Improving Labour Market Research<sup>62</sup> programme funded by the European Union, with close collaboration with key actors at both state and entity levels. The programme is conducting a range of labour market research, providing evidence and recommendations for the alignment of education and economic development policy in line with the needs of the labour market. Programme actions link to commitments within a range of policy documents,<sup>63</sup> though there is no reference to skills intelligence of SME skills in the ERP (Council of Ministers of Bosnia and Herzegovina, 2021<sub>[36]</sub>).

Within the EU funding, the Bosnia and Herzegovina Agency for Labour and Employment is leading the development of research evidence at the state level, including drafting thematic reports on women in the labour market (Labour and Employment Agency of Bosnia and Herzegovina, 2021<sub>[98]</sub>), the impact of COVID-19 (Labour and Employment Agency of Bosnia and Herzegovina, 2021<sub>[99]</sub>) and an overall labour market survey (Labour and Employment Agency of Bosnia and Herzegovina, 2021<sub>[100]</sub>).

Entity-level research offers insights into sectors and specific geographic areas, alongside research into the plans and expectations of employers, and guidelines for creating economic and education policies tailored to each entity.<sup>64</sup> While extensive research being undertaken offers valuable insights into labour market intelligence and identifies skills mismatches between supply and demand for the labour market, there is less visibility of skills anticipation to support alignment with future skills needs. Analysis of relevant statistical information from government-financed SME skills training is also lacking.

There is a commitment to continued collection of this labour market intelligence at the entity level and an ambition to create agreements at the state-wide level. Supporting this, both entities report that they are using skills intelligence to inform policy making; however, there are no visible use cases to demonstrate this. With a wide range of stakeholders actively involved in developing skills intelligence, there is a need to identify a lead agency at both the entity and state levels to co-ordinate and expand this work beyond the lifetime of EU funding.

*Training providers have successfully transitioned a broad range of trainings on line in response to the COVID-19 pandemic*

Following the recommendation from the previous assessment cycle, SME skills are now integrated into a range of strategies, e.g. the Development Strategy of the Federation of Bosnia and Herzegovina (2021-2027) (Federal Ministry of Development, Entrepreneurship and Crafts, 2021<sub>[72]</sub>) and Republika Srpska's Strategy for Development of SMEs (2021-2027) (RS Parliament, 2021<sub>[54]</sub>). However, there continues to be little inclusion of this policy area within the ERP, and there is no systemic monitoring of government-financed training for SMEs, while evaluation is the responsibility of each provider and is not collated at the entity level. However, SME skills development actions are evident, including examples supporting digitalisation, green and circular economy, sustainable business practices and internationalisation. There is less focus on investment readiness<sup>65</sup>, social economy training<sup>66</sup> and intellectual property. SME skills provision is supported by actions within actions funded by international partners, such as the EU4Business project currently being implemented in Bosnia and Herzegovina jointly with the ILO to address specific sectors and entrepreneurship development.<sup>67</sup>

Significant efforts have been made to transform SME skills training to online formats following the outbreak of the COVID-19 pandemic, including via the chambers of commerce in both entities<sup>68</sup> and the state-level Foreign Chamber of Bosnia and Herzegovina, which conducted a range of training, including an online Digital Academy to drive forward digital marketing.<sup>69</sup> There are diverse examples of training that have been adapted and implemented on line to ensure continued provision of SME skills development opportunities.

*Smart specialisation is seen as a priority, but progress is limited*

The Smart Specialisation Strategy (S3) process remains at an early stage of development in Bosnia and Herzegovina. The S3 process is not yet initiated, though the state-level working group established through the Council of Ministers has been given a three-year timeline for drafting the strategy.<sup>70</sup> In the Federation of Bosnia and Herzegovina, the Development Strategy 2021-2027 (Federal Ministry of Development, Entrepreneurship and Crafts, 2021<sup>[72]</sup>) places a priority on the development of smart specialisation, but there is no mention of this in the related Action Plan for Innovation in SMEs (2021-2023) (Federal Ministry of Development, Entrepreneurship and Crafts, 2021<sup>[73]</sup>). In Republika Srpska, there is less visibility of policy priorities linked to smart specialisation in current documents; however, plans are underway to develop a Proposal of the Smart Specialisation Strategy for 2021-27. Support to drive this work forward across the economy is evident at the European level, with ongoing regional collaboration and support from the European Commission's Joint Research Centre, with a recent series of regional workshops involving members of the working group on raising awareness around S3 topics.<sup>71</sup>

*Online access to information on training and support is not yet well-developed*

Online portals providing information and registration for enterprise training are not yet launched in either entity. There is a need to emphasise the full range of current and potential providers of SME skills training. VET-based provision can be more emphasised, where vocational specialisms could support sector-based upskilling. A strong evidence base and a broader perspective of where and how SMEs can be trained beyond traditional providers can scale the potential for SME growth and innovation and be linked to smart specialisation. Start-ups have more accessible routes to information on support and training, such as via the entrepreneurship portal in Republika Srpska, which offers a range of government-based information, advice and support offers for entrepreneurs and SMEs.<sup>72</sup> Scope remains for opening up wider online access in the Federation of Bosnia and Herzegovina and at the state level; ensuring this might include support from non-government providers.

***The way forward for Dimension 8a***

- **Hold multi-stakeholder policy dialogue on the co-ordination and improvement of skills intelligence, placing priority on actors with competence for labour and employment and sector-based organisations.** The purpose should be to build shared responsibility, developing the role of sector organisations to drive forward sector-based skills planning and projection with emphasis placed on priority sectors with growth potential. Government-led labour market research and analysis should cover all entities and be expanded to include future skills anticipation, shaping evidence-based data to support the design of the next ERP and the S3 process. Work can be done to support the development of indicators for SME skills intelligence to guide future monitoring and evaluation related to SME skills at all levels.

## Innovation policy for SMEs (Dimension 8b)

### Introduction

Supporting innovation and building a knowledge economy is increasingly becoming a priority for the WBT region, and globally. Recognising the link between innovation and productivity and its contribution to higher value-added economic output and competitiveness, many governments have started to emphasise the creation of an environment conducive to innovation and knowledge development. However, equal attention must be given to enhancing innovation capacity at the firm level.

The mainly small but open economy of Bosnia and Herzegovina can further leverage inter-regional and international co-operation to progress in its innovation agenda, creating regional innovation systems and encouraging cross-border co-operation to boost research and development (R&D).

Bosnia and Herzegovina has made limited progress in promoting innovation in SMEs, improving its score from 1.86 in 2019 to 1.97 in 2022 (Table 14.25) and continues to be outperformed by all other economies included in this assessment. Notwithstanding, some actions have been undertaken to improve performance in this dimension, notably in relation to government institutional and financial support services for innovative SMEs.

**Table 14.25. Bosnia and Herzegovina's scores for Dimension 8b: Innovation for SMEs**

Dimension	Sub-dimension	Thematic block	Bosnia and Herzegovina	WBT average	
<b>Dimension 8b: Innovation for SMEs</b>	Sub-dimension 8b.1: Policy framework for innovation	Strategic approach	2.40	3.81	
		Implementation of innovation policy	1.92	3.31	
		Co-ordination of innovation policy	1.52	3.30	
		<b>Weighted average</b>	<b>1.98</b>	<b>3.46</b>	
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	2.40	3.27	
		Technology extension services for established SMEs	1.00	2.14	
		<b>Weighted average</b>	<b>1.84</b>	<b>2.82</b>	
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	2.60	3.81	
		Indirect financial support	1.60	2.26	
		<b>Weighted average</b>	<b>2.20</b>	<b>3.19</b>	
	Sub-dimension 8b.4: SMEs and research institution collaboration and technology transfer	Innovation voucher schemes and co-operative grants	1.72	2.85	
		Institutional infrastructure for business-academia co-operation	1.68	2.99	
		Intellectual property rights	2.48	3.05	
		<b>Weighted average</b>	<b>1.86</b>	<b>2.95</b>	
	<b>Bosnia and Herzegovina's overall score for Dimension 8b</b>			<b>1.97</b>	<b>3.18</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

Bosnia and Herzegovina was included in the European Innovation Scoreboard<sup>73</sup> for the first time in 2021, amid improvements in the collection of statistical data on innovation performance.<sup>74</sup> Accordingly, the economy is classified as an emerging innovator, ranking amongst the bottom three economies included in the scorecard. Bosnia and Herzegovina's innovation policy continues to be characterised by a decentralised approach, owing to the complex institutional and regulatory set-up. Policy design and implementation remain fragmented and ad hoc, with limited monitoring and evaluation mechanisms.

Inclusion in the European Innovation Scoreboard, at the level of the whole economy, could therefore be used as an important tool to improve co-ordination and monitor progress. Both entities have adopted SME innovation action plans, which provide some form of a basic strategic approach. Both action plans envisage the establishment of financial support schemes and expanded institutional support to develop a knowledge economy; however, to date, no concrete policy measures have been introduced, and support – small in size – is mainly provided via international development co-operation partners, with the exception of Republika Srpska. Subsequently, investments in R&D remain negligible, and efforts need to be strengthened to stimulate collaboration between private enterprises and academia.

Table 14.26 provides an overview of the key developments and actions undertaken in relation to the key recommendations for Dimension 8b made in the previous assessment.

**Table 14.26. Bosnia and Herzegovina's implementation of the SME Policy Index's 2019 recommendations for Dimension 8b**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Improve co-ordination of R&amp;D and innovation policies</b>	Innovation policy remains decentralised across various levels of government, with no mechanisms to co-ordinate these actors. The inclusion of Bosnia and Herzegovina in the European Innovation Scoreboard in 2021 could be an important tool to increase monitoring and evaluation of innovation performance across the whole economy.	Moderate
<b>Secure direct funding for private-sector R&amp;D and innovation activities</b>	Limited progress has been made to introduce financial support schemes, and private-sector R&D remains very low. Small-scale financial support is available, but this remains mainly at the pilot stage and is dependent on support from international partners. On a positive note, the new SME innovation action plans envisage a stronger focus on direct and indirect financial support.	Limited
<b>Implement an innovation voucher scheme</b>	A small-scale innovation voucher programme has been piloted, though this was not focused on collaboration with scientific researchers and was fully funded by international partners. However, the new SME innovation action plans envisage the establishment of an innovation voucher scheme.	Moderate

*The legal and regulatory framework for innovation remains fragmented, hindering the effective design and implementation of innovation policies*

In line with the constitutional set-up, innovation policy is dealt with at the entity- and canton level, leading to a highly fragmented legal framework that is unable to create a single, sizeable economic space conducive to innovation. Even at the entity level, the legal and regulatory framework for innovation remains limited. In Republika Srpska, innovation is defined by the Scientific and Technological Development Strategy (2017-2021), which mainly focuses on scientific R&D. SME innovation is addressed in the Strategy for SME Development 2021-2027, which envisages the development of financial support schemes for innovation in SMEs, building support infrastructure, and focusing on digitalisation and participating in international R&D and innovation programmes. As part of this process, a mapping of the innovation infrastructure in Republika Srpska has been conducted, and an action plan has been put in place. In the Federation of Bosnia and Herzegovina, previous plans to develop an innovation strategy have not yet materialised, but like in Republika Srpska, an action plan was adopted for SME innovation as part of the newly developed FBiH Development Strategy (2021-2027). In 2020, a working group was established at the state level to develop a Smart Specialisation Strategy. To date, however, no progress has been evident.

Policy co-ordination remains fragmented and decentralised. At the state level, the Ministry for Civil Affairs performs a high-level co-ordination function, both across the entities and the Brcko District, as well as internationally. There are no dedicated implementation agencies responsible for the implementation of innovation policy. In Republika Srpska, the Innovation Centre Banja Luka performs some aspects of an innovation fund, but tailored support to foster innovation remains limited, and no dedicated funding is in

place. RARS also provides some technical support related to innovation in SMEs and start-ups. In the Federation of Bosnia and Herzegovina, innovation measures are predominately led by international partners or business associations, thereby remaining highly fragmented without any holistic approach.

*An emerging institutional support structure for innovation is in place, but it varies significantly in organisational structure, purpose and scope*

While a number of incubators operate across Bosnia and Herzegovina, they typically do not have a specific focus on innovation. In Republika Srpska, the Innovation Centre Banja Luka continues to lead the provision of incubation services, providing training and advisory support to start-ups, partially funded directly by the authorities. This work is complemented by a number of other functioning incubators, including the Entrepreneurship Centre Banja Luka, the Innovation Centre East Sarajevo, and business incubators in Prijedor and Modrica. Since the last assessment, an additional Innovation Centre for Sustainable Development of Bijeljina has been established. RARS also provides entrepreneurial learning for start-ups via an Accelerator Programme, which has been implemented since 2018 with support from the European Union under the Danube Transnational Programme (2014-2020).<sup>75</sup> In the Federation of Bosnia and Herzegovina, there are 14 operating incubators, both public and private (and some receiving support from international partners), all of which receive some direct government funding, to varying degrees. In 2019, these incubators received over EUR 5 million in support, primarily for the BusiBIT Centar Tuzla, Biznis Inkubator Zenica and Ljubuski. Many incubators offer training, mentoring and advisory services to their tenants and have supported a significant number of entrepreneurs. However, anecdotal evidence suggests that some incubators no longer serve their purpose, as entrepreneurs have made these centres their permanent offices.

There are no technology extension services available for mature SMEs seeking innovations, although several private-sector and international partners' initiatives focus on digital innovations. For instance, the DigitalBiz project, supported by the United Nations Development Programme and launched in December 2020, provides support to SMEs to digitalise, while the "Innovation and Digitalisation in SMEs" project, implemented by GIZ between 2019 and 2021, supported over 500 SMEs to digitalise, including with the support of the local ICT sector.

*Financial support for innovation remains limited, but there are plans to introduce targeted support schemes*

Investments in R&D activities remain negligible. There are no public financial support schemes available to support innovation and R&D in SMEs, though both entities' action plans for SME innovation envisage the establishment of such measures. In Republika Srpska, preliminary steps have been launched to establish an Innovation and a Science Fund. Some support is available through initiatives funded by international partners. The Challenge to Change project, implemented since 2016 with support from Sweden, launched its sixth call for projects in 2021 and aims to support innovative ideas across Bosnia and Herzegovina. This fund, for a total of EUR 3.9 million, is available to both Bosnian and Swedish companies and is locally implemented in partnership with RARS and the Sarajevo Regional Development Agency. It offers co-financing of up to EUR 30 000 to support the development of a new product, service or process in the market, preferably with a social benefit. As of end-2020, over 2 500 projects had applied for funding and 89 had been implemented, supported by about EUR 1 816 000 from the Challenge to Change Fund,<sup>76</sup> while another 70 were ongoing (C2C, 2022<sub>[101]</sub>). Sweden also supported a small-scale pilot innovation voucher scheme for SMEs (not linked to scientific research) in Banja Luka and Zenica. As of the end of 2020, 17 companies had received total support of EUR 100 000 to co-finance advisory services in support of innovation.

There are no indirect financial support schemes available across Bosnia and Herzegovina. However, with the adoption of a new Law on Incentives in 2019 and 2020, some support has been made available for investments in new technologies and modern equipment in Republika Srpska.

*Financial support to incentivise collaboration between businesses and academia remains nascent, but an institutional infrastructure is gradually emerging*

Integration of scientific research and business activity and technology absorption of SMEs remains low, and as in the previous assessment, there are no innovation voucher schemes or competitive co-operation schemes available to stimulate collaboration between academia and industry. In Republika Srpska, the pilot Synergy Programme aims to increase technology transfer and raise awareness about opportunities for co-operation between R&D institutes and the private sector. Under a first call launched in 2019, five projects received financing of around EUR 25 000 each. Efforts are underway to extend the programme, though it remains unclear whether an initial evaluation of the pilot has been conducted.

Some progress has been made to expand the institutional infrastructure in support of collaboration. In the Federation of Bosnia and Herzegovina, there are five technology and science parks in operation. The most recent is the Posusje Technology Park Foundation, established in 2019. The BusiBIT Centar Tuzla regularly collaborates with the University of Tuzla. However, the focus on business-academia collaboration is not evident. There are also plans to establish a Science and Technology Park in Banja Luka, and the authorities plan to conduct a feasibility study with support from the United Nations Development Programme. At the University of Banja Luka, the centre for entrepreneurship operates a technology transfer office, and an economic support centre has been established at the Faculty of Mechanical Engineering since the previous assessment.

Finally, patent applications in Bosnia and Herzegovina remain below potential even though some support is provided to enterprises to raise awareness about the importance of intellectual property protection. In addition, Bosnia and Herzegovina's legislative framework for intellectual property protection does not have specific provisions to support exchange with businesses and commercialisation of intellectual property, as the split between ownership and royalty is not sufficiently defined.

### **The way forward for Dimension 8b**

- **Harmonise strategic priorities and enhance the co-ordination of innovation policy.** Co-ordinated approach to innovation policy is crucial given the large numbers of actors with stakes in it, such as government institutions, the private sector and the research sector. This is all the more important in the context of Bosnia and Herzegovina due to the complexity of its institutional set-up. Timely completion of an economy-wide Smart Specialisation Strategy would help address outstanding obstacles to innovation, while further improvements and harmonisation of the collection of statistical data related to innovation activities would help improve monitoring and evaluation of policy measures.
- **Increase the scale of financial incentives to foster innovation.** To ensure the success of the SME innovation action plans, a sufficient budget should be allocated to design meaningful and co-ordinated financial support schemes. These schemes should be designed in consultation with the private sector and build on lessons learnt from existing initiatives funded by international partners and should include regular monitoring and evaluation practices. Funding needs and sources should also be identified when preparing the Smart Specialisation Strategy.
- **Introduce measures to stimulate collaboration between the private sector and scientific research.** The approach to business-academia collaboration requires an overhaul and is not sufficiently addressed in the SME innovation action plans. Together with all stakeholders, clear steps should be laid out to identify current obstacles to business-academia research and develop a more strategic approach to incentives, increasing exchange and co-operation. This should include more investments in public sector scientific research, financial incentives to encourage private-sector demand for research, awareness-raising and an incentive structure for scientific researchers to collaborate with the business community.

## SMEs in a green economy (Dimension 9)

### Introduction

Since SMEs, on aggregate, have a significant environmental footprint (small firms account for 50% of greenhouse gas [GHG] emissions in the world (ITC, 2021<sub>[102]</sub>)), it is essential that the governments of the WBT region include them in their environmental considerations to achieve the net-zero goal for GHG emissions. On the one hand, like any other economic entity, SMEs face the consequences of environmental degradation, which can generate specific challenges for their survival and growth. On the other hand, and more importantly, SMEs can be a source of innovation and solutions to develop the technologies needed to address environmental challenges. New green markets, such as the circular economy, can also create new business opportunities for SMEs. Even without moving into new markets, SMEs can potentially improve the performance of their business by realising efficiency gains and cost reductions by greening their products, services and processes. In this regard, tailored policies, incentives and instruments are necessary to enable them to participate in the green transition, as SMEs face a number of barriers (financial, informational, etc.) in their greening efforts, and more so than large firms (OECD, 2021<sub>[103]</sub>).

For a small coal-dependent economy vulnerable to the impacts of climate change like Bosnia and Herzegovina, sustainable and green economic growth is essential, particularly in the post-COVID-19 context. The pandemic has put additional pressure on Bosnian SMEs and their greening efforts, primarily due to issues with liquidity maintenance and access to finance. Well-co-ordinated and targeted financial and technical support will be required to overcome challenges in adopting sustainable practices.

Bosnia and Herzegovina has improved its score in this dimension – up from 2.40 in 2019 to 2.92 in 2021, with progress made in scaling up its incentives and instruments for SME greening (Table 14.27). Bosnia and Herzegovina will need to ensure proper monitoring and evaluation of greening measures to render their implementation efficient in the future.

**Table 14.27. Bosnia and Herzegovina's scores for Dimension 9: SMEs in a green economy**

Dimension	Sub-dimension	Thematic block	Bosnia and Herzegovina	WBT average	
Dimension 9: SMEs in a green economy	Sub-dimension 9.1: Framework for environmental policies targeting SMEs	Planning and design	3.55	3.87	
		Implementation	2.60	2.81	
		Monitoring and evaluation	2.25	2.47	
		<b>Weighted average</b>	<b>2.82</b>	<b>3.06</b>	
	Sub-dimension 9.2: Incentives and instruments for SME greening	Planning and design	3.10	3.06	
		Implementation	3.44	3.02	
		Monitoring and evaluation	1.80	2.12	
		<b>Weighted average</b>	<b>3.01</b>	<b>2.85</b>	
	<b>Bosnia and Herzegovina's overall score for Dimension 9</b>			<b>2.92</b>	<b>2.94</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

Environmental policies targeting SMEs are included in Republika Srpska's new Strategy for Development of SMEs (2021-2027) and the Development Strategy of the Federation of Bosnia and Herzegovina (2021-2027). Both strategies include ambitious sets of measures with corresponding budgets and activities. While specific co-ordination bodies have not been established in either entity, the private sector

has slowly been involved in developing and implementing green measures. Both entities' environmental protection funds increasingly target smaller enterprises, facilitating their green access to finance, and additional financial instruments are planned under the recently adopted strategies. Environmental management systems (EMS) have been promoted, but other non-financial tools remain limited (Table 14.28).

**Table 14.28. Bosnia and Herzegovina's implementation of the SME Policy Index 2019 recommendations for Dimension 9**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
<b>Implement measures to help SMEs improve their resource efficiency</b>	Both entities have made progress in implementing resource efficiency measures, with a strong focus on energy efficiency. In line with its SME Strategy, Republika Srpska has organised trainings and awareness-raising activities on energy efficiency concepts. The City Development Agency Cidea Banja Luka and the Ministry of Economy and Entrepreneurship, with the support of the EBRD, have organised an online workshop on the topic of "Green Economy - Energy Efficiency in SMEs". Moreover, the project "Implementation of energy management standards ISO 50001 in SMEs", implemented by the Agency for Enterprise Development of Sweden, has promoted energy management systems. The Federation of Bosnia and Herzegovina has implemented resource efficiency measures as well, as part of the Action Plan for the Development of SMEs in the Federation of Bosnia and Herzegovina (2019-2020). In particular, funds of EUR 7 500 000 were introduced in 2019 and in 2020 to strengthen SMEs' energy efficiency.	Moderate
<b>Increase financial support for SME greening</b>	Financial incentives (vouchers, subsidised credit lines) are included in the new Strategy for Development of SMEs (2021-2027) and the Strategy for Industrial Development (2021-2027) in Republika Srpska and the Development Strategy of the Federation of Bosnia and Herzegovina (2021-2027). In addition to these measures, both the RS and the FBiH Environmental Protection Funds have (co-)financed the implementation of programmes, projects and other activities in the field of environmental protection through public calls.	Moderate

*Environmental policies targeting SMEs are increasingly introduced in Bosnia and Herzegovina's strategic documents, focusing primarily on energy efficiency and eco-innovation*

In Bosnia and Herzegovina, both entities (Republika Srpska and the Federation of Bosnia and Herzegovina) have the competencies to develop, adopt and implement environmental policies targeting SMEs, with no state-level institutions in charge of promoting the green economy. Promisingly, greening measures targeting SMEs are gaining momentum in both entities, as they are increasingly included in strategic documents and implemented accordingly.

SME greening policies were introduced for the first time in Republika Srpska in 2016 as part of its SME Strategy (2016-2020), the majority of which have been implemented since the previous assessment. Namely, energy efficiency measures, environmental management standards and available financial instruments (mainly from the Fund for Environmental Protection and Energy Efficiency) have been promoted through information campaigns and trainings organised by the government in partnership with international development co-ordination partners. The subsequent RS Strategy for Development of SMEs (2021-2027) also includes green measures, envisaged as a continuity of previous activities. The strategy comprises an ambitious set of measures with corresponding budgets and activities related to promoting and financing energy efficiency projects and renewable energy sources<sup>77</sup> and creating and expanding energy efficiency networks based on the Learning Energy Efficiency Networks.<sup>78</sup> Financial support for green innovation through dedicated voucher programmes<sup>79</sup> is also envisaged as part of the strategy, in line with the Action Plan for Innovation in SMEs (2021-2023). Moreover, the Strategy for Industrial Development (2021-2027) is expected to boost resource efficiency, with targets on the circular economy

(Box 14.11), energy efficiency, and the use of renewable energy sources. In particular, the strategy envisages the provision of financial support for energy efficiency and renewable energy projects and the organisation of promotional campaigns targeted at the private sector to present available sources of funding in this regard.

### Box 14.11. SMEs and the circular economy in Bosnia and Herzegovina

SMEs play an important role in achieving circular economy objectives by rendering their business operations more circular and contributing to the innovation that can strengthen circularity across economies (OECD, 2021<sup>[103]</sup>). As greening measures are gaining momentum in Bosnia and Herzegovina, SMEs, which represent the largest share of enterprises in the economy, should lead the way in the transition from a linear to a circular economy.

Some steps have been taken in Bosnia and Herzegovina to develop a circular economy framework (particularly in Republika Srpska), but it remains rather underdeveloped.

The RS Strategy for Industrial Development (2021-2027) aims to develop an efficient waste management system, with a special focus on waste recycling and reusing, energy recovery of waste and safe disposal of waste. The strategy is aligned with the RS Waste Management Strategy (2017-2026) and the RS Waste Management Plan (2019-2029), which outline a comprehensive list of short (2019-2024) and long-term objectives (2024-2029), promoting a circular economy, the use of clean technologies and the rational use of natural resources. The plan has a EUR 2.5 million implementation budget. The new overarching Environmental Protection Strategy of Bosnia and Herzegovina (planned to be adopted in 2023) indirectly covers waste management and the circular economy. However, neither document targets SMEs specifically.

Overall, the promotion of circular economy concepts and activities in Bosnia and Herzegovina remains limited, and SMEs are not sufficiently supported in their transition. However, envisaged financial measures that aim to boost eco-innovation in both entities could catalyse the circular economy in Bosnia and Herzegovina. In addition, the realised and planned projects related to the adoption of EMS might be used as efficient tools upon which further, more targeted circular economy activities can be built.

Since the last assessment, Republika Srpska has introduced and amended several regulations targeting its waste management system, which could set non-financial incentives for SMEs to green their activities and increase their use of EMS. These include: the introduction of a financial management system for special categories of waste and the manner of calculating and paying the fees for burdening the environment with these types of waste; conditions on the design, production and use of packaging waste; monitoring measures for titanium dioxide waste management; and waste management for long-term organic pollutants. Moreover, the 2021 Amendment on the RS Law on Waste Management has harmonised the coefficients for calculating waste management fees in Republika Srpska with those in the Federation of Bosnia and Herzegovina, increasing transparency for SMEs working in both entities. These regulations should also provide clarity on SMEs' administrative requirements.

Sources: OECD (2021<sup>[9]</sup>; 2021<sup>[103]</sup>).

In the Federation of Bosnia and Herzegovina, the Action Plan for the Development of SMEs (2019-2020) has encouraged greening measures, with a specific budget of EUR 7 500 000 to implement the project "Strengthening competitiveness and technological development, energy efficiency and green entrepreneurship", which has raised awareness on green measures and promoted international quality standards. Following the adoption of this law and the Law on Environmental Protection in 2021, which indirectly promotes eco-efficiency and eco-innovation for SMEs, the Federation of Bosnia and Herzegovina adopted the Development Strategy (2021-2027), which includes SME greening for the first time. The

strategy has a specific target on increasing SMEs' energy efficiency through concrete technical and financial support measures<sup>80</sup> and assistance in the implementation of energy audits and energy management systems,<sup>81</sup> as well as on boosting eco-efficiency through several financial instruments.<sup>82</sup> The Action Plan for Innovation in SMEs (2021-2023) should also provide a stronger impetus for eco-innovation.<sup>83</sup>

Although strategies are monitored annually in both entities, evaluation of policies has not been carried out in the Federation of Bosnia and Herzegovina.

*While co-ordination of SME greening policies remains limited, business associations have been increasingly integrated*

Two ministries in Republika Srpska (the Ministry of Spatial Planning, Construction and Ecology and the Ministry of Economy and Entrepreneurship) and the Ministry of Environment and Tourism in the Federation of Bosnia and Herzegovina are in charge of green policies for SMEs. However, there are no specific bodies in either entity in charge of co-ordinating SME greening policies and their corresponding funds. Nevertheless, a co-ordination body is planned to be established in line with the next Environmental Strategy of the Federation of Bosnia and Herzegovina and should include relevant stakeholders involved in environmental policies. In both entities, consultations with the private sector are regularly held in the process of strategy development, as was the case for the Development Strategy of the Federation of Bosnia and Herzegovina (2021-2027), which included 1 400 participants from all sectors.

Business associations have been increasingly involved in developing and implementing greening policies for SMEs. For example, both entities' respective chambers of commerce have been involved in implementing the project, Energy Efficiency Network in Industry of Bosnia and Herzegovina,<sup>84</sup> conducted in 2021, which promoted energy efficiency measures and created networks among different enterprises. As part of the project, energy audits were conducted in 16 enterprises, and best practice examples were shared with all participants. The RS Chamber of Commerce has engaged in a follow-up project which has established a co-ordination body to support the private sector in the field of industrial energy efficiency. This body will improve awareness and knowledge of economic entities on the potential of energy-saving measures and link activities with funding sources, thus creating a boost for greening measures among SMEs.

*Financial incentives for greening projects remain dependent on international partners' support but increasingly target SMEs*

Both the RS Fund for Environmental Protection and Energy Efficiency and the FBiH Environmental Protection Fund are operational and have increased the scope and outreach of their programmes to target smaller enterprises, as recommended in the last assessment.

Through the RS Fund for Environmental Protection and Energy Efficiency, SMEs can apply for grants to scale their greening efforts. The value of the funds allocated amounted to EUR 100 000 in 2021, and the Fund reports that 206 SMEs benefited from support for their energy efficiency projects in 2019, compared to 115 in 2020. Moreover, the Fund signed joint programmes with the United Nations Development Programme (UNDP) in 2018 and the EBRD in 2021<sup>85</sup> for large projects in public facilities, which plan to engage SMEs through contracts for construction work to enhance the energy efficiency of public sector facilities (schools, hospitals, public administration buildings, etc.). As of 2021, three contracts have been concluded with SMEs as part of the UNDP project; six are envisaged for the first half of 2022; and more are planned in the years to come, which should create new opportunities for SMEs.

The FBiH Environmental Protection Fund also co-finances programmes in partnership with international development co-operation partners. In 2020, 93 companies of all sizes participated in public calls, and 51 projects were approved, representing a total amount of EUR 2.7 million.<sup>86</sup> The Fund supports SMEs

mainly in projects in the areas of energy efficiency and water management; provides technical assistance (including energy audits); and conducts awareness-raising activities. In 2021, the Fund supported public-awareness projects on the importance of environmental protection in the amount of EUR 450 000.

Both Funds report on their activities through annual reports, and the RS Fund has been active in raising awareness of its activities through print and electronic media and regular contact with several economic entities.

Although neither of the aforementioned Funds has introduced COVID-19 recovery programmes or financially supported SMEs impacted by the crisis, with the outbreak of the COVID-19 pandemic, new financing for SMEs has been unlocked with a EUR 10 million loan provided by the European Investment Bank (EIB) to Raiffeisen Leasing BiH. The loan aims to support SMEs working in several sectors, including environmental protection, particularly energy efficiency and renewable energy.

Seeking to further encourage the greening transition of SMEs, both entities have integrated additional financial mechanisms available to SMEs in the recently adopted RS Strategy for Development of SMEs (2021-2027) and the Development Strategy of the Federation of Bosnia and Herzegovina (2021-2027). As part of both strategies, voucher programmes are planned to be established to finance eco-innovation projects. To support energy efficiency projects, the Federation of Bosnia and Herzegovina plans to finance a credit line targeted at SMEs through its Development Bank, as well as to provide funding support to foster the development of energy service companies (ESCOs) markets.<sup>87</sup> The RS Strategy for Industrial Development (2021-2027) also includes a set of financial measures to encourage greening efforts by co-financing programmes with international partners through the Fund for Environmental Protection and Energy Efficiency and by increasing the Investment and Development Bank's credit support.

*Environmental management systems have been promoted, but other non-financial tools for SME greening remain insufficient*

In both entities, the laws on Environment Protection (last amended in 2020 in Republika Srpska and adopted in 2021 in the Federation of Bosnia and Herzegovina) contain provisions governing the system of eco-labelling and EMS, which aim to encourage the production, marketing and use of products with a reduced impact on the environment. In addition to contributing to an increased demand for green business practices, certification of green practices could be useful for SMEs when dealing with business licensing and administrative requirements (OECD, 2021<sup>[103]</sup>). While no eco-labels have been awarded so far, both entities have implemented projects to promote EMS. Some 21 SMEs in the Federation of Bosnia and Herzegovina were supported in implementing international quality standards in 2019 as part of the project, "Technical harmonisation (introduction of ISO and HACCP standards and ensuring CE mark)", which was not renewed in 2020 due to the COVID-19 pandemic. In Republika Srpska, the project, "Implementation of energy management standards ISO 50001 in SMEs", implemented by the Agency for Enterprise Development of Sweden, supported five companies in introducing 50001 standards; trained 17 auditors on EMS guidelines; and conducted awareness-raising campaigns. According to the RS Chamber of Commerce, 40 SMEs adopted EMS in 2020. Moreover, Republika Srpska has increased SMEs' awareness of green tools through the online workshop "Green Economy - Energy Efficiency in SMEs", organised by the City Development Agency Cidea Banja Luka and the Ministry of Economy and Entrepreneurship with the support of the EBRD.<sup>88</sup>

Although some regulatory instruments are legislated in both entities, such as the best available techniques to achieve environmental quality standards in the Federation of Bosnia and Herzegovina<sup>89</sup> and performance standards, particularly waste management standards in Republika Srpska (Box 14.11), relevant data or evidence confirming they benefit SMEs are lacking. Moreover, green public procurement policies remain non-existent in both entities.

### ***The way forward for Dimension 9***

- **Strengthen monitoring mechanisms and introduce evaluation tools to ensure efficient implementation of policies and support programmes.** Cross-sectoral and systematic monitoring and evaluation of greening measures targeting SMEs would help identify bottlenecks hindering SME greening, streamline policy measures and assess the impact of financial support programmes. To ensure appropriate monitoring and evaluation of measures, both entities should improve SME-specific greening data collection (on energy efficiency, green products, eco-innovation and beneficiaries of public support measures).
- **Enhance financial support to SME greening, particularly in the context of the post-COVID-19 recovery.** The governments of both entities might consider facilitating SMEs' access to green finance by connecting greening aspects to existing financial schemes. The two entities' credit guarantee funds (introduced in 2020 in the Federation of Bosnia and Herzegovina to help mitigate the impact of the pandemic and operative since 2010 in Republika Srpska) (see Access to finance for SMEs [Dimension 6]) could serve as an appropriate vehicle for this by introducing dedicated credit guarantee schemes for green projects. For instance, since 2015, the Swiss Technology Fund has been providing loan guarantees to SMEs that develop and sell technologies or services that contribute to a sustainable reduction in greenhouse gas emissions. More than 80 cleantech companies have received access to low-cost loans from commercial banks based on these guarantees (Technology Fund, n.d.<sup>[104]</sup>).
- **Support SMEs' transition to a circular economy by creating an appropriate policy framework and building on existing support programmes.** While the circular economy framework targeting SMEs remains underdeveloped in both entities, eco-innovation and resource efficiency measures can be used as the basis upon which further, more targeted circular economy policies can be built. Both entities in Bosnia and Herzegovina should enhance support to SMEs in their green and circular transition through awareness-raising, capacity building and sharing of best practices. Facilitating partnerships and peer-to-peer learning between businesses of all sizes could encourage SMEs to engage in green and circular practices (OECD, 2020<sup>[105]</sup>). Building on enhanced co-operation with business associations, the governments could facilitate circular economy initiatives, such as Circular Glasgow, led by the Glasgow Chamber of Commerce (see Box 14.12). These activities could create the basis for drafting the strategic documents required to promote and implement efficient circular economy policies in line with the European Union's guidelines on the circular economy (the Green Deal and the new Circular Economy Action Plan). While Circular Glasgow is a city-level project, it could easily be scaled up at the entity level in Bosnia and Herzegovina.

### Box 14.12. Circular Glasgow: Capacity building on the circular economy

Since 2015, the Glasgow Chamber of Commerce has hosted Circular Glasgow and is responsible for delivering this initiative with Zero Waste Scotland, the Glasgow City Council (United Kingdom) and key stakeholders.

Circular Glasgow aims to build best practices and capacity on the circular economy across Glasgow businesses, helping them identify opportunities to support and implement circular ideas.

This is done by carrying out: 1) workshops and events – a series of knowledge-sharing business-to-business networking events; 2) a Circle Assessment – a tool that helps businesses understand opportunities to become more circular; and 3) the Circle Lab – an online hackathon event to find a circular solution to local challenges. The Circle Lab sought solutions to make Glasgow's event industry more circular.

Following the 2020 edition, ways to turn the winning ideas (namely a deposit-based reuse system for food and drink containers, circular designs for event marketing and branding, and a scheme that will repurpose organic waste into energy and fertilisers) into pilot projects were explored.

Building on the work of Circular Glasgow, the city of Glasgow adopted its Circular Economy Route Map (2020-2030) to reflect and shape a circular economy approach at a city-wide level to continue this momentum.

Sources: OECD (2019<sub>[106]</sub>; 2020<sub>[107]</sub>); City of Glasgow (2020<sub>[108]</sub>).

## Internationalisation of SMEs (Dimension 10)

### Introduction

Expansion into foreign markets and SME internationalisation are key factors in boosting SME productivity and competitiveness on a global scale. Smaller economies in the region often struggle with competing internationally or even accessing foreign markets, often due to a lack of technical assistance or resources. Supporting export promotion, sustainable integration into global value chains (GVCs) and opening digital sales channels need to be supported through concrete policy actions and enhanced governmental support. With such support, SMEs can broaden their reach, improve productivity, and introduce innovative practices.

Sustainable growth stemming from an export-oriented manufacturing and services sector is vital for a small, open economy like Bosnia and Herzegovina. The economy's internationalisation efforts largely focus on export promotion and capacity building for SMEs. The key challenge is increasing productivity and competitiveness in order to successfully integrate into the global market. The COVID-19 pandemic has created an additional strain, especially on SMEs; therefore, a broad range of well-coordinated policies is required to boost SMEs' internationalisation and their productivity, while easing labour reallocation during the ongoing recovery.

Despite moderate improvements since the last assessment cycle under all three sub-dimensions, which resulted in an increase in score to 2.79 in 2022 from 2.57 in 2019, Bosnia and Herzegovina still lags behind the region (Table 14.29). New SME Development Strategies both in the Federation of Bosnia and Herzegovina and Republika Srpska contributed to an increase under the export promotion sub-dimension. However, the economy remains poorly integrated into GVCs, and the government is not advancing in creating a conducive internationalisation policy environment. E-commerce remains underdeveloped in the economy across all levels of government, with no legal framework in place at the time of assessment.

**Table 14.29 Bosnia and Herzegovina's scores for Dimension 10: Internationalisation of SMEs**

Dimension	Sub-dimension	Thematic block	Bosnia and Herzegovina	WBT average
Dimension 10: Internationalisation of SMEs	Sub-dimension 10.1: Export promotion	Planning and design	4.13	4.61
		Implementation	4.20	4.24
		Monitoring and evaluation	3.07	3.65
		<b>Weighted average</b>	<b>3.96</b>	<b>4.23</b>
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	2.52	3.88
		Implementation	1.55	3.57
		Monitoring and evaluation	1.89	2.70
		<b>Weighted average</b>	<b>1.91</b>	<b>3.49</b>
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	2.48	3.62
		Implementation	1.33	3.15
		Monitoring and evaluation	1.00	3.29
		<b>Weighted average</b>	<b>1.61</b>	<b>3.32</b>
	<b>Bosnia and Herzegovina's overall score for Dimension 10</b>			<b>2.79</b>

Note: WBT: Western Balkans and Turkey.

### State of play and key developments

While the state level remains without a formal strategic framework for export promotion, in line with both the Federation of Bosnia and Herzegovina and Republika Srpska's newly adopted SME Development Strategies (2021-2027), both entities moderately advanced in supporting SMEs in their internationalisation efforts through export promotion programmes. However, SME integration into GVCs remains a challenge in Bosnia and Herzegovina, even though Republika Srpska intensified its efforts in cluster formation and development (Table 14.30). Across all three levels of government, data collection, monitoring and evaluation of internationalisation programmes and strategies are underdeveloped. Similarly, neither of the entities has a developed legal framework for promoting e-commerce, despite it being mentioned in strategic documents.

**Table 14.30. Bosnia and Herzegovina's implementation of the SME Policy Index 2019 recommendations for Dimension 10**

2019 recommendation	SME Policy Index 2022	
	Main developments during the assessment period	Progress status
Increase SMEs' uptake of programmes aimed at supporting cluster and local supplier quality	According to the inputs received by all three levels of government, no progress has been observed on this recommendation, despite moderate advancements in the implementation of cluster and supplier development programmes,	No progress
Strengthen the provision of information on export promotion, cluster and other internationalisation support programmes	Moderate progress has been made to ensure equitable and public access to information on current government programmes and initiatives. The state-level and both entities have online portals that provide information services for SMEs.	Moderate
Complete the legislative and strategic framework for e-commerce and develop formal mechanisms to encourage SMEs to adopt e-commerce	No progress has been made on this recommendation.	No progress

*Both entities adopted new strategic frameworks emphasising export promotion as strategic goals*

Bosnia and Herzegovina has advanced in addressing pressing export promotion obstacles prevalent across the economy. The export promotion in Bosnia and Herzegovina is outlined in newly adopted strategic documents at the entity levels. No such documents exist at the state level at the time of drafting this report.

In the Federation of Bosnia and Herzegovina, export promotion programmes are linked to the new Action Plan for SME Development (2019-2020), with one of its eight strategic goals being the support for export-oriented industries, and the Development Strategy of the Federation of Bosnia and Herzegovina (2021-2027) (Federal Ministry of Development, Entrepreneurship and Crafts, 2021<sup>[72]</sup>). The latter directly addresses obstacles faced by the SMEs<sup>90</sup> and envisions supporting exports and higher value production through enhancing intellectual property protection, assisting SMEs in adhering to international standards, strengthening GVC involvement and encouraging linkages with the diaspora. It has clearly set realistic and measurable goals given the long implementation period, but they might prove too ambitious given the fragmented state of institutions and resource constraints. The targets<sup>91</sup> set are focused more on directing the workforce towards manufacturing and higher-technology industries rather than increasing the export capacity of SMEs, which serves the purpose of shifting to higher-value exports. Bosnia and Herzegovina could leverage its diversified export base in chemicals, machinery and automotive components to boost its competitiveness internationally (OECD, 2019<sup>[109]</sup>).

In Republika Srpska, export promotion is at the centre of the Strategy for Development of SMEs (2021-2027), which includes export support as one of the main strategic goals and the Industry

Development Strategy (2021-2027) (Ministry of Economy and Entrepreneurship, 2021<sub>[110]</sub>). The former addresses obstacles faced by SMEs in their expansion efforts and enlists RARS in co-ordinating the support of the Europe Enterprise Network. Consequently, the strategy envisions trainings on internationalisation, advisory services on standardisation, EU legislation and tax policies, as well as intellectual property, boosting SME competitiveness and innovation capacities. Nevertheless, the strategy lacks quantifiable goals, further impeding monitoring and evaluation efforts. Republika Srpska's Industry Development Strategy (2021-2027) has formulated measurable goals<sup>92</sup> related to export promotion and integration into GVCs; however, given the significant negative impact of the COVID-19 pandemic and the redirection of funds to mitigate it, they might prove too ambitious. Moreover, on top of issues faced by SMEs across the economy, SMEs in Republika Srpska quote cumbersome customs procedures<sup>93</sup>, long waiting periods for import and export licences and insufficient knowledge of customs regulations as the main obstacles to exportation (Ministry of Economy and Entrepreneurship, 2021<sub>[110]</sub>). While the Industry Development Strategy (2021-2027) addresses these issues, the outlined measures lack substance and clearly defined targets. The Ministry's implementation capacity is reduced due to limited resources and their redirection to overcoming the COVID-19 crisis.

#### *Export promotion support varies across different levels of government*

Both on the state level and in the Federation of Bosnia and Herzegovina, export promotion programmes are co-ordinated by Export Promotion of Bosnia and Herzegovina within the Foreign Trade Chamber of Bosnia and Herzegovina. In Republika Srpska, export promotion activities are co-ordinated by the Ministry of Economy and Entrepreneurship, the Ministry of European Integration and International Co-operation, the Chamber of Commerce of Republika Srpska and the Union of Employers' Associations of Republika Srpska. In October 2019, the Republic Agency for Development of Small and Medium Enterprises was transformed into RARS. The government expanded RARS's mandate to include improvement of the export environment within the entity, export promotion and support for potential investors, development of venture capital markets and improvement of SME competitiveness domestically and abroad.

The SMEs on all three levels of government have access to the support services in the area of export promotion ranging from training in the introduction of international quality standards; product promotion; information on trade fairs and international missions; business-to-business (B2B) meetings and vouchers; or co-financing of registration fees for international trade fairs. At the state level, SMEs have access to limited financial support for attending international trade fairs. In the Federation of Bosnia and Herzegovina, the government introduced dedicated support related to quality standards, digital marketing, product promotion and advertising. In 2020, 391 enterprises benefited from government initiatives for export promotion. Moreover, the Federation of Bosnia and Herzegovina introduced a grant scheme to increase SME competitiveness domestically and abroad. In Republika Srpska, on the other hand, there are currently no new export promotion programmes. The public financial support<sup>94</sup> available to SMEs in Republika Srpska is limited, and there are no dedicated financial instruments for export support, thus curbing SMEs' export activity. On a positive note, RARS's extended mandate is a welcoming step in supporting SMEs in different policy domains affecting internationalisation.

#### *Integration into GVCs remains a priority across all levels of government, but stalled programme implementation weakens their efforts*

Despite a fairly comprehensive strategic framework for the integration of SMEs into GVCs, the progress in the introduction and implementation of programmes and activities remains limited across all levels of government. The strategic documents highlighting increased efforts on internationalisation and inclusion in GVCs present little to no evidence of quantifiable, concrete measures to achieve the target.

On the state level, the government included support for SME integration into GVCs in the Strategic Guidelines for Harmonisation of Support to SME Development in Bosnia and Herzegovina. The document

contains a range of activities<sup>95</sup> pertaining to increased internationalisation and integration into GVCs; however, it had not yet been adopted at the time of assessment. Since the last assessment cycle, the state level did not introduce any new programmes on SME integration into GVCs. In the Federation of Bosnia and Herzegovina, integration into GVCs is mentioned in the Development Strategy of the Federation of Bosnia and Herzegovina (2021-2027), expressing the need to harmonise regulation regarding the spatial concentration of entrepreneurial activity (Federal Ministry of Development, Entrepreneurship and Crafts, 2021<sup>[72]</sup>). The Federation aims to build on existing comparative advantage and economies of scale, as well as intensify specialisation efforts, but they might prove insufficient, given the limited export capacity of SMEs in the Federation of Bosnia and Herzegovina. In order to help SMEs integrate into GVCs, the entity emphasises the importance of creating linkages between SMEs and the diaspora, especially among investors and skilled workforce, to compensate for the human capital flight. While leveraging the diaspora can contribute to a higher degree of internationalisation, the economy would need to provide financial and non-financial incentives for diaspora representatives to invest (Gordon and Suominen, 2014<sup>[111]</sup>).

Bosnia and Herzegovina has a dedicated entity in place to oversee attracting FDI on all levels of government. The Foreign Investment Promotion Agency of Bosnia and Herzegovina (FIPA) provides services to potential investors ranging from sectoral studies, facilitating contact with the private and public sector in the economy to co-operating with regional organisations to improve the investment climate within the entity. The agency does not, however, implement dedicated programmes to support SME linkages with investors; it can neither register companies nor obtain licences and permits. It serves a more informational purpose, with an unstable mandate and a lack of political support and resources (OECD, 2021<sup>[9]</sup>).

While a few clusters<sup>96</sup> are operating in the Federation of Bosnia and Herzegovina, broader entity-level cluster support is lacking. Although FIPA provides information on current market opportunities, it does not use its platform to encourage industrial clustering among SMEs.

In Republika Srpska, the adopted Strategy for Development of SMEs (2021-2027) and the Strategy for Attracting Foreign Investment (2021-2027) include provisions on SME integration into GVCs. The government emphasises digitalisation and innovation as a gateway to facilitating access to GVCs, and therefore the majority of activities in that area pertain to the increased digitalisation of SMEs. The strategy identifies major obstacles faced by SMEs, mainly difficulties accessing foreign markets, lack of resources and a qualified labour force, as well as low innovation capacity. The Law on Incentives, adopted in 2019, envisages support for SMEs in the procurement of new technologies and modern equipment as an incentive for direct investment. Although Bosnia and Herzegovina's low levels of digitalisation might hinder the efforts centred around new technologies, the economy's growing ICT sector and a relatively well-developed Internet infrastructure could further the strategic endeavours of connecting to GVCs through digital solutions (UNDP, 2020<sup>[112]</sup>). Republika Srpska's strategic framework, which emphasises the importance of financial and non-financial incentives for technology acquisition and innovation, is a good first step toward strengthening SMEs' capacities to become suppliers of multinational enterprises (MNEs) (OECD, 2022<sup>[113]</sup>).

Despite the lack of a dedicated, operational programme on GVCs integration, Republika Srpska introduced new initiatives on cluster formation and development with the co-operation of the Ministry of Agriculture. The government recognised the importance of the agro-food industry in GVCs and allocated funds for the support of cluster development in this sector through the International Fund for Agricultural Development (IFAD) Rural Competitiveness Development Project. Since 2019, 24 SMEs and 18 agricultural co-operatives have benefited from the project. At the time of assessment, the Ministry has been preparing the Agricultural Cluster Development Programme 2022-26, due for finalisation in early 2022. With 8.9%<sup>97</sup> of GDP coming from agriculture, providing support to agricultural clusters is a natural progression. However, it risks misalignment with Republika Srpska's strategic framework, which focuses on technology and digital solutions, as GVC integration support is dedicated primarily to the agricultural sector. In addition, the Strategy for Development of SMEs (2021-2027) envisages the establishment of special economic zones (SEZs) within Republika Srpska. In 2021, Republika Srpska adopted a new Law on Free Zones, and at

the time of assessment, the work on the legal framework for SEZs establishment was underway. The entity conducted the process of mapping specific locations for the zones and trained local administrations on SEZs.

Bosnia and Herzegovina has moderately advanced in improving the information asymmetry among the supplier base, especially in Republika Srpska. Given a broader scope of responsibilities, RARS has introduced a Suppliers Database, which facilitates finding business partners for domestic and foreign companies on a national and international level and is publicly available on RARS's website. The entity is also planning to establish a public registry for SEZs; however, details on the timeframe are lacking. Nevertheless, despite moderate progress, more intensive efforts informing SMEs about available GVCs support are needed, including the implementation of a public database containing information on SEZs and the respective incentives they offer. While the Federation of Bosnia and Herzegovina does offer an online portal for SMEs to access information about available support programmes, no efforts have been undertaken to improve the quality of the supplier base and the information asymmetry within.

*The legal framework for the promotion of e-commerce is practically non-existent across different levels of government*

Bosnia and Herzegovina does not have a legal framework governing e-commerce across all three levels of government. Nevertheless, on the state level, e-commerce is regulated by the Law on Consumer Protection in Bosnia and Herzegovina, which includes provisions on electronic payment instruments, though it does not outline specific regulations on e-commerce. There is no legal framework for e-commerce in Republika Srpska. Although mentioned in the Federation of Bosnia and Herzegovina's SME Development Strategy (2021-2027), there are no quantifiable, measurable targets outlined. Nevertheless, the Federation of Bosnia and Herzegovina's programme "Strengthening the competitiveness of SMEs" highlights market access and the promotion of SME products, with a focus on digitised solutions, the development of digitised business solutions and establishing an e-commerce sales channel.

Both the Federation of Bosnia and Herzegovina and Republika Srpska acknowledge the need to develop e-commerce and e-payments infrastructure in the entities, especially in light of the COVID-19 pandemic, when most internationalisation support activities, such as training or capacity building, had to be moved online. Without a well-developed legal framework and incentives for SMEs to increase e-commerce uptake and build capacity in this area, Bosnia and Herzegovina faces remaining behind in their efforts on digitalisation.

With the exception of the Federation of Bosnia and Herzegovina, regarding introduced and implemented initiatives, dedicated institutions and government programmes, there has been no change since the last assessment cycle. While digitalisation is mentioned in strategic documents across entities, there are currently no operational government programmes for promoting e-commerce, no specific institutions, no dedicated budgets and therefore, no monitoring mechanisms.

### ***The way forward for Dimension 10***

- **Introduce capacity-building activities and training to upgrade the skills of the labour force.** In order to leverage a broad export base and make exports more competitive globally, Bosnia and Herzegovina should introduce targeted non-financial support with the goal of shifting to a skills-based labour force and positioning the export offer in a more competitive position on foreign markets. In order to achieve the goal of shifting the workforce towards more technology and knowledge-intensive industries, Bosnia and Herzegovina should assess its workforce capabilities and upgrade them to adapt to skills-based labour to create competitive advantage within the industry (WTO, 2019<sub>[114]</sub>). A comprehensive policy mix, which complements financial support with a skills development programme, could contribute to increased productivity and competitiveness.

- **Reinforce investment facilitation and aftercare services.** Enhancing inter-agency co-operation could be the first step to streamlining the investment facilitation framework. Bosnia and Herzegovina's business environment is complex, with regulations varying at different levels of government. Adopting a whole-of-government approach in the area of attracting FDI and thus promoting linkages between MNEs and SMEs would contribute to an overall improvement of the business climate across all three levels of government. Boosting FIPA's capabilities and resources would allow it to expand its operations to provide better quality investment facilitation and aftercare services. In addition, FIPA could assist foreign investors in identifying potential SME partners and direct them to regions with the best-suited suppliers with the highest potential for linkages. In order to simplify Bosnia and Herzegovina's investment framework, the Council of Ministers, to which FIPA reports, should ensure that the agency's priorities and activities are consistent across the entity and state levels.
- **Strengthen data collection processes across levels of government.** So as to focus on monitoring and evaluation in the area of export promotion and integration into GVCs, the first step to viable monitoring mechanisms would be data collection. Bosnia and Herzegovina does not collect data on SME internationalisation, particularly GVC integration at the state level, and none of the entities collects data on the performance indicators of introduced programmes. A good first step would thus be to collect data on SMEs operating within the economy with a particular focus on ones with the potential to successfully integrate into the supplier network of a potential investor. Following a thorough data collection process, the economy could create a publicly available database of SME suppliers, which would assist potential foreign investors in matching with a relevant SME that could meet their specific needs.
- **Develop a comprehensive legal and strategic framework for e-commerce and e-payments.** More significant investment is needed in ICT infrastructure in order for SMEs to be able to successfully adopt e-commerce practices. Bosnia and Herzegovina needs a co-ordinated approach in facilitating SME access to opportunities in digitalising their operations and taking full advantage of e-commerce. Moreover, having a dedicated institution, with a dedicated budget, co-ordinating e-commerce policy would streamline communication and standardise processes across all levels of government. Adhering any potential new legislation to EU directives would ensure consistency with EU legislation and facilitate cross-border e-commerce. Bosnia and Herzegovina should ensure that on top of a comprehensive legal framework for e-commerce, capacity building on integrating an e-payment system, transactions and cybersecurity is provided to SMEs across the economy (Box 14.13).

#### Box 14.13. Argentina introduces a new approach to wire transfers

The Central Bank of Argentina introduced a new payment infrastructure, Transferencias 3.0 (Wire transfers 3.0), as one of the measures to mitigate the effects of the COVID-19 pandemic. The goals of the initiative are to create a more inclusive payment system and to boost the uptake of online payments among SMEs and beyond. Launched in December 2020, the project completed its second phase of aligning the payment message confirmations with the international standard ISO 20022 and is fully operational.

The main features of the new payment infrastructure include a universal payment interface, instant crediting for vendors, significantly lower operating costs for vendors and a variety of online payment methods, such as biometrics, QR codes, cards and national identity documents. One of the main priorities of the Central Bank of Argentina is to reduce the cost per transaction for micro and small enterprises. The infrastructure entails special advantages for micro and small enterprises, including no

fees for the first three months on the first ARS 50 000 (EUR 430) billed each month and a reduced fee of ARS 8 per each thousand for the following transactions.

Facilitated and secure payments are important elements to develop a functioning e-commerce infrastructure. Lack of trust in online financial services is quoted as one of the main obstacles for SMEs in the Western Balkan region to adopt e-commerce practices (World Bank, 2020<sup>[115]</sup>). The Central Bank of Argentina's approach places assurance and inclusivity at the centre of the payment infrastructure, as the economy faces a similar distrust in online financial services. Bosnia and Herzegovina does not have a legal framework on e-commerce at any level of the government, despite being mentioned in strategic documents. Aligning any e-commerce legislation on the state and entity level with EU regulations, which includes provisions on e-payment security, is crucial to increasing the adoption of digital practices in the sales channel. Open and universal online payment infrastructure is a priority for the e-commerce policy in Bosnia and Herzegovina and a key component in achieving full financial inclusion.

Source: Central Bank of the Argentine Republic (2020<sup>[116]</sup>).

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## Notes

1. For more information, see: [https://www.energy-community.org/implementation/Bosnia\\_Herzegovina/ENV.html](https://www.energy-community.org/implementation/Bosnia_Herzegovina/ENV.html).
2. For more information on the overall objectives of the Education for Employment programme, see <https://education4employment.eu>.
3. For more information, see <https://education4employment.eu/the-e4e-project-appointed-seven-working-groups-that-start-working-in-july/>.
4. For more information and resources related to DigComp, see [https://joint-research-centre.ec.europa.eu/digcomp\\_en](https://joint-research-centre.ec.europa.eu/digcomp_en).
5. It is not yet clear how these key competence-based learning outcomes developed as a result of the Education for Employment programme at the state level will be integrated into the common

- core curriculum. It is assumed this action would be followed up by the state-level Agency for Pre-Primary, Primary and Secondary Education.
6. For more information on the European key competences for lifelong learning, see <https://op.europa.eu/en/publication-detail/-/publication/297a33c8-a1f3-11e9-9d01-01aa75ed71a1/language-en>.
  7. The state-level common core curriculum is led by the Agency for Pre-Primary, Primary and Secondary Education. For more information, see <https://aposo.gov.ba/>.
  8. For more information, see the Centre for Entrepreneurship and Technology Transfer in University of Banja Luka <https://www.unibl.org/sr/univerzitet/uprava-i-strucne-sluzbe/ректорат/центар-за-предузетnistvo-i-transfer-tehnologija>, Centre for Economic Support of the Faculty of Mechanical Engineering <http://cenzapp.org/#> and the Innovation Centre Banja Luka <https://icbl.ba/projekti/>.
  9. Examples of practical entrepreneurial experiences implemented include environmental education in primary school (see <https://novival.info/okolis-edukacija-i-poduzetnistvo-kroz-intereticku-saradnju-osnovnih-skola-hercegovine-ii/> and <https://balkans.aljazeera.net teme/2019/12/22/gracanicki-skolarci-primjer-ekoloske-osvjestenosti-i-poduzetnistva>); school mini-company fairs (see <https://ekonomskotrgovinska.com/view-more/sajam-preduzeca-za-vjezbu-skolsko-takmicenje/200>); and practical vocational experiences (see <https://srednjaskolacapljinna.ba/2021/02/24/strucna-praksa-na-cnc-stroju/>).
  10. For more information, see <https://komorars.ba/centar-za-dualno-obrazovanje/>.
  11. An example of this is the Community of Innovative Teachers and training available via <https://inskola.com/>, led by the Centre for Educational Initiatives.
  12. For more information on the objectives and main activities of Education for Employment Component 3 relating to teacher training, see <https://education4employment.eu/component-3/>.
  13. These are established in accordance with the Law of Gender Equality in Bosnia and Herzegovina and include the FBiH Gender Centre (see <http://www.gcfbih.gov.ba/>) and the Gender Equality Centre of the Government of Republika Srpska (see <https://www.vladars.net/sr-SP-Cyrl/Vlada/centri/gendercentarrs/Pages/default.aspx>).
  14. This can be seen within Action 1.3.11, as part of the measure to eliminate sex-based discrimination in work, employment and the labour market and links to the measure to address equal access to education, including improving entrepreneurial skills in Action 1.4.7. See [https://arsbih.gov.ba/wp-content/uploads/2019/02/GAP-BIH-2018-2022\\_ENG.pdf](https://arsbih.gov.ba/wp-content/uploads/2019/02/GAP-BIH-2018-2022_ENG.pdf).
  15. See <https://komorars.ba/zene/>.
  16. The Chamber of Commerce in Republika Srpska is also active at the European level through the Sectoral Group for Women's Entrepreneurship within the European Enterprise Network.
  17. The Ministry of Education and Science provides co-financing supporting women's entrepreneurship under the following programmes: "Support to training programmes, vocational training and advanced training of adults with a focus on women for easier integration into the labour market"; "Support Programme for Women Affected by Coronavirus - Implementation of Online Business" (see <https://www.gcfbih.gov.ba/podrska-poduzetnicama-cije-su-djelatnosti-pogodjene-pandemijom-koronavirusa/>); and "Digitalisation of business and development of women's leadership and business" (see <https://www.digitalnaekonomija.ba/bs-Latn-BA/articles/3/digitalizacija-poslovanja-kao-platforma-za-razvoj-zenskog-liderstva-i-biznisa>).
  18. See <http://www.poduzetna.ba/stranica/o-portalu>.

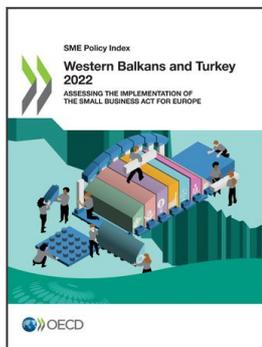
19. One of the leading micro-credit organisations is Mi Bospo, which places a special focus on supporting women. For more information, see <https://www.mi-bospo.org>.
20. The RS Entrepreneurship Portal is a joint project of the RS Development Agency and the RS Ministry of Industry, Energy and Mining. The project was funded by the European Union through the program, Support to the Competitiveness of Small and Medium Enterprises in Bosnia and Herzegovina, supported by the EBRD. For more information, see <https://www.preduzetnickiportalsrpske.net/>.
21. See <https://komorars.ba/zene/>.
22. Every year, the Ministry of Education and Science in the FBiH delivers key data to the Gender Centre of the FBiH on the implementation of the programme “Support to training programmes, vocational training and advanced training of adults with a focus on women for easier integration into the labour market”. The broad process is detailed at <https://www.gcfbih.gov.ba/oblasti/institucionalni-mehanizmi-za-ravnopravnost-spolova/>.
23. See <https://komorars.ba/zene/>.
24. To access the 2021 edition, see [https://www.rzs.rs.ba/static/uploads/bilteni/zene\\_i\\_muskarci/Zene\\_i\\_muskarci\\_2021\\_web.pdf](https://www.rzs.rs.ba/static/uploads/bilteni/zene_i_muskarci/Zene_i_muskarci_2021_web.pdf).
25. Preventing the insolvency of SMEs is achieved through implementing: 1) the Law on Financial Operations, which established clear rules for identifying liquidity problems and requires management to undertake measures for financial restructuring, as well as 2) the Law on Consensual Out-of-court Financial Restructuring.
26. The final and preclusive articles of this law provide that all bankruptcy cases that have not been completed at the date of entry into force of the new law shall be adjudicated under the new insolvency law.
27. In contrast to the Brcko District’s approach, the final and preclusive articles provide that all previously started and non-completed bankruptcy proceedings shall be completed under the previous law on bankruptcy proceedings.
28. The current international consensus on the definition of “honest” versus “dishonest” entrepreneurs presumes that an honest entrepreneur has not conducted voidable fraudulent or preferential transactions or been penalised by tax authorities or charged by a court for criminal activities. An honest failed entrepreneur should get discharged of all possible forms of debt.
29. The FBiH Development Strategy is an overarching document, but contains goals related to SMEs. A sectoral SME strategy is currently under development as well.
30. For example, the page related to direct taxation ([www.esrpska.com/ContentPage.aspx?kat\\_id=9f4b1d17-c4de-4eff-860c-5e698ddcc22b&podkat\\_id=5516bcfa-ea2f-4c51-a2cc-ef51d43e5381&page\\_id=6](http://www.esrpska.com/ContentPage.aspx?kat_id=9f4b1d17-c4de-4eff-860c-5e698ddcc22b&podkat_id=5516bcfa-ea2f-4c51-a2cc-ef51d43e5381&page_id=6)) provides information on the legal framework, but there are no links to the RS Tax Administration’s website where the declaration can be filed.
31. Combined share of respondents who answered “strongly satisfied” and “tend to be satisfied” or “completely dissatisfied” and “tend to be dissatisfied” when asked about their level of satisfaction with digital services provided by the public administration.
32. The once-only principle aims to ensure that users of e-services only need to provide certain information to the government once, which is then shared among administrations through the government’s interoperable data exchange network.

33. The e-Registration project in Republika Srpska is the result of a long-term reform process achieved through the LIFE Business Environment Improvement Project implemented by the International Finance Corporation, a member of the World Bank Group, and funded by the British Embassy in Bosnia and Herzegovina.
34. The Action Plan for the Development of SMEs in the Federation of Bosnia and Herzegovina (2019-2020) defined 75 actions and 30 priorities to achieve 8 strategic targets.
35. Compared to the previous action plan, the number of priorities was reduced from 17 to 13, and the number of measures was reduced from 23 to 17. The budget for the implementation of this action plan is BAM 18 652 000 (approximately EUR 9.5 million).
36. The Federation of Bosnia and Herzegovina collaborated with GIZ in the area of implementing 43 activities within 10 SBA dimensions.
37. Danube Chance 2.0, Challenge to Change and “Building digital entrepreneurial capacity in the elderly through innovative training systems”.
38. The Sarajevo Development Agency (SERDA) is responsible for the implementation of the project.
39. The organisation of training and certification of mentors is carried out by RARS.
40. The Zenica Economic Development Agency (ZEDA) provides SMEs with support pertaining to opening and registering a business, organising training for start-ups, retraining and additional programmes, including those related to supporting internationalisation.
41. The regional development agencies are the following: SERDA with 22 employees at the time of assessment; ZEDA with 13; TRA (Development Agency of Tesanj Municipality) with 4; RAZ (Razvojna Agencija Zavidovici) with 7; and INTERA with 9.
42. In addition to RARS, SME support is also provided by local development agencies, the Innovation Centre of Banja Luka, the Chamber of Commerce and the Chamber of Crafts.
43. The co-financed amounts refer to the Strengthening the Competitiveness of SMEs in 2021 project.
44. In order to be included in the database, individual consultants are required to have a higher education degree, knowledge of at least one foreign language and five years of experience.
45. PPL, Article 16.
46. PPL, Article 44 (5).
47. PPL, Articles 47 (3) and 48 (4).
48. PPL, Article 44 (3).
49. PPL, Article 73 (1).
50. PPL, Article 73 (3).
51. PPL, Article 64 (2).
52. PPL, Article 54 (1).
53. PPL, Article 9.
54. PPL, Article 64 (1).
55. PPL, Article 45 (4).
56. PPL, Article 72 (3).
57. PPL, Article 100.

58. See [www.bata.gov.ba/Akreditirana\\_tijela/Spisak-akreditiranih-tijela.pdf](http://www.bata.gov.ba/Akreditirana_tijela/Spisak-akreditiranih-tijela.pdf).
59. Data provided by the Market surveillance agency of Bosnia and Herzegovina during the assessment process.
60. Data provided by the ISBIH during the assessment process.
61. The project “Innovation and Digitalisation in SMEs”, funded by the German Ministry of Economic Cooperation and Development and implemented by GIZ, is aimed at improving the conditions for innovation and increasing the competitiveness of the SME sector through digitalisation. The project aims to bring together IT companies and SMEs from traditional sectors such as wood, metal processing, tourism and agriculture to increase the presence of digitalisation and innovation in these sectors. Customised advice is offered to participating firms. For more information, see <https://b2bit.ba/giz-inovacija-i-digitalizacija-u-msp>.
62. For more information, see <https://trzisterada.ba/>.
63. Short-term commitments to the development of skills intelligence are made in the Priorities for the Integration of Entrepreneurial Learning and Entrepreneurship Key Competence into Education Systems in Bosnia and Herzegovina (2021-2030) (Council of Ministers of Bosnia and Herzegovina, 2021<sup>[29]</sup>).
64. For more information on these reports, see <https://trzisterada.ba/index.php/research-and-analysis/>.
65. In Republika Srpska, there are strategies that commit to actions in the area of investment readiness, including the Strategy for attracting foreign investment 2021-2027 and actions within the Industry Development Strategy (2021-2027).
66. In Republika Srpska, the Law on Social Entrepreneurship was adopted in 2021. In the Federation of Bosnia and Herzegovina, social entrepreneurship is addressed within the Development Strategy (Federal Ministry of Development, Entrepreneurship and Crafts, 2021<sup>[72]</sup>).
67. See <https://eu4business.ba/en/>. As part of this, ILO is using the ILO-designed Start and Improve Your Business (SIYB) methodology through a range of training programmes to support entrepreneurship (for more information on SIYB, see <https://www.ilo.org/empent/areas/start-and-improve-your-business/lang--en/index.htm>).
68. Examples include <http://kfbih.com/poziv-poduzetnicama-na-webinar-ii--storytelling-tajna-uspjeha-svakog-branda> and <http://kfbih.com/poziv-poduzetnicama-i-svim-zainteresiranim-na-besplatnu-radionicu--priprema-i-pisanje-koncept-nota-i>.
69. See <https://www.komorabih.ba/poziv-na-online-edukaciju-digitalna-akademija/>.
70. According to a decision in the Official Gazette of Bosnia and Herzegovina, No. 1/21.
71. See [https://s3platform.jrc.ec.europa.eu/w/series-of-awareness-raising-seminars-on-s3-design-and-implementation-for-kosovo\\*-albania-bosnia-and-herzegovina-and-turkey](https://s3platform.jrc.ec.europa.eu/w/series-of-awareness-raising-seminars-on-s3-design-and-implementation-for-kosovo*-albania-bosnia-and-herzegovina-and-turkey).
72. See <https://www.preduzetnickiportalsrpske.net/>.
73. The annual European Innovation Scoreboard provides a comparative assessment of research and innovation performance of the countries of the European Union and its regional neighbours. It allows policy makers to assess the relative strengths and weaknesses of national research and innovation systems, track progress, and identify priority areas to boost innovation performance. See the regional chapter on Innovation for SMEs (Dimension 8b) for further information.

74. The availability of statistical data related to innovation, in line with the Eurostat methodology, remains weak, but the availability of data (at 72% in 2021) is expected to increase following Bosnia and Herzegovina's inclusion in the European Innovation Scoreboard.
75. The Danube Transnational Programme is a financing instrument of the European Territorial Co-operation, better known as Interreg. The European Territorial Co-operation is one of the goals of the European Union's Cohesion Policy and provides a framework for the implementation of joint actions and policy exchanges between national, regional and local actors from different member states. The Danube Transnational Programme promotes economic, social and territorial cohesion in the Danube Region through policy integration in selected fields.
76. For more information, see Challenge to Change Fund: <https://c2c.ba/en>.
77. Activities include the organisation of professional events and workshops on the green economy transition; public-private dialogue on the importance of transitioning to more energy-efficient solutions for all stakeholders; and organisation of awareness campaigns for available sources of financing (credit schemes that are mainly supported by international partners for the time being). The budget for implementation is BAM 100 000 (around EUR 50 000), which is financed by international partners' funds. Financing of energy efficiency should be undertaken through the Fund for Environmental Protection and Energy Efficiency.
78. This measure is based on the Learning Energy Efficiency Networks (LEEN) developed in some EU member states, which includes support to cross-sectoral SME networks and on conducting energy audits and assessments of implemented measures. Students from technical faculties are to be involved in conducting free energy audits, as developed in the US model of "industrial assessment centres". The estimated funds are BAM 1.5 million (around EUR 750 000), of which BAM 500 000 (around EUR 250 000) are from the Environmental Protection Fund.
79. This voucher programme will be created once the Science Fund and Innovation Fund are established (with the possibility of becoming a specific fund in the future).
80. Technical and financial support to MSMEs for improving the energy performance of buildings (such as through the installation of renewable energy plants).
81. Environment management systems, including ISO 50001 and 14001 standards.
82. This measure includes establishing a fund (using a bond mechanism scheme and funds from the national budget), supporting financial schemes from private funds (according to the ESCO model) and establishing a credit line for SME projects by the Development Bank of the Federation of Bosnia and Herzegovina.
83. In particular, the Action Plan aims to design a voucher scheme for innovation and the greening of SMEs, to secure funding for innovation support projects, and to set up thematic networks, including for SMEs' energy efficiency and greening measures as innovative business models.
84. The project was implemented by the ReSET Centre for Sustainable Energy Transition, Sarajevo from July to December 2021 as a programme intervention within the "Mechanism to support the implementation of SME development strategies – SIEM" within the project, "European Act on Small Business as a framework of strategies and policies for small and medium enterprises in Bosnia and Herzegovina – SBA in BiH", which is implemented by the Enterprise Development Agency (Eda) and financed by Sweden.
85. The contract signed with UNDP, in the amount of EUR 750 000 in 2018 is a part of Green Economic Development project and is planned to last until the end of 2022. The EBRD project signed in 2021 is a EUR 4.5 million credit line and EUR 1.5 million grant from the European Union.

86. In 2020, 93 private companies (SMEs and large companies) participated in the Public Invitation, and 47 projects were approved for the value of BAM 3 409 036 (approximately EUR 1.7 million). The Management Board also decided to approve an additional four projects for the value of BAM 1 950 000 (approximately EUR 975 000).
87. Energy service companies offer services for implementing and financing energy efficiency projects, including energy auditing, design and engineering, equipment procurement, construction, installation, commissioning, measurement and verification of energy and cost savings, operations and maintenance, facility management and energy services.
88. The workshop was organised as part of the EU Industry Day 2021.
89. The Rulebook on the Adoption of the Best Available Techniques Achieving Environmental Quality Standards in the FBiH prescribes the mandatory implementation and development of the best available techniques and concrete methods, in the form of technical instructions, intended to achieve environmental quality standards.
90. Some 43% of surveyed SMEs in the economy cite lack of export capacities as the reason for not exporting their products and services, while 48% who do export, complain of customs clearance taking over five days (RCC, 2021<sup>[42]</sup>).
91. The Federation of Bosnia and Herzegovina aims to increase the percentage share of the workforce in industrial areas of medium-high technological intensity from 10.5% base value in 2019 to 20% in 2027, and 1.1% to 5% of employees in high technological intensity. Moreover, the Federation of Bosnia and Herzegovina aims to increase the gross value added per employee from the 2018 base value of 35 242 to 65 000.
92. Republika Srpska aims to maintain a 5% annual growth rate of the value of manufacturing exports, an average of five initiatives aiming to remove trade restrictions per year, adding 100 suppliers to the Western Balkans Suppliers Database and adding 70 companies to cluster initiatives.
93. Custom procedures and issuing import and export licenses is within the purview of state-level institutions.
94. The IRBRS does not have dedicated export credit lines, although SMEs can access funds through existing IRBRS credit lines for export promotion purposes. There is a guarantee line for exporters under the RS Guarantee Fund.
95. The activities include: connecting domestic SMEs with foreign partners through the existing two consortia of the European Entrepreneurship Network (EEN), inclusion of domestic SMEs in the supply chains of foreign investors in Bosnia and Herzegovina, organising B2B meetings by the Foreign Trade Chamber of Bosnia and Herzegovina, and Chambers of Commerce of the Entities. Bosnia and Herzegovina and with the support of international projects (e.g. EBRD, GiZ and others), promotion of the capacity of domestic SMEs through Bosnia and Herzegovina embassies and missions and support for the joint appearance of SMEs in foreign markets.
96. Cluster of Automotive Industry of Bosnia and Herzegovina, Sarajevo Wood Cluster in Bosnia and Herzegovina, Cluster of Plastics and Toolmakers of Bosnia and Herzegovina, Graphic cluster in Bosnia and Herzegovina, Zenica, Tourist clusters: Una and Herzegovina.
97. For more details, see: <https://businessrpska.com/en/industries/agriculture/>.



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