

Introduction small and medium enterprise development economics essay

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The article deals with the issue of the SMEs development in Bosnia and Herzegovina in order to determine capabilities and opportunities for their future adjustment to grand challenges in business environment caused by active B&H participation in the process of globalization. The issue of SMEs, represents a significant policy issue for regional development, and on the other hand, is an integral part of national economic policy of the state, which defines the framework for development policy. Bosnia and Herzegovina is a one of European States with the lowest number of small and medium-sized enterprises. Only some countries of the former Soviet Union like Georgia have lower number of small and medium enterprises from Bosnia and Herzegovina and are counted as European State. This article deals with reasons for which is the situation in Bosnia and Herzegovina, when it comes to development of small and medium-sized businesses, so unfavorable. In deed in this paper, we try to answer some questions relating to small and medium-sized enterprises, such as: what are the small and medium enterprises, what their treatment in BiH and the EU is, its advantages and disadvantages, the importance of small and medium enterprises in countries in transition, the economic importance of small and medium enterprises, etc. According to official statistics in the European Union today there are 23 million small and medium enterprises. The European Commission recognizes them as the main generators of growth and employment growth. According to the Agency for Statistics of the highest number of total labor force in Bosnia and Herzegovina employs SME. However, unlike the European Union, the BiH public constantly emphasizing issues of large public companies and the government buget, while the problem for development strategy of small

and medium-sized enterprises have been left aside. According to the Agency for Statistics of the highest number of total labor force in Bosnia and Herzegovina counted SMEs - about 60 percent, while in Europe, 70 percent of total jobs. According to the structure of the companies, Bosnia and Herzegovina may be closer to European Union standards, but their importance is still at a low level. Model called, clusters, linking businesses to large enterprises, could be a good option to apply here but there are not enough strong large companies. For start up and development of small and medium-sized businesses, Bosnia and Herzegovina has at its disposal, significant amount of loans. IPA funds primarily finance projects of technical assistance to the state institutions that provide support to the economy. However, even in the pre-accession period, small and medium-sized enterprises have the possibility of getting a grant through grant schemes. BH with economic space consolidating and providing assistance particularly to small and medium enterprises, the political leadership would undoubtedly improve the climate for job creation and that development strategy and policy to replace social.

1. 2. Metodology

For the purposes of this analysis, we used a combination of surveys, research paper analysis, official statistical data and books interpretation. To identify gaps or deficiencies between international standards and the realities in the field of small and medium enterprises in Bosnia and Herzegovina, we used two standards: 1) assessment of the lack of development of small and medium enterprises was concentrated exclusively on the future needs of SME, 2) to stimulate the future development of small

and medium enterprises in Bosnia and Herzegovina had to be market-oriented. The purpose of this analysis is to identify the gaps - disparities between international standards and SME reality in Bosnia, they are analyzed to determine priorities and to be accessed solving them.

Researches used, have provided important insights into the needs revealed by SMEs themselves. Comments made by the small and medium enterprises have provided the basis for the construction of the scale of priorities based on their requirements, as well as the basis for the analysis of perception and understanding of the problems faced by the SMEs in Bosnia and Herzegovina. We also encountered some problems during the data collection, and sometimes in great difficulty. Tracking systems are significantly different from one location to another, and also vary in quality.

COMPETITIVENESS OF BOSNIA AND HERZEGOVINA

2. 1. Competitive position importance

Every country economic competitiveness state, especially of those in transition is best shown through export-import statistics. As country's competitiveness is a prerequisite for its export expansion. It may be considered by static criterion based on realized productivity of some factors or all of the factors of production factors (1) and according to the criteria for achieving productivity (2). According to the first group of criteria BiH has productivity trailing far behind the EU productivity in certain industries. To this criterion competitiveness expresses a situation in which periods of development country is. According to a second group of criteria competitiveness is expressed as a dynamic category in the context of influential factors that create the conditions for competitive advantage of

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nations. This approach is very important for BiH because it shows that countries create, maintain and lose their competitive advantage, which means that opportunity to create a competitive advantage is available for each country, at all or in some industries, although they did not have competitive advantage before. The theoretical framework for this approach to competitiveness is given in the theory of competitive advantage of countries, which has its the evidence and confirmation in the practical politics of development at the level of competitiveness of the country level, business and industry level (Porter, 1990).. For the first time B & H is included in the report of global competitiveness for the 2004th to 2005th and from 104 countries were ranked at 98th place according to their potential for achieving competitiveness. The first way of measuring emphasizes the model of global competitiveness that has developed by World Economic Forum to its annual report on global competitiveness. Low competitiveness of BiH is a consequence of three factors. The first relates the macroeconomic environment and the incentives to increase productivity it macroeconomic environment offers. This environment hasn't sufficient development incentives, works without any technology policy and it suffers from underdeveloped market institutions and the rule of law. Business environment, as another factor of influence on competitiveness, has a preferences on characteristics of areas of industry, unlike macro environment that acts at the level of the country. The business environment in some industries is very encouraging, as is the case in the banking industry, in trade services or in furniture industry. Its development is influenced by macroeconomic reform, market factors and the organization of

companies, which contribute to the creation of good business environment that is indicator of competitive advantage. Corporate influence on business environment today is especially evident through the concept of cluster development. Companies, as a third factor of competitiveness, turn conditions that are offered by macroeconomic politics and business environment, into competitive advantages. The more competitive they are, the greater chance that conditions offered by environment are going to be turned into greater productivity output at country level. This element is critical to the competitiveness of BiH and reflects the ineffectiveness in transition process in the corporate sector by high volume of foreign direct investment, privatization, restructuring, growth and company bankruptcies. To develop the competitiveness of exports is significant that competitiveness is at industry level, i. e. conditions for the competitive advantages are being created at the level of the industry by creating a favorable business environment, and so diamond of competitive advantage (Porter, 1990).. Not all industries have equal conditions of competitive advantage. This is especially case for small country like BiH, which, many elements of the business environment, must create by complementarity of domestic business environment and international (regional) business environment. Similarly, in every industry there are companies operating due to different competitiveness types. This refers to the ability to use the quality of the business environment that is offered to them like framework for their own competitiveness. Specifically, what in modern terms of global competition creates a competitive company is not only its good strategic and operational management, but also the quality of the environment that is home base for

its business. BiH companies are there much inferior to competition in the international market. They haven't a low cost loans, no support in the financing of exports, not institutions for standardization, certification and control, they also don't have qualitative promotion and country of origin image, as does the competition, especially from developed countries. For BiH is important to emphasize that in the stage of development that is based on availability natural factors, its competitiveness has to rely on cost competitiveness and that it is almost not possible to achieve higher productivity. BiH has a dominant structure of competitiveness based on a factors of competitiveness, i. e. at low costs and prices of its products. Base for BiH competitiveness makes the availability of " inherited" factors of production: water, minerals, forests, land, air, natural beauty, and qualified and unqualified labor force, geographical location benefits and other factors. These are the potential comparative advantages for Bosnia and Herzegovina. In order to create greater productivity and competitiveness, comparative advantage should be translated into competitive advantages. Competitive advantages request for comparative advantages to be translated into specific industrial competitiveness, with competitive products and services. BiH doesn't gain anything of just possessing, for example, natural beauty, without ability to develop a tourism industry that could be competitive in the South-east Europe region. Or, the fact that BiH has qualified workforce that " costs" 2 USD per hour does not mean anything if there are no industries that can secure productive engagement for such labor (for example, in the furniture industry BiH is on 6th place of 8 countries of South-east Europe by labor force costs, which means that labor factor demands more productive

employment sectors than it is case in Albania that has 15% lower level of salaries). To achieve international competitiveness BiH must improve the level of cost competitiveness, by decreases of taxes and public charges to a regional level and by lowering prices of basic factors of production in the public sector and external factors with effects like labor and related costs of labor, electricity, natural gas, telecommunications, transport, loans, land, concessions. On the other hand, raising the competitiveness of BiH requires the development of quality of factors in production in terms of greater attractiveness to investors (telecommunications and information technology infrastructure, road, railway, airport, river and administrative infrastructure, schools and universities, financial sector and lighter availability of capital, improve the investment climate, improving the quality of public institutions, fighting corruption, and etc.). A particular challenge for BiH is how to accelerate the transition to a higher stage of economic development that is based on new sources of competitive advantage in higher efficiency in products creating and new way of investment.

2. 2. World Economic Forum marking Competition is the main market regulator. While some theorists believe that competitiveness is nothing but to measure the wealth of society in another way, it is very important because it contributes to innovation, performance improvement and overall economic growth. However, if competitiveness of country is low in the global market then the national economy suffers. This usually leads to protectionism, nontransparent government subsidies and barriers to market entry. The competitiveness of a country is affected by many direct and indirect factors, but most important of all is the competitiveness at company level because they are carriers of

economic development. Because of this, companies are placed in the ahead compared to many other indicators that characterize macroeconomics. Of course environment cannot be neglected either as significantly affects the competitiveness of a particular industry sector but we already explained its influence. Since 2005, the World Economic Forum has based its competitiveness analysis on the Global Competitiveness Index (GCI Global Competitiveness Index), which includes micro and macroeconomic foundations of national competitiveness. GCI follows various components, which are included in a composite concept which we call competition. All components of competitiveness are grouped the 12 pillars of competitiveness: 1) Institutions 2) Infrastructure 3) Macroeconomic Environment 4) Health and primary education 5) Higher education and vocational training 6) Goods Market Efficiency 7) The efficiency of the labor market 8) Development of financial markets 9) Technological Readiness 10) Market Size 11) Business sophistication 12) Innovation By this index Bosnia and Herzegovina is rated with 3.93 points out of maximum 7, which is ranked 88th place for the competitiveness of the economy. Such placement is for twelve places better than in the previous report. This year, the highest growth was recorded in the area of institutions (from 109th last to 85th place this year) and innovation (with the 104th to 80th place). The biggest drop was recorded in the indicator area macroeconomic stability (the 78th to 97th). BiH is still rated the worst in the area of development of the financial markets (119th place) and goods market efficiency (109th) and also in business sophistication (109th). Area of development of financial markets this year badly evaluated primarily through the availability of financial

services (121st place), the availability of funds for lending to entrepreneurs (127th place) and by approved funds (123rd place). In the area of efficiency of commodity markets a bad rating is primarily due to the intensity of local competition (138th place), the degree of market dominance (127th place), the number of procedures to start a business (121st place), the number of days required to start a business (120th place), the degree of the effect of taxes (109th), the cost of agricultural policy (100th place) and customer sophistication (124th place). The most problematic factors for the successful conduct of operations in Bosnia and Herzegovina that affect low competitiveness are: access to finance, high tax rates, inefficient bureaucracy, and corruption. Figure 2. 2. How far has Bosnia and Herzegovina come in the areas measured by Doing Business? (Distance from frontier in percentages)1. Starting business2. Dealing with construction permits3. Registration of property4. Getting loan5. Protecting investors6. Paying taxes7. Trading across borders8. Enforcing contracts9. Resolving insolvency10. Overall

On this graph above we can see advancement of BiH tracts, getting credits that are main problems in running business today and main factors rejecting foreign direct investors. Best advancements are showing how its possible for Bosnian government if try hard enough to reach very good result. But still these advancements are far behind EU standards and its results. Many fields even didn't move from a bad place they were 7 years ago including: getting loan, protecting investors and enforcing contracts.

2. 3. Macroeconomic factors influence on doing business in BiH

Doing Business sheds light on how easy or difficult it is for a local entrepreneur to open and run a small to medium-size business when

complying with relevant regulations. The indicators of it refer to a specific type of business, generally a local limited liability company operating in the largest business city in BiH which is Sarajevo. In BiH main problem is exposure to a risk to macroeconomic stability as a result of declining foreign help, high current deficit and persistent lack of sustainable domestic growth. Lack of a single, integrated market also obstructs economic development and rejects foreign investment. Its GDP per capital of some € 3402 in 2011. one of the lowest in the region. Between the 1996th and 1999. real GDP growth, supported by high levels of foreign aid in the reconstruction of the country, was an average of 30%. Since then, however, with inadequate domestic sources of growth, particularly in private sector activity, slowed GDP growth. In the year 2004., GDP growthSource: The world bank was 3.5%. Nominal growth compared to 2010. The high level of unemployment is still a significant cause of poverty and reducing it is one of the main problems in BiH. Macroeconomic environment of BiH provides incentives for a stable monetary framework, which basically promises positive incentives to improve the competitiveness of small and medium enterprises in BiH. Its main feature is determined by the monetary exchange rate regime (currency board), accompanied by strong budgetary constraints that encourage stability, but constrain economic growth. Such a regime is in force since 1997., and acts now. Monetary stability acts repressively on the real sector in which operates numerous sources of instability, such as the large volume of claims and debts, high unemployment and a large deficit in foreign trade.

3. 0. SMALL AND MEDIUM SIZE ENTERPRIZES

3. 1. Definition and Importance of SME

In the European Union of 23 million businesses and 100 million employees, 99% are small and medium enterprises. It contributes to the overall gross domestic product of EU by 60% and ensuring over 80 million jobs. This means that in the sector of small and medium-sized enterprises is employed two thirds of the total number of employees employed in the private sector in the EU. And in the enlarged European Union, small businesses will continue to be the key of achieving growth, competitiveness and job creation. In the selection criteria for the classification of SMEs, usually starts with: First staticsecond functional andinstitutional (of ownership) criteria. (Habibović, 2010)Static criterion is based on the static characteristics of business entities such as: size of assets, annual sales, number of employees, volume of production, the level of technical equipment, etc. The number of employees has the most advantages in relation to other criteria, among other things because it is: Resistant to inflationNot under the influence of the purchasing power of dollars, Transparent, Is easily observed and understood, Comparable, Provides a good comparison between companies of the same branch, Available, It is easily available from the company. One of the major shortcomings of this criterion is different productivity and economic efficiency of individual economic structure, as the same number of workers does not neceserily create, the same production value. Another drawback is seen in failing to create the simple attitudes across countries in terms of number of employees, as the boundaries between small, medium and large enterprises. Classification of companies in the small and large we can make

through the following functional characteristics: of the scope and character of production and services performed, character of management, ownership of the means of production, the technology and equipment, production method and type of manufacturing technique, a form of ownership, organizational structure, etc. a more detailed discussion of these features would certainly showed his appreciation of the need for conceptual processing of small businesses, regardless of the complexity of their application in practice. Institutional (proprietary) from criterion of belonging to the institution at which the enterprise is registered. This criterion applies in almost all developed countries, especially in the U. S., where in 1953 is established a special agency of the federal government called " Small Business Administration (SBA)" with the aim of institutional support for small businesses. This agency establishes various restrictions that the company must meet in order to become a " small firm". When it comes to Western European countries, then definition usually starts from the definition given by the European Network for Research of Small and Medium Enterprises. Prior to the adoption of a common definition at EU level, there were several different definitions of SMEs. So in the UK small businesses were defined as subjects who have up to 200 employees in France, the number of employees in small companies ranged from 6 up to 50 workers in mid 51-500 employees. In Germany, for the definition of small and medium enterprises, in addition to the number of employees, taking into account the overall annual income. As BiH intends to follow and adopt EU standards, its government law accept a EU definition as one that is in force. The new EU definition says: „ The category of micro, small and medium-sized enterprises

(SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro." Micro, small and medium-sized enterprises (SMEs) are the engine of the European and can be BiH economy. They are an essential source of jobs, create entrepreneurial spirit and innovation in the EU and are thus crucial for fostering competitiveness and employment. The new SME definition, which entered into force on 1 January 2005, represents a major step towards an improved business environment for SMEs and aims at promoting entrepreneurship, investments and growth. This definition has been elaborated after broad consultations with the stakeholders involved which proves that listening to SMEs is a key towards the successful implementation of the Lisbon goals.

4. 0. Treatment of SME in EUROPEAN UNION

4. 1. Small and medium enterprises in European Union

The definition of SME in EU as we've said says that category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro. This definition is important to identify companies that can use the EU programs focused on SMEs and specific policies, such as state aid earmarked for SMEs and rules for the competition. Also we have said that in the European Union today, there are about 23 million small and medium-sized enterprises, which makes up 99% of the total number of companies (93% of them are micro enterprises). They employ more than 75 million workers, of which 80% work in the textile industry, construction and

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furniture industries. Two third of all employees are working in the private sector: Micro enterprises 29. 8%Small enterprises 20. 8%Medium enterprises 18. 5%Large enterprises 32. 9%In the category of small and medium enterprises, medium enterprise is defined as enterprise which employs fewer than 250 persons and whose annual turnover does not exceed 50 million and whose total annual balance sheet not exceeding 43 million euro. Small enterprise is an enterprise that employs no more than 50 persons and whose annual turnover doesn't exceed 10 million. Micro-enterprise is one that has up to 10 employees and whose annual turnover not exceeding 2 million. However, they are often confronted with market imperfections. Successful SME sector has a need to open a large number of companies each year to offset the extremely high failure rate. Maintaining pace requires active intervention policy in order to reproduce and sustain the sector's dynamics. SMEs frequently have difficulties in obtaining capital or credit, particularly in the early start-up phase. Their restricted resources may also reduce access to new technologies or innovation. Therefore, support for SMEs is one of the European Commission's priorities for economic growth, job creation and economic and social cohesion. Throughout the Union, more and more micro enterprises are being created. The new definition takes this development into account by setting financial thresholds for them. This refinement aims to encourage the adoption of measures addressing the specific problems micro enterprises face, especially during the start-up phase.

4. 2. EU politics over SME

SMEs are associated with terms of competitive advantage. The reason is the competitive advantage that focuses on the processes used to add the value

of service or product, and not a cost-benefit factors of production (comparative advantages). Competition is developing among social institutions in the market, rather than through a hierarchy of assets and large companies. SMEs have always relied on other institutions in the market and society, that would have provided the necessary goods to services for them. They are also flexible and able to respond quickly to market changes and often, due to the need, to innovate. Lisbon program particularly best corresponds to SMEs, highlighting the diversity of European SMEs as a source of innovation and competitiveness. SMEs were also an important mechanism for social inclusion of marginalized groups through self-employment and other forms. SMEs can also offer sustainability by providing innovative green products and services. This connection is made at the next meeting of the European Parliament with the Lisbon Summit when is introduced SME Charter in Santa Feira in year 2000. SME development policy in the European Union gave a certain unique characteristics. First it made a clear distinction between horizontal and vertical dimensions, where in the horizontal intended acting on issues of market and business environment, and vertical deal with specific problems like finance and knowledge. Secondly, Member States have kept their sovereignty that obstruct the development of EU policy. Because of this it began prevailing so called " soft law" in the form of resolutions and declarations and 'good practice' rather than traditional legal and financial instruments. The third principle was a precursor with subsidiarity in order to prohibit duplication of policies at the state level. Fourth, private actors and public sectors have been involved in politics making process and the fifth, consultations were extensive. In the

end, there was still a general consensus among all the institutions of the EU and most of the actors according to which support to SMEs is good thing.

4. 3. SME's importance to EU

For small and medium enterprises are expected to play a key role in the transition process of Central and Eastern Europe, that since a few years ago became members of the Union. It was wide spread opinion that this sector will experience the boom, since the removal of the borders, and will faster the transition from planned to market economy. It was felt that these companies will indirectly boost large companies to more easily adapt to market competition. But almost none of these predictions didn't happen and is shared opinion that the reason is that small and medium enterprises alone were not enough to push economic development and transformation processes during transition. The small and medium enterprises is very difficult to develop, if there is no high enough growth of the economy and adequate institutional support, which is really lacking in these countries due to poor inheritance from the previous period. But despite all this the small business sector is still growing, but its economic strength has remained small. From more than 200 million small business enterprises that operate in the territory of the European Union, a quarter are engaged in trade business while another quarter dealing with estate or consulting. The industry has registered a relatively small number of companies this type (about 13%) and one gets impression that the number of these enterprises reduces within time. When it comes to the analysis of trade among small and medium enterprise in the territory of the European Union, the largest craft generate trading companies, and they are followed by small business operating in the

industry. When it comes to small and medium enterprises in the industrial sector, 14% of them had an export activity in year 2011 and therefore this sector proved the best in economy, at least if regarding the participation in the national exports. But at the same time this sector is also one of the greatest importers, because of the procurement of inputs or raw materials from abroad. Interestingly, this sector was also the largest revenue from export activity, which is certainly information which is very encouraging. Most traded products are within the food industry, where most of the exports went to Germany, Britain and the French market.

4. 4. Problems of European SME

Even SMEs from European land face some problems. Small and medium enterprises that operate in the territory of the European Union are faced with numerous problems in its operations, which makes it impossible to develop undisturbed growth. The most common problems that they meet are the following: Lack of skilled labor
The low purchasing power of the population
Limited access to financial markets
Too high labor costs
Problems with the implementation of new models of business organization
Low levels of quality management
Problems with public administration
Poor infrastructure (transportation, electricity and communication networks)
Small and medium-size businesses in the EU have a major problem with the lack of qualification of the labor force, and the second due to importance, is the problem of reduced consumer purchasing power, and in relation with this, reduced demand for their products. In fact, since these companies have low financial strength, they are very often not able to pay for highly qualified labor force, so that this problem is closely linked to the lack of financial resources.

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Regarding the issue of consumer purchasing power that has much more impact on small and medium companies, but at large. This is because these companies have most of time higher cost per unit of product, and that reduces the opportunity to influence the final price. Large companies in the industry will manage to reduce their operating costs thanks to economies of scale and economies of scope, and it is not surprising that on many of them the problem of reduced purchasing power of consumers has less influence. The problem of limited access to financial markets is a fifth of small and medium companies operating in the European Union market. This problem is especially true for countries that are new members of Union. The biggest problem is in Malta and Hungary, where almost a third of the companies declared that there is a problem with funding and borrowing funds. It is also observed during this study that there is another principle, which is that a larger company less problems with financing. The lack of qualification of the labor force isn't equally spread among all enterprises in the EU. For example among small and medium-sized enterprises in Germany, the Netherlands and Luxembourg this problem is much less pronounced, given that these countries have a well-built education system and that they take and attract a highly skilled workforce from around the world, and it is quite logical that there is the highest supply of experts in these countries. On the other side Lithuania, Greece and Estonia have a very strong degree of this problem, since they have a bad education system, largely inherited from the previous period. Another problem with these countries is outflow of experts to the developed countries of the Union, which resulted in very poor labor force in these countries. The EU Commission has stated that it wants to create one of

the most competitive economies in the world, and the latest technology is certainly one of the possible ways to achieve this. In the EU there is about 15% of companies having a problem to implement new technology, and so at first glance this might seem to be a very bad state, in fact the situation is better than in multiple countries that are not members of the Union, in which more than half of small and middle-size companies have this problem. Fewer problems with the implementation of new technologies have companies in Austria, Finland, and what's interesting in Bulgaria, and most companies having problems is from Portugal. Innovation and implementation of new technologies in manufacturing processes and operations are critical for the development and improvement of enterprise performance. That is why the community is very active in this field in order to provide technical assistance as well as providing financial resources.

4. 5. SME in EU during economic crisis

While the crisis has many large companies dropped to its knees, their smaller competitors showed ability that a more or less can operate successfully in difficult market conditions. Many smaller businesses have managed to survive the catastrophe and is now optimistic about the future. As The Economist published, referring to last year's survey, which included 804 small and medium sized enterprises in France, 80% them this year expects the same or higher income. One reason for achieving positive results is that a huge part of the companies that belong to this category have regular customers for which product quality is very good reason to pay more. Another reason can be found in the course of smart investment, especially in times of crisis. For European governments good performance of small and

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medium enterprises represents a real gain, especially at a time when large companies are in difficulty. Smaller firms then represent the best employers, which is no small number given the 88 million European workers employed in such companies. They are also responsible for innovation and new technology because it does represent volume of risks for them like for large corporations. However, it is not all shiny even to SMEs, because in these times of recession they have property reduced and dependence on a small number of customers. Difficulties they may also face is banks' lending being more difficult. But as small and medium sized enterprises are better able to adapt to new conditions in the market, the easier it will be to overcome the crisis.

5. 0. Treatment of SME in Bosnia and Herzegovina

5. 1. Small and Medium Enterprises in Bosnia and Herzegovina

From above text we conclude that small and medium enterprises represent one of the most important sectors of an economy. Over 80% of new jobs in the European Union is created in MSP sector. About how member states attach importance to this issue talking and introducing a special European Union Charter SME Charter which is a result of an agreement signed in Lisbon in 2000. Implementation of the agreement is related not only to the signatory countries, but also to countries that are potential candidates for EU membership, also including the Bosnia and Herzegovina. Bosnia and Herzegovina since 2003 submit a report on the implementation of the EU SME Charter, and it is the responsibility of the Ministry of Foreign Trade and Economic Relations of BiH, and its' sector of small and medium enterprises.

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In 2008 EU member states have upgraded EU SME Charter by introducing of the EU Small Business Act (SBA), which is the framework for the policy to support the development of SMEs in the EU. SBA document is divided into six priority areas: financial support for the development of SMEs, facilitating SMEs access to public procurement, facilitation of procedures for bankruptcy and the transfer of jobs, support to development of creative entrepreneurship, support for women's participation in entrepreneurship, and support to innovation in the field of ecology and energy efficiency in SME sector. SMEs, by definition, have a high potential for growth, often are the innovators in the market, but financial institutions assessed them as high-risk investments. In Bosnia and Herzegovina SME are additionally faced with a lack of support and the high requirements of banks in terms of collateral and can be judged that there is no financial support to SMEs that are just starting their business. Various governments are trying to solve the problem of development of SMEs in different ways. Support is usually focused on two main issues for the development of SMEs – finance and business decisions (consulting management). In a review of policy support for SMEs in the EU (European Charter for Small Enterprises – 2009 Good Practice Selection), as the two most successful examples to support the development of SMEs in the field of finance Hungary and Latvia are listed. In Hungary the changes to the law introduced mediation and thus improving the cash flow of SMEs in Latvia is given fiscal incentives for SMEs that reinvest profits. Southeast European countries have tried with several measures. In Albania and Bosnia was attempted with the introduction of regional development agencies, which would not directly provide funds, but would have provided assistance

in developing business plans. Activities are funded by bilateral donors. These measures have not yielded any good results, as well as regional development agencies abolished activity after donor funding has expired. Slovenia is best in region for its best practices in the field of development of SMEs. Since 1991. in Slovenia, there were Ministry for small businesses (which later merged with the Ministry of Economic Affairs of Slovenia as a center for the development of small businesses). Ministry had a huge range of activities to support the development of SMEs. Activities include the establishment of multiple networks for the development of SMEs, such as the Slovenian Network for Business Innovation, which includes 210 promotional and innovation centers, Association of business consultants, Business Incubator Association, which includes 17 Business Incubator Association of venture capital , which includes 15 risk capital funds and 42 municipal funds, and Association business clubs and associations, with 12 member organizations. In addition to these efforts, in Slovenia were established and local business centers and local guarantee funds. As a result, Slovenia now has the best results in the field of development of SMEs from all transition countries. The SME sector is the main generator for development of most of today's economy and why it wouldn't be BiH's? In order to develop it needs an environment that supports and facilitates the start-up operations, does not burden SMEs with high costs and excessive regulation, and facilitates access to finance and business counseling and service. Therefore, in BiH there is a significant need to create and implement effective policies and the development of SMEs, because the level of private sector investment is still far behind the level of developed countries.

5. 2. Treatment of SMEs in BiH

Bosnia and Herzegovina is a lack of policies at the state level, and there was also very little progress in the adoption of the draft Strategy for SMEs, draft of proposed legislation and other initiatives. BiH is the last of all the countries of the Western Balkans into the implementation of the European Charter for SMEs. In addition, at the state level, there is no record of the number of small and medium enterprises and even there is no register of companies. Consequently, there is no record of the number of entrepreneurs, number of employees, total revenues, total expenses, profit after tax, losses, etc. Institutional and legal framework for SMEs has led to different solutions in terms of incentives for SMEs at all levels of government. At the state level for the development of SMEs is responsible the Ministry of Foreign Trade and Economic Relations, sector for small and medium enterprises. At the state level there is no agency or fund for SMEs, or any incentives payable. Most incentives are implemented at the entity level, but there are various institutions even there. Incentives are still taking place at the cantonal level (FBiH) and at the level of municipalities too.

5. 3. Federation of Bosnia

Policy stimulus in the FBiH is managed by Ministry of development, entrepreneurship and turnover, due to the Law on the promotion of small business and due Development program for small businesses of Federation BiH. The law predicted only direct financial incentives-grants. Annually they make decisions about the types of grants (for the entire program and for co-financing programs for which funds going to be used). Funds shall be secured by the FBiH budget for each calendar year. Amount of funds

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provided under the law is up to 2% of the annual budget of the Federation. Stimulus policies are implemented by the Ministry of development, entrepreneurship and turnover and Development Bank. Ministry published a public call for the allocation of grants and loans from the budget approved to the ministry by government decision. These public procedure calls and the selection of beneficiaries is done by the Ministry (expert panel). Grants also are disbursed by the Ministry, and favorable loans implemented through the Development Bank, that funds it. Grant funds for 2010 were approved in the amount of 4. 45 million BAM, and total amount for co-financing the loan is 3, 000, 000 BAM: Grant funds: in 2010. The 5 lots: construction of entrepreneurial infrastructure (3. 000. 000 BAM), support associations of entrepreneurs and artisans (69. 500 BAM), the development of traditional and old artisans (455 400 km), construction of innovative economy (413 600 KM), and support for the newly established small businesses (start-ups) 511 500 KM; b) Co-financing of investment projects financed by small entities of economy from its own funds and credit funds of the Development Bank of Federation BiH are secured as the commission line of credit: • the amount of 6, 000, 000 KM by the Development Bank of the Federation, which will approve these credit lines as granted loans in accordance with the laws and procedures of FBiH Development Bank on a revolving basis and conditions: repayment period to 7 years, a grace period of up to two years and the interest rate up to 2% annually. Price of processing loans of Development Bank of the Federation is 1% of the approved loan amount; • the amount of 3, 000, 000 KM by the Federal Ministry of development, entrepreneurship and turnover, which will approve the grant (non-refundable) in an amount up

to 25% of the total investment, or 50% of the approved loan from the Development Bank of the FBiH. The concept of financing investment projects, is settled in a way that the total project value (100% of the project) which aims to be realized, the amount of at least 25% is secured by the applicant for the loan, and 50% ensures Development Bank of FBiH as a loan, and the amount of 25% provides Federal ministry as grant funds. Decisions on the allocation of credit resources, Ministry submits to Development Bank of Federation BiH to further procedure. In accordance with the signed Contract of commission activities, which concluded the Ministry with Development Bank, signing a loan and controlling expenditure of loan will be carried by Development Bank in accordance with their own procedures. Results and effects of subsidies are not monitored and measured, only the Commission for monitoring implementation of grants visits beneficiaries with the aim of insight into implementation, by the end of it.

5. 4. Republic of Srpska

Incentives for the development of SME policy in RS are defined in the Law on encouraging the development of SMEs and SME Development Strategy. The law defines incentives that primarily include affordable loans, tax, utilities and other benefits, employment assistance, for the application of innovation and introduction of new technologies, the provision of guarantees for loans, aid for education and training, etc. Ministry of industry, energy and mining of RS is responsible for SMEs. There is also the Agency for SMEs and Development Bank (IRBRS), which manages several funds in the RS. In the RS, the largest part of the incentives is realized through favorable credit

lines through IRBRS. Development program of the Republic of Srpska, between 2007 to 2010 have made the placement of a total of 667. 6 million KM (which has averaged about 6% of the budget year) to stimulate the economic development of the Republic of Srpska. In addition, the Ministry gave incentives for the establishment of quality systems in small manufacturing enterprises. Agency for Development of Small and Medium Enterprises RS was established in accordance with the Law on encouraging the development of small and medium enterprises, and became operational in September 2004. It operates as a legal entity and nonprofit organizations. The agency provides training services (self-employment, registration), providing information (seminars, conferences) and related services to SMEs. The agency does not provide grants or loans, but co-financed education and training. The Agency shall cooperate with the Development Bank when it comes to training.

5. 5. Support to SME on regional and local level and Brčko District

Law on stimulating economic development in the Brčko District contains a number of concrete measures of state aid to foreign investors and companies. Incentives include a variety of freeing from the obligation to pay, lower taxes and fees, refund of contributions paid, and transfer infrastructure at no charge. Total subsidies since 2006. year to date are on average of 1, 000, 000 BAM annually. In Bosnia and Herzegovina, at the local level incentives are also provided in FBiH and cantonal level. There is no consolidated data on the total by cantons or by municipalities. RS has published these data, and in 2008 the 28 municipalities provided over 5 million KM of grants and soft loans. In 2009 the 32 municipalities have provided 9. 9 million KM. When it comes to the horizontal coordination, since

there is no incentive for SMEs to the state level, there is no sense in talking about horizontal coordination with other state institutions, so there is no information have incentives (state aid) been given in the areas that are associated with SMEs indirectly or directly. The Federation has no incentive policy coordination between the Ministry of entrepreneurship and development with Ministries of: industry, energy and mining, labor and social policy, education, tourism, environment, culture and transport and communication. In RS there is partial coordination.

6. 0. CONCLUSION

If we observe the development of the world economy and the events that follow the process of the globalization of world markets, particularly at the turn of this century, we find that small and medium-sized enterprises (SMEs) are able to reach to the position of a critical element in the development of any national economy. Thanks to its characteristics such as flexibility, easier implementation of new management trends, better communication within the company, etc., small and medium enterprises are an imperative for all countries that want their economy to adapt to new market conditions.

Enterprise development is source that provides economic development, job creation and new revenue stream for the state. The financial resources of the public sector, meant for public expenses, such as salaries and pensions, is mostly dependent on the development of the private sector. If want to avoid unsustainable public deficits, for country, the main source of private sector development must be domestic SMEs. In other words, in the current free market economy, the source of all of the budget wages can only be tax contributions from employees and the company, if state wants to avoid unacceptable levels of public debt. Consequently, the responsible authorities

in Bosnia and Herzegovina should pay more attention to the welfare and development of a wide sector of SMEs, in order to effectively stimulate the economy. Evaluating the overall policies for the development of SMEs in BiH is very difficult. The primary reason is the extreme decentralization policy for the development of SMEs. Most policies are defined and implemented at the entity level, and there is no coordination among them. At the state level, there is a minimum function. For this reason, in BiH, we can talk about at least three SME development policy. The result of this situation is a vacuum in the definition and enforcement policy. However, in Bosnia and Herzegovina has a lack of policies at the state level, and there was also very little progress in the adoption of the draft Strategy for SMEs, draft of proposed legislation and other initiatives. BiH is the last of all the countries of the Western Balkans into the implementation of the European Charter for SMEs. In this small and West Balkan war devastated the country, attracting more foreign investment is a priority because of the lack of domestic capital and the many positive effects of foreign direct investment, among other things, due to the increased rates of employment, new managerial skills, new technologies, new markets and increased exports. Strengthening entrepreneurship in BiH has already been established as a precondition for the rapid development of the private sector, especially for the growth of SMEs. Compared with other countries in transition, Bosnia and Herzegovina has the smallest number of businesses per 1000 people, set up a business is the most expensive in the region, and is far more expensive than any country in the EU, which is a strong sign for the government of Bosnia and Herzegovina to accelerate necessary reforms in order to achieve more

favorable business environment for SME development. In the end, we can say that it is extremely needed more coordination between all institutions and projects in order to maximize the efficiency of institutions in the future, and to maximize cooperation in various fields such as the intervention, starting up or new initiatives are.