

Coordinating Committee for Strategy Preparation
Ministry of Economy of the Herzegovina/Neretva Canton (HNC)

**DEVELOPMENT STRATEGY FOR SMALL AND
MEDIUM-SIZED ENTERPRISES IN THE
HERZEGOVINA/NERETVA CANTON
2012-2020**

The strategy was created within the SEENET program, Vertical Action 3-B „Strengthening the system of small and medium-sized enterprises (SMEs)“, financed by the Italian Foreign Ministry – the leading partner and co-financier being the Tuscany Region – and implemented by Oxfam Italia.

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EXECUTIVE SUMMARY

What dynamic regions are especially remarkable for, what gives them a special identity, is the **institutional ability to attract, and the development of competitive advantage**. This is often done by creating networks of various kinds, which enhance even more the identity of a region.

The Development Strategy for Small and Medium-Sized Enterprises (DSSME) of the Herzegovina/Neretva Canton (HNC) 2012-2020, constitutes a *consensus* on:

- (i) establishing an **environment** capable of institutionally attracting and networking small and medium-sized entrepreneurs;
- (ii) achieving home and foreign **competitive** ability of the region.

In the 2012-2020 period the HNC is going to become the most enterprising region in Bosnia and Herzegovina. With its powerful growth it will assert itself as a link of the future EU region, Dalmatia, on the one part, and of Bosnia on the other, so contributing to the development of BiH, both on its EU and its Mediterranean road.

The key groups of on which the DSSME here relies on are:

- Operators of high-growth small and medium-sized companies, especially of gazelles
- Entrepreneurs of both sexes – beginners
- Entrepreneurs of both sexes in rural environment
- Entrepreneurs of both sexes who stop the current activity and look for a new beginning.

The best possibility of achieving a sustainable development at the local and regional level is created by providing support to small and medium-sized enterprises that have the possibility for growth, that can make progress, that use new, especially energy-saving technology, that develop new organizational and production processes, so achieving a relative reduction of production costs, increase exports (creating a basis for the necessary imports), link up productively with other entrepreneurs creating so local and regional enterprising clubs, hook their business operations into local/regional and wider clusters, into international value chains.

The activation of the local development, i.e. of the development in the HNC municipalities, especially in their rural parts, and strengthening the regional development as a whole, is based on the partnership relations of the public and the private sectors and the civilian society. It is on such partnership relations of the three parties that the business infrastructure rests and develops (business accelerators, business zones and export incubators), and so do clusters as their economic content.

Entrepreneurs and members of clusters do not act like and are not solitary boats sailing on their independent course, but are rather parts of a fleet sailing on the same course. Likewise, the business infrastructures of local self-government units are not considered as solitary boats but as a fleet that in the economic sense makes an export platform of the region, geographically located in the Neretva Valley within the Konjic-Ploče development corridor.

The most promising part of that platform are export incubators for without powerful export forces it is not possible to establish the HNC foreign trade balance, let alone to satisfy the Copenhagen criteria for accession to EU.

Only in such environment it is possible to create at least 6,5 jobs daily, and at least 11 companies weekly in the sector of small and medium-sized enterprises in the HNC in the period by 2020.

FREQUENTLY USED ABBREVIATIONS

Table 1:

Abbreviation	Meaning
BA	Business Accelerator
BiH	Bosnia and Herzegovina
BZ	Business Zone
CC	Competence Centre
CDC	HNC Competitiveness and Development Council
CGF	Credit Guarantee Fund
CI	Cluster Initiative
CIC	HNC Cantonal Info Centre
CSO	Civil Society Organizations (LiNK, REDAH, etc.)
DSSME	Development Strategy for Small and Medium-Sized Enterprises
EI	Export Incubator
EO	HNC Employment Office
FBiH	Federation of Bosnia and Herzegovina
FDI	Foreign Direct Investments
HNC	Herzegovina/Neretva Canton
IC TC	Information and Communication Training Centre
LiNK	Association for Entrepreneurship and Business
LSU	Local Self-Government Units
MA	HNC Ministry of Agriculture
ME	Ministry of Economy
MF	HNC Ministry of Finance
MJALS	HNC Ministry of Justice, Administration and Local Self-Government
PIO	Pension and Disability Insurance (Institute)
REDAH	Regional Development Agency for Herzegovina
RCF	Risk Capital Fund (Joint Venture Fund)
RIC	Regional Info Centre
SBA	EU Small Business Act
SEENET	Trans-local Network for Cooperation between Italy and South Eastern Europe
SME	Small and Medium-Sized Entrepreneurs/Enterprises
SMTC	Small and Medium-Sized Transnational Companies
TNC	Transnational Company
TP	Technological Park

INTRODUCTION

On 21.02.2011 the government of the Herzegovina/Neretva Canton passed a Decision to prepare a strategy for the development of small and medium-sized enterprises in the Herzegovina/Neretva Canton for the 2012-2020 period.

The protagonist of the Strategy preparation is the **Ministry of Economy HNC**, in cooperation with **Oxfam Italia – Office in BiH**, within the implementation of the Program “SEENET – Trans-local Network for the Cooperation between Italy and South Eastern Europe”, and the Project “Strengthening the system of small and medium-sized enterprises in the Herzegovina/Neretva Canton”.

After the previously conducted tender procedure, the task of the DSSME preparation was assigned to **LiNK**, which has then prepared a draft of the Strategy Preparation Action Plan.

The Ministry of Economy HNC has accepted the Action Plan and appointed:

- **A task force for the preparation of the Strategy for the development of small and medium-sized enterprises in the 2012-2020 period, and**
- **A Coordinating Committee for the preparation of the Strategy for the development of small and medium-sized enterprises in the 2012-2020 period.**

The task of the Coordinating Committee was to express its viewpoint, to give comments and suggestions about all stages of Strategy preparation, and within that to adopt the drafts of the socio-economic analysis, PEST analysis, SWOT analysis, the vision, the strategic and priority goals, action plans, and, at the end, the Draft Strategy.

The task force for the Strategy preparation was composed of the representatives of the Ministry of Economy HNC, as well as of the REDAH and LiNK representatives. The assignment of the task force was to prepare the preliminary drafts of the documents and to present them to the Coordinating Committee.

By applying the broadest variants of the **open method of coordination** (customary mechanism of voluntary cooperation of government units in the EU) in the relations of the Ministry of Justice HNC and the local self-government units, as well as in the partnership relations with the representatives of the civilian society, the Coordinating Committee has prepared a Draft Strategy during the October 2011 – March 2012 period.

I. METHODOLOGY OF STRATEGY PREPARATION

The methodology of the Strategy preparation included:

- *analysis of relevant documents*, with an emphasis on:
 - Law on Incentives to Small Business Development and Protection of Traditional Activities (Crafts) HNC,
 - Information on the State of Entrepreneurship and Crafts in the Herzegovina/ Neretva Canton in 2010, and
 - Program of the HNC Government for Small Business Development in the Herzegovina/ Neretva Canton for the 2011-2015 period;
- *public consultations of the public, private and civil sector; and*
- *individual co-ordinations with the representatives of competent institutions, individual SMEs and their business associations.*

The Coordinating Committee, which was in charge of the coordination of the activities on the preparation of the DSSME, held three sessions. At the first one, held on 15.11.2012 it considered and accepted the PEST and the socio-economic analysis, as well as the proposal of the SWOT analysis.

At the second session, in fact the visionizing conference, held on 20.12.2012, the vision of SME development, and the SWOT analysis were defined, and the strategic goals of SME development accepted.

At the third session held on 09.03.2012 the Draft DSSME was considered, accepted and submitted to the HNC Government for further consideration.

A survey of the Task Force activities on the DSSME preparation is given in the following tables.

Step 1: Analysis and diagnosis	1.1. Visits to HNC local self-government units
	1.2. Proposal for Task Force appointment
	1.3. Proposal for Coordinating Committee appointment
	1.4. Analysis of current documents of EU, BiH, FBiH, HNC, LSU, REDAH and LiNK
	1.5. Preparation of the PEST analysis proposal
	1.6. Preparation of the socio-economic analysis proposal
	1.7. Preparation of the SWOT analysis proposal

In keeping with a decision of the Tsk Force, the strategy preparation process started with the analysis of the existing documents of the OECD, EU, all government levels BiH, which refer to SMEs, and especially to the SME sector HNC. The purpose of the analysis of the said documents was to define the SME development scope.

The analysis of the existing documents BiH, which the Task Force carried out in the 01.–29.10. 2011 period, encompassed 38 documents. In the same period the Task Force visited all LSUs, considered with the competent authorities the specific challenges and familiarized itself with LSU strategic documents.

The document analysis and the visits to LSUs were followed by the preparation of the PEST, SWOT and socio-economic analysis.

Step 2: Definition of the strategic framework	2.1. Formulation of SME development vision
	2.2. Confirmation of SWOT analysis
	2.3. Identification of strategic and priority goals

The main aim of the visionizing conference was to present the DSSME main idea and concept as well as to inform the publicity about the results of the process of strategic planning achieved by then, and its involvement in the process.

The Coordinating Committee defined the vision of development and confirmed the SWOT analysis with the suggestions for its further contraction, and sent the proposal of strategic and priority goals for further consideration.

Step 3: Definition of strategy	3.1. Confirmation of strategic and priority goals
	3.2. Formulation of the framework action plan
	3.3. Formulation of the Draft Strategy by the Coordinating Committee of the HNC Ministry of Economy
	3.4. Adoption of the DSSME by the HNC Government
	3.5. Organization of the closing conference

The public consultation process, as an integral part of the participative approach, ran through the whole strategic planning process. The first consultations were held in the period of preparing situation analyses, then continued through the visionizing conference and ended in gathering the remarks on the Draft Strategy.

LiNK will organize the closing conference on the occasion of concluding the SME development planning process for the respective period.

Step 4: Preparation of the monitoring and implementation framework	4.1. Formation of the Competitiveness and Development Council
	4.2. Preparation of the DSSME Draft Annual Implementation Plan (and of the Small Business Development Program)
	4.3. Preparation of the Annual Budget for strategic projects in cooperation with the HNC MF
	4.4. Preparation of the DSSME Annual Implementation Plan (and of the Small Business Development Program)
	4.4. Formulation and updating of statistic employment indicators value added and SME sector exports
	4.5. Preparation of semi-annual and annual reports on the implementation of the DSSME Annual Implementation Plan (and of the Small Business Development Program)

The HNC Ministry of Economy will, at the CDC proposal, prepare the Draft Annual Strategy Implementation Plan. The Plan will serve as an input for the preparation of the HNC annual budget. Upon adoption of the annual budget, the Ministry of Economy will prepare the Annual Plan for the Implementation of the Small Business Development Program and the DSSME. CDC and ME will consider half-yearly the DSSME Annual Implementation Plan (and of the Small Business Development Program) and take corrective measures if necessary.

II. STRATEGIC FRAMEWORK

DSSME is set in such a way as to improve, through its realization, the conditions for the inception and development of the HNC SME international competitiveness, and of the HNC competitive position as a whole.

DSSME is an **HNC umbrella document** that defines the total SME policy and constitutes one of the **points of departure in defining sector policies** concerning the SME sector development.

In the process of DSSME creation, the needs of the SME sector were allowed for through the principle of combining long-term vision, strategic and priority goals of SME development, which makes possible the use of various instruments, measures and support mechanisms.

II.1. National Development Framework of the Small and Medium-Sized Entrepreneurship

II.1.1. Development Strategy for Small and Medium-Sized Enterprises in Bosnia and Herzegovina 2009-2011

Bosnia and Herzegovina has adopted the Development Strategy for Small and Medium-Sized Enterprises, but it is not being implemented with full throttle, nor has one established the Europe-adapted system of monitoring the key indicators of SME development, and their contribution to employment and creation of value added. This creates huge obstacles to the development of more efficient support policies to the SME development.

The Strategy is mainly based on:

- adoption of alterations or supplements to the legal framework for the operation of small and medium-sized enterprises at the BiH level;
- institutional improvements;
- improvements of educational and consulting system;
- improvement of financial instruments for small and medium-sized enterprises.

The Strategy has generally the aim to:

- improve the business support environment (legal and financial environment, infrastructure for business support);
- synchronize strategic and institutional factors in the development of small and medium-sized enterprises with those recommended by the EU;
- stimulate an increase in the share of revenues and contributions of value added for the sector of small and medium-sized enterprises in general;
- stimulate the growth of streamered support to innovative and export-oriented small and medium-sized enterprises;
- make possible and support the development of small enterprise clusters, the network and associations for cooperation, in order to create “critical mass”, for example in the field of research and technological development, procurements, marketing and exports;
- make possible an approach for small and medium-sized enterprises to financial resources of the budgetary and commercial character;
- give support to new enterprises in all economic sectors;
- to promote and assist promotion of the enterprising culture in BiH;
- improve competitiveness of SMEs on foreign markets;

- assist in building the educational system at the secondary, college and university levels with the programs in which the youth entrepreneurship would be in the foreground and where new management staff would be trained;
- reduce the grey economy.

II.1.2. Development Strategy for Small and Medium-Sized Entrepreneurship in the FBiH 2009-2018

The development project for the small and medium-sized entrepreneurship in the Federation BiH (FBiH) is based on the common **vision of increasing the number of entities and development of small and medium-sized enterprises** in the FBiH and as such it concretely defines the development of small and medium-sized entrepreneurship.

Table 2: Overview of strategic objectives and priorities

Strategic objectives	Priorities
1. Reduction of administrative barriers	1.1. Creation of a unique business entities database of SMEs
	1.2. Monitoring the effect of incentives
	1.3. Analysis and implementation of legislative regulations for incentives
	1.4. Strengthening electronic business
2. Promotion of entrepreneurship	2.1. Improvement of entrepreneurial culture and business
	2.2. Establishment of positive attitudes towards private entrepreneurship
	2.3. Informing entrepreneurs on all activities undertaken in relation to promoting the development of SMEs
	2.4. Promotional activities
3. Establishment and strengthening of the development institutions' network	3.1. Establishment of a central development institutions' network
	3.2. Education of business consultants for SMEs
	3.3. Improvement of the development agencies work
4. Financial support	4.1. Establishment of institutional framework for financial market
	4.2. Activity of the Development Bank of the Federation of Bosnia and Herzegovina
	4.3. Activity of guarantee agencies
	4.4. Activity of commercial banks
	4.5. Agency for coordination of EU pre-accession funds
5. Professional development of all relevant persons for SMEs	5.1. Financing a network of teachers and educational institutions for entrepreneurship
	5.2. Involving participants of educational programs for entrepreneurship
	5.3. Additional training and retraining of entrepreneurs, craftsmen and their employees
6. Strengthening of business infrastructure	6.1. Adoption of spatial plans
	6.2. Establishment and equipping of business zones in cantons
7. Technological development	7.1. Development of innovation centres
	7.2. Transfer of technologies
	7.3. Strengthening ties with universities and institutes

	7.4. Quality Assurance System and Intellectual Property Protection
8. Promotion of target groups entrepreneurship	8.1. Incentives to target groups of entrepreneurs
	8.2. Promotion of co-operative economy
	8.3. Promotion of traditional crafts
	8.4. Employment incentives
	8.5. Incentives to entrepreneurs exporters

Measures and activities for stimulating small and medium-sized entrepreneurship are primarily aimed at:

- promotion of entrepreneurship;
- financial support to entrepreneurs;
- professional assistance to entrepreneurs;
- development of enterprising infrastructure (meeting the needs for business premises, advisory services, information and the like);
- adjustment of the existing laws to the needs of the small and medium-sized entrepreneurship;
- education of all participants in the SME stimulation program;
- support to the technological development;
- encouragement of mutual cooperation and linkage of the entities of the small and medium-sized entrepreneurship, and stimulation of cooperation with big entrepreneurs.

II.2. Priority Development Sectors of BiH and Herzegovina

In the 2006-2010 period there were in the company population of the Herzegovina Region 5,8% of high-growth small and medium-sized companies (REDAH, 2011a).¹

In the international practice of European transition countries this is the lower limit of the representation of high-growth companies in the total company population. Of all transition countries only Slovakia and Romania have such a low result. A number of other transition countries have a considerably better result. For example, in the Baltic countries the share amounts to 15-20%.

Since HNC does not have a sufficient number of high-growth companies – their number being 3-6 times smaller in relation to the countries that have relatively the largest number of high-growth companies – **it is necessary to create an environment that will insure the emergence and development of such companies.**

High-growth companies are to be looked for especially in priority development sectors of competent political/institutional bodies and identified by appropriate econometric studies.

¹ According to OECD definition, high-growth companies are those that realise the growth in the number of employees (or in the turnover) greater than 20% per annum continuously over a three-year period, the initial number of employees being at least 10 (more severe criterion requires 20 employees at least).

Table 3: The priority and most dynamic sectors of BiH and Herzegovina development of importance for the HNC

CEA	Activity	Sub-area	Strategies and studies	Priorities
A	Agriculture, hunting and forestry		Development Strategy of Bosnia and Herzegovina	Agriculture, manufacturing of food products and rural development
			Export Growth Strategy of BiH from 2012 to 2015	Agricultural and food sector
			Regional Development Strategy for Herzegovina Region	Development of agriculture
D	Manufacturing	Manufacture of food products, beverages and tobacco	Export Growth Strategy of BiH from 2012 to 2015	Agricultural and food sector
			The Most Dynamic SME Sectors in Herzegovina	Cheese production
		Manufacture of wood and wood products	Export Growth Strategy of BiH from 2012 to 2015	Wood sector
		Manufacture of rubber and plastic products	The Most Dynamic SME Sectors in Herzegovina	Plastic and rubber
		Manufacture of basic metals and fabricated metal products	Export Growth Strategy of BiH from 2012 to 2015	Metal sector
E	Electricity, gas and water supply		Development Strategy of Bosnia and Herzegovina	Use of renewable and non-renewable natural resources to ensure sustainable development, support to the energy sector development
F	Construction		Export Growth Strategy of BiH from 2012 to 2015	Construction sector
H	Catering		Export Growth Strategy of BiH from 2012 to 2015	Tourism sector
			Regional Development Strategy for Herzegovina Region	Tourism development
			The Most Dynamic SME Sectors in Herzegovina	Tourism
K	Real estate, renting and business activities	Provision of software services and software development	The Most Dynamic SME Sectors in Herzegovina	ICT sector

Source: Development Strategy of Bosnia and Herzegovina, BiH Export Growth Strategy 2012 to 2015, Regional Strategy of the Economic Development for Herzegovina Region, and The Most Dynamic SME Sectors in Herzegovina.

In addition to considering the priority development sectors, that are expected to be supported by adequate instruments of economic policy, in analysing the SME development dynamics, especially from the viewpoint of creating sustainable jobs, it is necessary to bear in mind the SME profile and dynamics in the EU, as well as the EU policy towards the SME sector, since BiH political aspirations are to become an EU member.

II.3. EU Framework

II.3.1. Main SME Sectors in EU

On its way from a country with upper median income to a country with high income, BiH (and HNC) have to bear in mind the organizational production structure in the countries with high income, especially in EU, because BiH aspires to its membership.

In 2010 there were 20,8 million SMEs in EU out of which micro-enterprises, i.e. those with less than 10 employees, accounted for 19,2 million (92,1%).

The share of big enterprises in the total number of enterprises is negligible in EU. There are 43.000 of them and they make only 0,2% of the total number of enterprises.

SMEs employ more than 2/3 of all employees (87,5 million) in the EU private sector. Thus they make the backbone of European economy employment.

SMEs create 58,4% of gross value added of private enterprises in EU.

In EU-27 member countries, micro-companies make nine tenths of the total number of companies, they employ almost one third of the total number of employees and create one fifth of value added. They are important in all non-financial sectors of economy except in the electric power, gas and water supply sectors.

At the EU-27 average level, micro enterprises employ practically as many people as big companies, more exactly: 30% against 33%. The dominate over the real estate sector and are important in catering and tourism, in car parts trade, retail trade, repairs and construction.

Small enterprises (10-49 employees) have a very even distribution across EU-27 countries, in contrast to, for example, micro companies that can be found in industry (metal and wood product processing), in construction, and in wholesale and retail trade in car parts.

Table 4: Key indicators for non-financial enterprises (EU-27), year 2005

Indicator		Total	SME	Micro	Small	Medium	Large
1	2	3 (=4+8)	4 (=5+6+7)	5	6	7	8
Number of enterprises	• millions	19.65	19.60	18.04	1.35	0.21	0.04
	• %	100	99,8	91,8	6,9	1,1	0,2
Number of employees	• millions	126.7	85.0	37.5	26.1	21.3	41.7
	• %	100	67,1	29,6	20,6	16,8	32,9
Value added	• billion EUR	5.360	3.090	1.120	1.011	954	2.270
	• %	100	57,6	20,9	18,9	17,8	42,4
Value added by employee	average for small and large enterprises						
	in 1000 EUR	42.3	36.4	29.9	38.7	44.8	54.4
	in relation to the total average for small and large enterprises (in%)	100	86,1	70,7	91,5	105,9	128,6

Source: Schmiemann (2008)

Note: The latest original data for SME EU refer to the year 2008 – after that year there are only extrapolations.

Practically three fourths of SMEs in EU, or more than 15 million SMEs, engage in three activities:

- retail trade, repairs and maintenance;
- real estate, renting and business activities;
- construction.

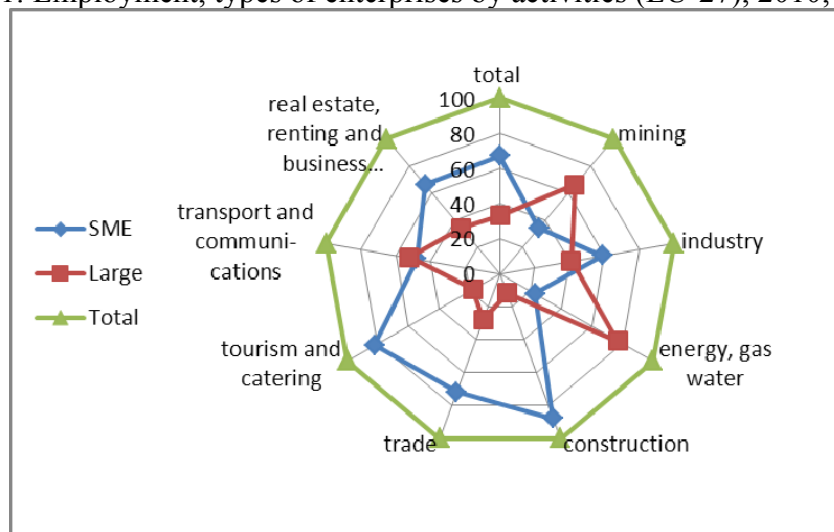
Table 5: Number and types of enterprises by activities (EU-27), 2010, estimate

		Micro	Small	Medium	SME	Large	Total
1	2	3	4	5	6 (=3+4+5)	7	8 (=6+7)
C-K	Total number of non-financial enterprises	19.198.539	1.378.401	219.252	20.796.192	43.034	20.839.226
C	Mining	15.667	4794	941	21.402	275	21.677
D	Industry	1.760.912	311.564	77.335	2.149.811	17.226	2.167.037
E	Power, gas, water	34.753	3.815	2.213	40.781	993	41.774
F	Construction	2.789.236	208.857	22.385	3.020.478	2.373	3.022.851
G	Trade	5.968.300	361.222	42.324	6.371.846	6.948	6.378.794
H	Tourism and catering	1.552.574	151.018	12.066	1.715.658	1.527	1.717.185
I	Transport and communications	1.109.424	93.533	16.956	1.219.913	4.046	1.223.956
K	Real estate, renting and business activities	5.967.673	243.598	45.032	6.256.303	9.646	6.265.949

Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

Graph 1 shows that large enterprises dominate over SMEs (they have more than a half of employees in the respective activity) in the production of electricity, gas and water (77% of all employed), in mining (66%), transport, warehousing and telecommunications (52%).

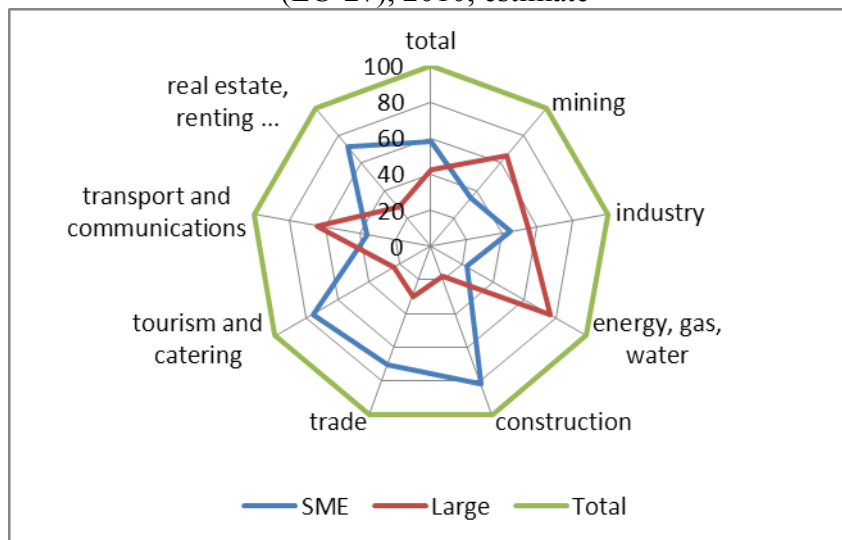
Graph 1: Employment, types of enterprises by activities (EU-27), 2010, estimate



Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

Graph 1 also shows that SMEs dominate in the number of employees in the activities of **construction** (88% of all employees in this activity), **tourism and catering** (82%), **trade** (72%), **real estate, renting and business activities** (66%), and **industry** (59%).

Graph 2: Gross value added, types of enterprises by activities (EU-27), 2010, estimate



Source: Eurostat/National Statistics Offices of Member States/
Cambridge Econometrics/Ecorys

Graph 2 shows that SMEs dominate by the amount of the realized gross value added (% of the totally realized gross value added in the activity), in the following activities:

- construction (82%);
- tourism and catering (76%);
- real estate, renting and business activities (72%);
- trade (70%).

Table 6: Activities in which SMEs dominate by the number of companies, employment and gross value added (EU-27), 2011, estimate

Rank	Number of companies	Employment	Gross value added
1	Retail trade, repairs and maintenance	Construction	Construction
2	Real estate, renting and business activities	Tourism and catering	Tourism and catering
3	Construction	Retail trade, repairs and maintenance	Real estate, renting and business activities
4	Industry	Real estate, renting and business activities	Retail trade, repairs and maintenance

Source: Eurostat/National Statistics Offices of Member States/Cambridge Econometrics/Ecorys

From Table 6 it is visible that SMEs dominate by number of companies engaging in trade. But when other more demanding attributes plug in (number of employees and especially value added), the position of trade grows weaker, while the position of construction and tourism (with catering) grows stronger.

In Table 7 the profile of the SME sector is given (EU-27), which may be of use for HNC in making the benchmarking analysis.

Table 7: Relative shares of employment in the SME sector in overall employment of individual economies (EU-27), 2011 (in%)

SME sector	The least share	Average share	The largest share
Mining	0,07 (Belgium)	0,23	0,60 (Estonia)
Industry	6,57 (Luxemburg)	14,07	22,90 (Estonia)
Electricity, gas, water	0,04 (Ireland)	0,40	1,04 (Estonia)
Construction	2,26 (Ireland)	8,98	13,68 (Spain)
Trade	11,60 (Slovenia)	19,42	34,57 (Greece)
Catering and tourism	1,99 (Poland)	6,25	15,46 (Cyprus)
Transport, warehousing, communications	2,99 (UK)	5,25	7,87 (Latvia)
Real estate, renting and business activities	8,56 (Bulgaria)	13,98	20,63 (Netherland)
SME share in overall employment		68,58	

Source: EUROSTAT

Note: Calculation was made in such a way that first the employment structure of individual countries was calculated (overall employment of a country's economy in sectors C to I, plus sector K = 100), then the averages for the EU-27 group were calculated.

From Table 7 it is visible that out of 100 employed persons in EU-27, the SME sector accounts for 69, mostly in trade (19), and industry (14). The employment in SMEs, in the sectors of mining and electricity, water and gas is negligible for these two sectors taken together do not employ more than 0,63% of all employed persons in EU-27 economies.

II.3.2. EU Political-Legal Framework

On its EU road BiH is obliged, when it comes to SMEs, to comply with the provisions of the EU Small Business Act (SBA), because in June 2008 it signed the Stabilization and Association Agreement with EU, having so entered the contractual relations with EU.

Article 93 of the Agreement referring to SMEs reads:

“Cooperation between the Parties shall be aimed at developing and strengthening private sector small and medium-sized enterprises (SMEs) and shall take due account of priority areas related to the Community acquis in the field of SMEs, as well as the ten guidelines enshrined in the European Charter for Small Enterprises.”

The Bosnia and Herzegovina 2010 Progress Report of the European Commission (pp. 44-45) says:

“Little progress has been made in the area of SMEs. Bosnia and Herzegovina is participating in the European Enterprise Network. The European Charter for Small Enterprises is being implemented slowly and unevenly and preparations for implementing the Small Business Act are at an early stage. The State-level SME development strategy needs to be implemented. The law on promotion of SMEs and entrepreneurship, which was needed to implement the SME development strategy, remains to be adopted.”

The Entities, the BiH 2010 Progress Report goes on, took some initiatives to support SMEs. However, SMEs continue to operate under different conditions across the country.

The e-government strategy to provide *on-line* public services to businesses remains to be fully implemented and a systematic approach to business education is lacking.

The Small Business Act (SBA), which replaced the European Charter for small enterprises, **is the highest political document in EU SME policy.**

The success of the EU Charter for SMEs made it possible for SBA to be endorsed by the EU Council of Ministers in December 2008 and to be passed in 2009. **With this the SME policy was put into the centre of economic and administrative decision-making in EU.** This is a big achievement for EU and SMEs in Europe.

DSSME HNC is an instrument for the SBA application in HNC, an incentive to economic reforms in HNC, and also an instrument for putting SMEs into the centre of economic and administrative decision-making in HNC.

SMEs are and will be drivers for job creation and HNC progress, provided they are put into a proper economic framework. The SME strategy is an instrument by which this is ensured.

SBA defines principles, gives guidelines and best practices in the field of support to SMEs and entrepreneurship. It puts the SME needs in the first place in order to strengthen their potential for job creation and the competitiveness within a single market.

The key SBA element is the principle “*Think Small First*”, which should be included in decision-making at all levels in EU and in national policies.

SBA defines 10 principles of SME policy. They are built into the HNC SME strategy, and it is them that the strategic goals of the HNC Strategy refer to.

A set of 10 principles to guide the conception and implementation of policies both at EU and Member State level, are the following:

1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded
2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance
3. Design rules according to the “Think Small First” principle
4. Make public administrations responsive to SMEs’ needs
5. Adapt public policy tools to SME needs: facilitate SMEs’ participation in public procurement and better use State Aid possibilities for SMEs

6. Facilitate SMEs' access to finance and develop a legal and business environment supportive to timely payments in commercial transactions
7. Help SMEs to benefit more from the opportunities offered by the Single Market
8. Promote the upgrading of skills in SMEs and all forms of innovation
9. Enable SMEs to turn environmental challenges into opportunities
10. Encourage and support SMEs to benefit from the growth of markets

The European Union (EU) has adopted **Europe 2020: A Strategy for Smart, Sustainable and Inclusive Growth**, which is an extension of the “Lisbon Strategy” (2000-2010) , and which defines the frameworks for the establishment of the SME development policy. The Strategy defines **three operative goals**:

- **smart growth** means strengthening knowledge and innovation, improvement of education quality, research technology transfer with full IKT use, and improvement of the conditions for the approach to the finances for research and development;
- **sustainable growth** means promoting a more efficient, sustainable and competitive economy by more efficient use of the resources and by formulating industrial policy for the globalization era;
- **inclusive growth** means fostering employment and education policies, social protection system and increase of social responsibility within a business community.

The defined operative goals are in the function of increasing employment, strengthening research and innovation, education, reduction of gas emission and strengthening energy efficiency and reduction of poverty.

EC (European Commission), ETF (European Training Foundation), OECD (Organization for Economic Co-operation and Development) and EBRD (European Bank for Reconstruction and Development), have included the West Balkan countries in the SME policy study.

Within that EC, ETF, OECD and EBRD issue every second year a review of policies towards the SME sector in the West Balkan countries. So far two such reviews have been published – in 2007 and in 2009 – the latter under the title: “2009 SME Policy Index – Progress in the Implementation of the European Charter for Small Enterprises in the Western Balkans”.

III. HNC ENVIRONMENT FOR STRATEGY PURSUIT

III.1. Political/Institutional Framework of Development

On 06.05.2003 the European Commission adopted the Recommendation 2003/361/EC defining SMEs. According to it, an enterprise is treated as small or medium-sized if its number of employees does not exceed 250, and, according to a supplementary criterion, if its annual turnover does not exceed 50 million euros, or alternatively, (depending on which criterion an enterprise itself chooses), if its annual balance sheet total does not exceed 43 million euros.

BiH does not have an official SME definition, but FBiH and HNC do have one.

The Law on Accounting and Auditing in the Federation of Bosnia and Herzegovina² defines small, medium-sized and large legal entities and states that a small legal entity is the one that fulfils at least two out of three criteria: number of employed persons, the size of business assets and income. According to that, an SME is an enterprise having business assets less than 4 million KM, or an income less than 8 million KM, or the number of employees fewer than 250.

In contrast to this completely inadequate definition given by the Law on Accounting and Auditing in the Federation of Bosnia and Herzegovina, the federal Law on Incentives to Small Business Development³ defines an SME as an enterprise having less than 250 employees and, according to a supplementary criterion, an income less than 40 million KM, or assets less than 30 million KM.

Although the federal Law on Incentives to Small Business Development gives a considerably better definition of an SME than does the federal Law on Accounting and Auditing, it is deficient, too, because its definitions of a micro, small and medium-sized enterprise are out of harmony with EU definitions.

HNC, with its Law on Incentives to Small Business Development⁴, gives the most complete definitions of a micro, small and medium-sized enterprise, practically in harmony with EU definitions for such enterprises (See Table 8).

The HNC Law on Incentives to Small Business Development and Traditional Activities Protection (Crafts) regulates (Article 1):

- elements of small business development planning;
- provision of small business development funds;
- implementation of development measures;
- activities and measures in stimulating small business development and in crafts protection.

The Law points out *eight goals of small business development* (Article 8):

1. increase of employment;
2. increase of exports and accommodation to the world market;

² “Official Gazette of the Federation BiH”, number: 83/09

³ “Official Gazette of the Federation BiH”, number: 19/06

⁴ The Law came into force on 24.08.2010, and has been applied since 01.01.2011 (“HNC Official Gazette”, number: 4/2010)

3. increase of production, quality, and competitiveness of small business;
4. research, development and application of modern technologies and innovations;
5. increase of the number of small business entities;
6. stimulation of activities that do not pollute the environment;
7. stimulation of practicing and survival of traditional and ancient crafts;
8. stimulation of SMEs to utilize EU funds.

If one departs from the viewpoint that the customary EU practice is to have as strategic goals of the SME sector development at the regional level:

- reduction of unemployment,
- activation of local economies,
- promotion of new technologies and innovation,
- attraction of foreign companies and foreign investments,

one can say that the **HNC Law on Incentives to Small Business Development well follows the EU practice because it points out the goal of unemployment reduction and promotion of technologies and innovations**. It mentions the activation of local economies indirectly (Article 15), but it does not emphasize the activation of local economies and attraction of foreign companies and foreign investments.

At the proposal of the Ministry of Economy, the **HNC Government passed an HNC Small Business Development Program for a period of four years**, which defines (Article 9):

- development guidelines;
- incentives;
- exponents of incentive implementation,
- implementation activities;
- sources of funds;
- period of implementation of individual incentives;
- methodology of monitoring the implementation of incentives.

On the basis of a four-year program the **HNC Ministry of Economy introduced and the HNC Government adopted the Annual Program Implementation Plan**, which contains (Article 9):

- plan of individual incentives and activities;
- necessary funds;
- sources;
- criteria;
- conditions;
- manner of funds utilization.

Financial means for development program implementation are provided from the HNC budget for every calendar year in keeping with the Law provisions.

The activities and measures by which the goals of small business development are attained (Article 11) may be grouped as:

1. **financial ones** (crediting and interest subsidizing, giving guarantees, establishment of risk capital funds);

2. **professional/advisory ones** (introduction of certificates and international quality standards, stimulation to utilize IPA funds);
3. **business infrastructural ones** (organizing centres for entrepreneurship, enterprise incubators and small business zones);
4. **technological ones** (support to research, development and innovation application);
5. **educational ones** (support to education and re-training);
6. **developmental ones** (support to entrepreneurship of target groups: the young, women, and disabled; support to employment, participation in fairs, and protection and revitalization of crafts).

The exponents of the Small Business Development Program are: HNC Government, HNC Ministry of Economy, local self-government units, HNC Chamber of Commerce, HNC Chamber of Trades, small business and entrepreneurship associations, and Regional Development Agency (Article 15).

Local self-government units are obliged to make their own programs and plans of small business development (Article 16).

Table 8: SME Definitions: EU, FBiH and HNC

SME type	EU			FBiH										HNC			
				Law on Accounting and Auditing					Law on Incentives to Small Business Development								
	1. employees	2. turnover (million €)	or 3. balance sheet total (million €)	1. employees	and/or	2. income (million KM)	and/or	3. business assets (million KM)	1. employees	2. income (KM)	and/or	3. assets (KM)	1. employees	2. income (million KM)	and/or	3. assets (million KM)	
medium	50-249	≤ 50	≤ 43	50-250		2-8		1-4	< 250	≤ 40		≤ 30	50-249	< 95		< 86	
small	10-49	≤ 10	≤ 10	< 50		< 2		< 1	< 50	≤ 4		≤ 4	10-49	< 20		< 20	
micro	0-9	≤ 2	≤ 2	no definition					< 10	≤ 0.4		≤ 0.4	0-9	< 4		< 4	

Source: Recommendation 96/280/EC; Law on Accounting and Auditing in the Federation of Bosnia and Herzegovina, "Official Gazette of the Federation BiH", number: 83/09; Law on Incentives to Small Business Development, "Official Gazette of the Federation BiH", number: 19/06, 32/09; HNC Law on Incentives to Small Business Development and Protection of Traditional Activities (Crafts) of the HNC, "Official Gazette of the HNC", number: 4/2010.

III.2. Institutional environment as basic business challenge

SME investigations, that are regularly carried out by EBRD (2010), show that the challenges facing SMEs in BiH are primarily connected with the activity of public sector institutions (tax administration, courts, and education), (See Table 9), in fact, they boil down to an inadequate business environment (courts and taxes), and inadequate competitiveness (education).

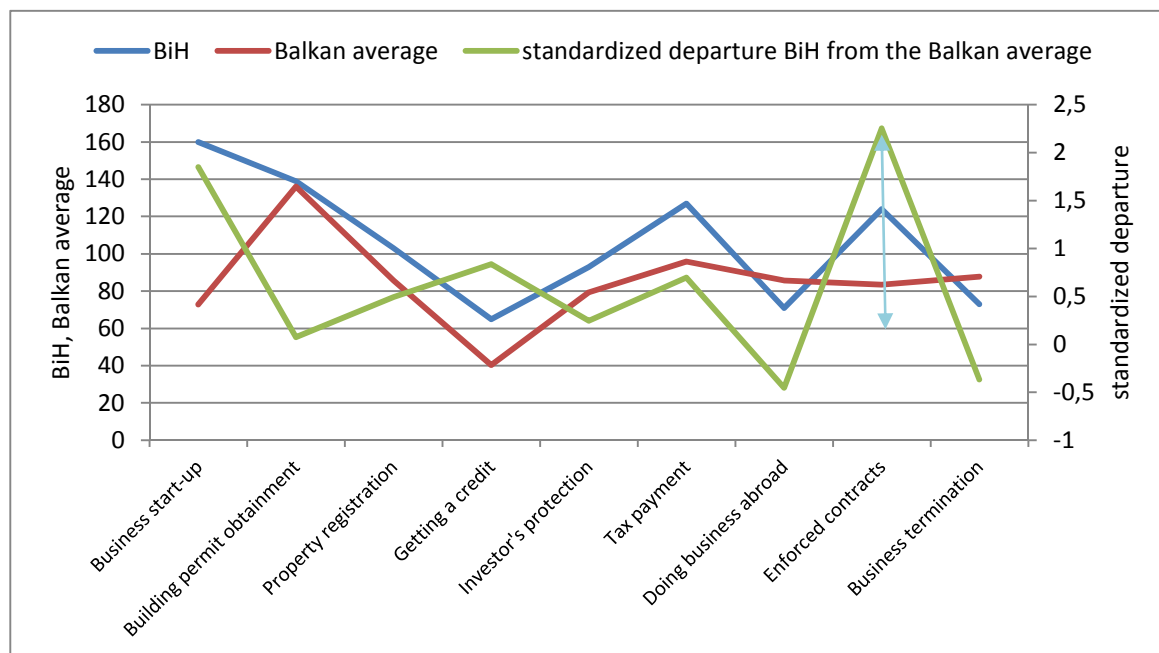
Table 9: Three most difficult business problems for entrepreneurs in transition countries, 2010

Transition countries	BiH
1. Skills	1-2. Tax administration and corruption
2. Corruption	
3. Tax administration	3-4 Skills and courts

Source: EBRD (2010)

EBRD (2010) does not find the activity of courts to be one of SME three common basic problems in transition countries in general, but it does find it to be one of the three basic problems in a specific geographical area – in the West Balkans. In those countries the activity of courts is one of the three basic problems.

Graph 3: Ease of doing business in BiH and Balkans, 2011



Source: World Bank (2011)

According to the World Bank investigations (2011), inefficient activity of courts is especially pronounced in BiH. It is here that the negative departure of BiH from the ease of doing business in the West Balkans countries is the greatest (See the arrow in Graph 3 at forcible contract execution).

Table 10: The most difficult business problems of entrepreneurs, selected transition countries, 2010

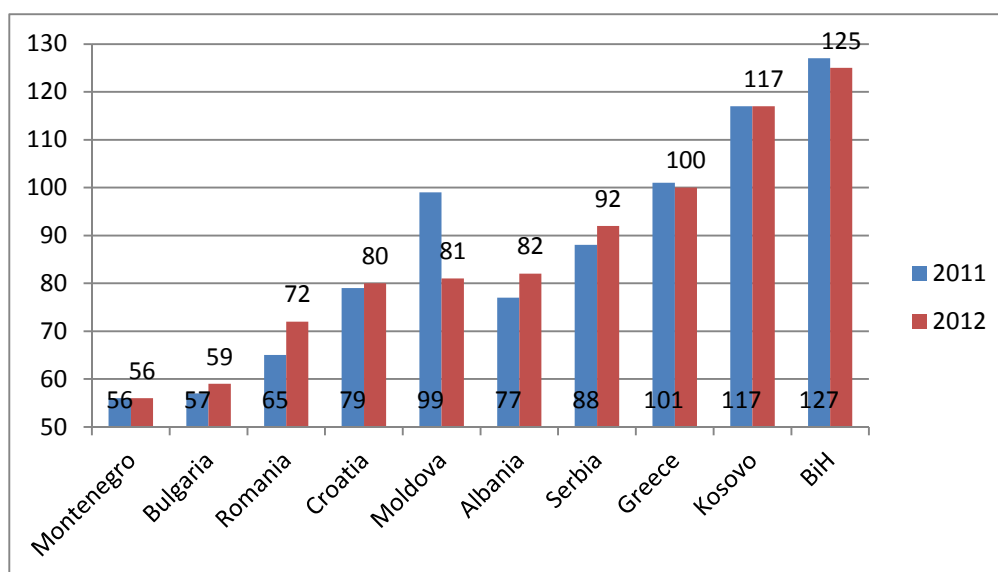
	BiH	Albania	Belarus	Bulgaria	Croatia	Macedonia	Hungary	Moldova	Monte-negro	Romania	Serbia	Slovakia	Slovenia
Infrastructure	-0.11	0.16	0.09	0.01	-0.17	-0.07	-0.11	0.07	0.09	-0.12	0	0.03	0.08
Telecoms	-0.21	0.06	0.03	-0.05	-0.26	-0.17	-0.18	-0.05	-0.13	-0.22	-0.06	-0.12	-0.01
Electricity	0.02	0.73	0.13	0.16	-0.15	0.14	0.11	0.15	0.36	-0.07	0.22	0.26	0.19
Transport	-0.10	-0.08	-0.04	-0.04	-0.13	-0.07	-0.17	0.01	0.07	-0.15	-0.03	0	0.08
Land access	-0.19	0.01	-0.02	-0.16	-0.2	0.02	-0.36	0.14	-0.06	-0.14	-0.08	-0.12	0.04
Skills	0.04	0.13	0.3	0.01	0.11	-0.06	-0.17	0.25	0.1	0.15	0.04	0.16	0.11
Tax administration	0.22	0.11	0.04	0.12	0.25	0.02	0.61	0	0.18	0.22	0.03	-0.02	-0.04
Labour regulation	-0.10	-0.16	-0.24	-0.02	0.01	-0.11	0.09	-0.19	-0.03	0	-0.03	-0.05	0.22
Customs	-0.12	0.12	-0.1	-0.24	-0.17	-0.11	-0.29	-0.1	0	-0.25	-0.13	-0.29	-0.2
Licencing	-0.03	-0.16	0.08	-0.04	-0.1	-0.1	0.14	-0.14	0.04	0.01	-0.11	-0.08	-0.09
Courts	0.04	-0.02	-0.22	0.06	0.2	0.22	-0.14	-0.05	-0.08	0.01	0.03	0.08	0.02
Corruption	0.22	0.31	-0.06	0.16	0.08	0.12	0.32	0.02	-0.03	0.13	0.26	0.15	-0.12
Crime	-0.06	-0.15	0.14	0.06	-0.11	0.01	-0.2	0.02	-0.16	-0.16	-0.03	0.13	0.01

Source: EBRD (2010.)

Explanation of the Table: the surveyed entrepreneurs provide the answer to the question how the problems listed in Colum 1 are **more /less difficult** compared to other problems. Answers with a minus mean that these problems are less difficult in comparison to other problems for the mentioned percentage point, while answers with a plus mean that these problems are more difficult in relation to other problems, for the respective percentage point. In the case of of Bosnia and Herzegovina, the infrastructure is, for example, less difficult problem for 11% compared to other problems, and corruption is 22% more difficult problem than other problems.

According to the World Bank estimate (2011), BiH is the worst place for doing business in the South Eastern Europe, and consequently in the whole of Europe.

Graph 4: Ease of doing business, South Eastern Europe



Source: World Bank (2011.b)

In 2011 the World Bank carried out an investigation in more than 300 cities from 38 countries including 22 cities in transition countries of the South Eastern Europe, Mostar being among them.

Table 11: Ease of doing business in 22 cities of transition countries of the South Eastern Europe, 2011

Type of ease	The best and worst placed cities, and BiH cities					
Ease of starting a business	1. Skopje	18. Banja Luka	19. Sarajevo	20. Mostar	21. Prizren	22. Priština
Ease of dealing with construction permits	1. Nikšić	3. Banja Luka	9. Sarajevo	13. Mostar	21. Beograd	22. Tirana
Ease of registering property	1. Kišnjev	2. Balti	3. Bitola	19. Sarajevo	21. Banja Luka	22. Mostar
Ease of enforcing contracts	1. Zrenjanin	2. Kišnjev	15. Banja Luka	19. Sarajevo	20. Mostar	22. Prizren

Source: World Bank (2011.a)

From Table 11 it is visible that BiH cities are mainly at the bottom of the scale of transition cities in the South Eastern Europe. As for Mostar, it has improved its position in comparison with the year 2008 in starting a business, in dealing with construction permits, and in enforcing contracts.⁵

However, it is evident what huge additional efforts are necessary to catch up with Skopje: let us only note that to register a limited liability company (LLC) in Skopje you need three days, 100 US \$ and 0 US \$ of the minimal paid capital, while in Mostar you would need for that 42 days and 2.317,00 KM, and the minimal capital of 2.000,00 KM.

⁵ In relation to the 2008 investigation, the cities of Croatia are excluded and the cities from Moldova included (Kišnjev and Balti), as well as Drač and Tetovo, which means that in a relatively weaker competition Mostar should have improved its position more.

Table 12: Procedures and costs of establishing LLCs and cooperatives in HNC (in days and KM)

Steps	Actions	Time	Cost
1	Contract of incorporation, Statute	1	702,00
2	Temporary bank account	1	(2.000,00)
3	Entry into court register	21	1.175,00
4	Stamp-engraver	1	40,00
5	Statistical number	1	
6	Application for ID number	1	
7	Opening a giro account	1	
8	Enrolment of employees in Pension and Health Insurance Institutes	1	
9	Decision on fulfilment of requirements for work	7	250,00-500,00
10	Entry into customs register and VAT number	7	25,00
	Total	42	2.317,00 (4.317,00)

Source: HNC Ministry of Economy

Mostar is not making progress in the field of enforced contracts. In the most efficient city of the South Eastern Europe, Zrenjanin, a commercial court dispute is settled in 10 months at an average, just as in the USA, while in Mostar it takes more than four years, just as in Kabul, one of the slowest courts in the world.

III.3. Programs of Incentives to Development of Economy

HNC has prepared a Small Economy Development Program for HNC for the 2011-2015 period.

Table 13: The main strategic and priority objectives of the small business development of the HNC, 2011-2015

Objectives	Increasing the number of SMEs'	Increasing employment
Strategic objectives	1. Competitiveness - strengthening the competitive ability of SMEs	2. Employment – increasing employment through increased number of SMEs
Priority objectives	<ol style="list-style-type: none"> 1. Continuous improvement of enterprises productivity 2. Strengthening of cluster initiatives 3. Building of modern scientific and business infrastructure and business base 4. Improving the business environment 	<ol style="list-style-type: none"> 1. Improving conditions for the development of existing SMEs 2. Improving conditions for the creation of new SMEs 3. Reducing the long term and structural unemployment 4. Improving the functioning of the labour market through the development of business infrastructure

The following activities are pointed out as being especially important for the realization of strategic objectives:

- establishment of a guarantee fund (2011),
- establishment of a revolving credit fund (2011),
- formation and development of clusters (2011-2013),
- establishment and development of a technological park (2011-2013),
- completion of building business zones (2011-2015),
- electronic service program for entrepreneurs (2011),
- training for 100 SME employees in using modern information technologies (2011),
- completion of regulatory reform (2011-2012).

In order to support small economy development, the HNC Government has undertaken the following activities⁶:

- **2008**: HNC Government has earmarked 510.000,00 KM. The effects of the said funds invested are shown in Table 14. The incentive funds have initiated additional private investments in the amount of 1.421.000,00 KM, which resulted in employment of 61 persons;
- **2009**: no funds for small business development incentives were earmarked;
- **2010**: funds amounting to 157.834,00 KM have been allocated as follows:
 - 137.834,00 KM (LOT 1)⁷ for crafts shops and preservation of traditional crafts,
 - 6.000,00 KM to the HNC Chamber of Trades and Crafts (to upgrade its function and fulfilment of its role in developing trades and crafts),
 - 4.000,00 KM to the HNC Chamber of Commerce (to upgrade its function and the fulfilment of its role),
 - 10.000,00 KM to the Association for Entrepreneurship and Business “LiNK” Mostar (for the purpose of HNC participation in the construction of a business zone).
- **2011**: no funds for small business development incentives were earmarked.

Table 14: The effects of the incentive funds investments in 2008

No.	Entities	Allocated from public sources	Total invested funds	Invested from private sources	Number of newly employed
1.	LOT 1.	184.000,00	264.017,33	80.017,33	10
2.	LOT 2.	130.000,00	545.000,00	415.000,00	42
3.	LOT 3.	130.000,00	1.020.004,74	900.004,74	5
4.	LOT 4.	25.000,00	25.000,00	0	1
5.	LOT 5.	21.000,00	25.737,88	4.737,88	0
6.	LOT 6.	15.000,00	29.424,17	14.424,17	3
7.	LOT 7.	5.000,00	12.744,36	7.744,36	0
Total		510.000,00	1.921.928,48	1.421.928,48	61

Source: Ministry of Economy of the HNC

⁶ Communication with the HNC Ministry of Economy.

⁷ Beneficiaries LOT 1 (26 craftsmen) for the granted 137.834,00 KM have invested 62.279,96 KM of their own funds, having so not only kept the number of employees but increased it by four persons.

Table 15: Survey of support to SMEs at the LSU level

QUESTION	Mostar	Jablanica	Prozor/ Rama	Konjic	Čitluk	Čapljina	Stolac	Ravno	Neum
1. Has the LSU a development strategy?	no	yes	yes	yes	yes	no	yes	yes	yes
2. What period does the strategy cover?	-	2007.-2011.	2011.-2020.	2008.-2017.	2008.-2020.	-	implementation plan for 2010.-2014.	2011.-2017.	2006.-2010.
3. What are development objectives?		developed infrastructure	preserved environment	power industry	developed infrastructure		construction of business zone	efficient local rule	Tourism
		developed entrepreneurship	built infrastructure	tourism	developed economy		continued construction of water supply system Hodovo-Rotimlja	local economic development	development of social activities
		developed social activities	developed and sustainable economic sector	agriculture	developed education, culture, health and sports		reconstruction of bridges and mills	improvement of traffic and municipal infrastructure	development of infrastructure, physical planning and environment
		zoning and preserved environment	developed human resources	SME (trades and crafts)	preserved and protected environment		continued construction of the Dubrovnik water supply system (regional)	development of health and municipal protection	strengthening local self-government
			increase of social standard	metal working industry	improved and more efficient administration		construction of elementary school hall at Crnići		
				wood working industry			electrification of the old town		

DEVELOPMENT STRATEGY FOR SMALL AND MEDIUM-SIZED ENTERPRISES IN HNC 2012-2020

4. If development strategy is being prepared, what are development goals?	physical plan of the city	mining and quarrying /manufacturing industry (gypsum)		tourism		food and drink production			
	municipal infrastructure	production of electricity	/	food and drink production	/	tourism	/		
	support to development of entrepreneurship	tourism		SME		power industry			
	building the city administration system			exploitation of hydro-potentials					
5. What economic activities can be the pillar of LSU development?	manufacturing industry	manufacturing industry (mining and quarrying, ore processing and stone dressing)	manufacturing industry	manufacturing industry (metal, wood)	tourism			tourism (corridor Ravno-Slano)	
	tourism	production of electricity	food and drink production			tourism	tourism	construction (building tourist colonies)	
	IC technologies	tourism	tourism	tourism	food and drink production	transport (speedway Stolac- Neum)	tourism	food and drink production	
	food and drink production	food and drink production			manufacturing industry (mining and quarrying, ore processing and stone dressing)				
		forestry							
6. Has the Unit a BZ?	no	yes	no (in preparation)	yes	yes	no	yes	yes	yes

DEVELOPMENT STRATEGY FOR SMALL AND MEDIUM-SIZED ENTERPRISES IN HNC 2012-2020

7. Give their names		Šljunkara (Gravel pit)		Unis	Tromeđa Medugorje		Hodovo	Omble	Vranjevo selo
				Šipad	Blizne gomile				
					Blizanci				
8. Has LSU a business incubator?	no	yes	no	no	no	no	no	no	
9. Does LSU support SMEs by certain measures?	no	yes	yes	yes	yes	yes	yes	no	no
10. If it supports SME development, name the main measures		credits for small business from revolving funds	program of incentives to employment	revolving credit line	provision of favourable economy conditions	through investments into business infrastructure more favourable conditions for SME development are created	ensured infrastructure	/	
		subsidies for employment and support to agriculture and cattle breeding			offering of information		low land price		
		subsidies for employment under an employment program			assistance in connecting with partners		deferred payment		
11. What budget percentage is designed for SME development?	0	4,4%	4,0%	0	0	0	12%	0	

DEVELOPMENT STRATEGY FOR SMALL AND MEDIUM-SIZED ENTERPRISES IN HNC 2012-2020

12. Has the Unit a special fund for supporting development of SMEs?	no	yes	no	yes (revolving credit line)	no	no	yes	no	
13. Does the Unit think of supporting micro (local) and/or mezzo (regional) cluster?	yes	yes	yes	yes	yes	yes	yes	yes	

Source: LiNK (survey of and interview with LSU representatives and Coordinating Committee members) and development strategies for local self-government units

III.4. SWOT Analysis of the SME Sector

SWOT analysis has the purpose to establish what internal and external factors have an effect on SME development in HNC. Together with the vision it makes a basis for selection of strategic and priority Strategy objectives.

Table 16 gives a survey of specific forces, weaknesses, opportunities and threats that influence the current position of SMEs in HNC. Every selected item of force, weakness or threat is connected with a strategic objective to be achieved.

Table 16: SWOT matrix of the HNC small and medium-sized entrepreneurship sector, December 2012

<p>Advantages:</p> <ol style="list-style-type: none"> 1. Tradition in entrepreneurship, especially in manufacturing industry (metal and wood working, stone dressing) and tourism (summer-bathing, hunting-fishing, mountain) 2. Clear strategic framework (BiH and FBiH economic development strategy, BiH export strategy, SME BiH and FBiH development strategies, HNC LSU development strategy) 3. Established financial support practice (at the cantonal and LSU level) 4. Breakthroughs in the development of food and drink production (new farms; vineyards and cellars; breakthroughs in branding Žilavka and Blatina, and in cheese production) 	<p>Disadvantages:</p> <ol style="list-style-type: none"> I. Insufficiently developed entrepreneurship <ol style="list-style-type: none"> 1. Undeveloped entrepreneurial knowledge (the workforce is not being educated for the needs of SMEs; low level of training for entrepreneurs, especially in the field of practical knowledge) 2. Inadequate entrepreneurial orientation (local market, unproductive sectors) II. Inadequate legal institutional framework <ol style="list-style-type: none"> 3. Poor activity of courts 4. Undeveloped laws and sub-laws (lack of ordinances, etc.; unsolved concession problems) 5. Administrative procedures (long, complicated procedures for establishment and liquidation of SMEs and for issuance of building permits; for registration of title deeds and obtainment of export permits and investment) III. Lack of political support <ol style="list-style-type: none"> 6. Lack of support to cluster development (in agriculture, manufacturing industry and tourism) 7. Poor access to capital (unfavourable credits, no development funds) 8. Insufficient promotion and stimulation of innovations, research and development 9. Inadequate presence of municipalities in strategic development programs in HNC and FBiH
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	<p>10. Absence of municipal benefits for attracting foreign investors</p> <p>IV. Weaknesses of SME sector</p> <p>11. Low utilisation of new technologies (slow introduction, inadequate knowledge)</p> <p>12. Low SME productivity (unpropitious structure of employees; poor capacity of economy to absorb new workforce)</p> <p>13. Non-existence of association of entrepreneurs and the LSU level and beyond (e.g. craftsmen in LSUs)</p>
<p>Opportunities:</p> <p>I. Activation of entrepreneurial potentials</p> <p>1. Formation of entrepreneurs' networks and linkage with international networks</p> <p>2. Development of rural entrepreneurship (grape-growing and wine production, cattle breeding, vegetable growing, medicinal herbs; along with solving property rights, land consolidation, and strengthening cooperative movement and distribution channels, etc.)</p> <p>II. Activation of unused resources</p> <p>3. Young, adaptable and relatively cheap workforce</p> <p>4. Well educated diaspora</p> <p>5. Natural conditions and resources: climate, potable water, unpolluted soils, pure air, gravel, granite-gabbro, gypsum, AG-stone; forests, pastures, medicinal herbs; hydro-potential, sunshine, wind</p> <p>6. Activation of inactive structures</p> <p>III. Development of the SME sector</p> <p>7. Development of renewable energy sources (water, wind, sunshine)</p> <p>8. Development of tourism: religious (Međugorje), summer-bathing (Neum), winter-skiing (Risovac, Ruište, Rama), agro (cheese routes, wine routes), mountain and hunting tourism</p>	<p>Threats:</p> <p>I. Home threats</p> <p>1. Slow pace of all reforms and of conforming to EU standards (especially in passing regulations, which are bad and incomplete with a poor application, especially in administration, justice and education)</p> <p>2. Lack of interest at higher level authorities in a well thought-out stimulation of economic development and specific needs of local communities (there are no special support programs)</p> <p>3. Absence of export stimulations</p> <p>4. Absence of physical plans, and space devastation</p> <p>5. Unfair competition (a lot of grey economy; lack of control of unregistered companies by inspections)</p> <p>6. Inadequate financial market (undeveloped panoply of financial institutions and instruments)</p> <p>7. Presence of corruption</p> <p>8. Decrease of the number of inhabitants (especially in rural areas)</p> <p>Foreign threats</p> <p>9. Growing competition in the surrounding countries, and poor competitiveness with their economies</p>

IV. Stronger political support

9. Better coordination of regional and local authorities
10. **Developing and strengthening SME supporting institutions** (training centres, shops, etc.) **and business infrastructure** (with an emphasis on clusters, incubators, business zones, and technological parks)
11. **Development of partnership between public and private sectors and civil society**
12. **Creating special instruments of financial support to entrepreneurship**
13. **Assertion of craftsman professions** (incl. cooperation with secondary vocational schools)

V. Foreign support

14. **Inter-municipal, regional and inter-governmental cooperation**
15. **Attracting foreign and home investors, and joining various funds** (EU pre-accession funds), **programs and initiatives**

VI. Development of education

16. **Reform of the educational system** (especially of the secondary education)
17. **Training for the introduction of new technologies and development of new products**

III.5. Key Findings of Socio-Economic and Political-Institutional Analysis of the SME Sector Condition

Key findings related to socio-economic and political-institutional conditions for SRMS realization:

- HNC is not a pleasant place for living (the number of inhabitants is dwindling due to a negative growth and emigration);
- The population is largely inactive and unemployed (inactive population exceeds the size of labour force);
- Employment shows a medium-term tendency toward decreasing, and unemployment toward increasing;
- The chief employers in HNC are in the field of trade and manufacturing industry;
- HNC export sector is internationally insufficiently competitive (makes a permanent trade deficit) and is reduced to the exports in the metal sector, that is to the exports of

large public enterprises, such as Aluminij d.d., and a group of private small and medium-sized manufacturing enterprises;

- The development of the sector of small and medium-sized enterprises should be oriented toward the **development of micro enterprises** (for the purpose of decreasing unemployment and dynamizing local communities), **development of high-growth small and medium-sized enterprises, especially of gazelles** (in order to increase innovativeness, value added, competitiveness and exports), and to the **development of social entrepreneurship** (for the purpose of decreasing inactivity of the population) **and rural entrepreneurship**;
- The HNC Law on Incentives to Small Business Development well follows EU practice for it points out the objective of reducing unemployment and promoting technologies and innovations; it mentions indirectly the activation of local economies, while it does not point out the necessity of activating local economies and attracting foreign companies and foreign investments;
- The problems facing SMEs in HNC are primarily related to the activity of courts, tax administration and education, that is, they boil down to an inadequate business environment (courts and tax administration) and inadequate competitiveness (education);
- HNC has four-year and yearly plans for small business development. The current plans mention, among other things, formation and development of clusters (2011-2013), establishment and development of a technological park. (2011-2013), completion of the construction of business zones (2011-2015), electronic service program for entrepreneurs, and training for SME employees in using modern information technologies (2011). But, having in mind the amount of earmarked funds from the budget, it is obvious that additional funds will have to be found for these properly set goals, especially in the partnership with private sector, in the development of business infrastructure;
- The business infrastructure in HNC is underdeveloped (there are no built business zones, no centres of excellency, no technological parks; there is only one business incubator), there are no cluster initiatives, or international value chains, no developed training centres;
- There are great possibilities for the development of entrepreneurship in HNC (owing to a century-long tradition of stone dressing, wood and metal working, as well as of food and drink production, especially of cheese, juices and wine), considerable potentials for the development of the IC sector and development of tourism;
- In the absence of an economic development strategy in HNC, an appropriately conceived DSSME can serve also as an HNC key development documents, especially if one bears in mind the principle of the Small Business Act “Think Small First”.

IV. VISION AND EXPECTED RESULTS OF THE SME DEVELOPMENT

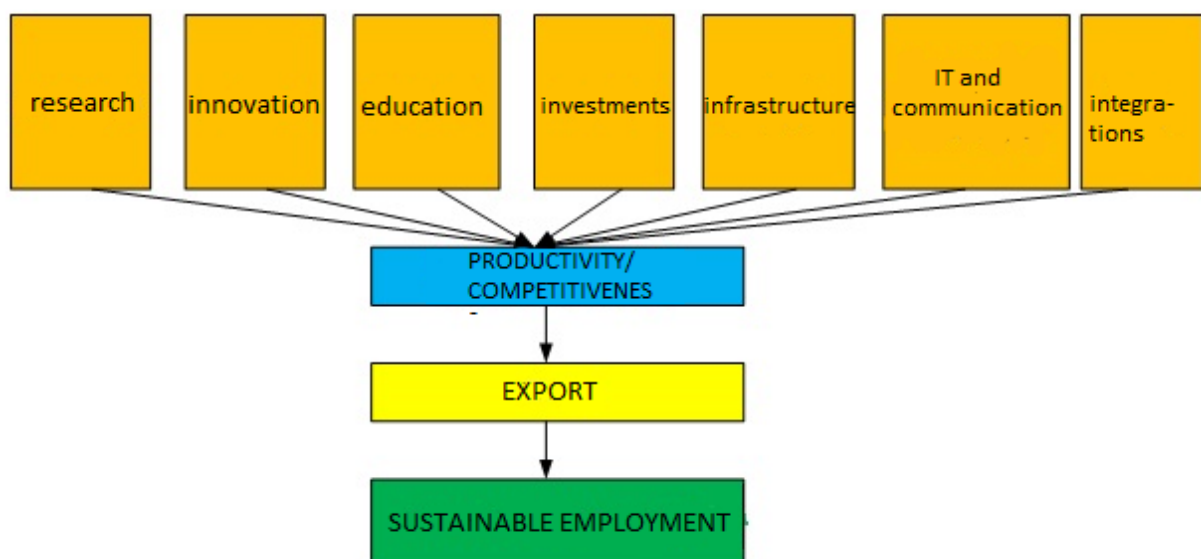
As one of BiH key export platforms, the Neretva Valley connects political, administrative, managing, economic, educational, scientific and other entities downstream the Neretva River, from Konjic to Ploče. Regional companies from the Neretva Valley, both from Herzegovina and Dalmatia, are interested in the internationalisation of their operations, while non-regional companies (companies outside Herzegovina and Dalmatia) are interested in entering new markets and in profit increase, which they can achieve by entering the BiH market, as well as by a joint entrance with BiH companies to EU and Mediterranean markets.

The advantages of the Neretva Valley are: the geographical vicinity of EU, South European and Mediterranean countries, well laid down transport network (particularly motorways of the Vc Corridor and the Adriatic-Ionian motorway), a set of excellent BiH companies, industrial tradition, and relatively cheap labour skilled in stone dressing, metal and wood working, numerous and educated Diaspora, a relative abundance of natural resources, as well as the prospects for development of tourism and renewable energy sources.

The Neretva Valley is an excellent opportunity for a **much-needed industrialisation of HNC**, which will, with the products of higher technological workmanship, put the region back on the map of the South Eastern Europe, and on the EU map.

By mobilising scattered resources throughout the Canton and their integration into cluster initiatives and international value chains, a basis is created for a sustainable increase of jobs and reduction of a for decades high rate of unemployment, and especially of the inactivity of the labour force.

Graph 5: Seven pillars of a sustainable employment rate



The realisation of the vision is based on seven pillars: research, innovations, education, investments, infrastructure (business one and other), IT and communication technologies (as infrastructure of a modern economy), and integrations.

For small open economies, like BiH, there is no other way except liberalisation of economy and its integration into wider frameworks (CEFTA and EU), the prerequisite for which being improvement of competitiveness, or rather productivity, which is the base of competitiveness. And this cannot be achieved without investing into researches and development, innovation of products/services and production processes, connecting with foreign companies, which is supported by business infrastructure, and, more than anything else, a high level of education of the employees.

Such an environment will make the HNC region the best place for entrepreneurs in BiH, or rather the most enterprising region in BiH – this is the vision of the SME development.

The basic criterion for the assessment of the success of policies that rely on such vision is the growth rate of employment of the SME sector in the HNC.

The growth rate of employment will be projected at the end of every year for the coming year, and will be founded on the base growth rate of employment for BiH, which is projected by the Directorate for Economic Planning.

Table 17: Base objectives and indicators of the SME Development Strategy for 2012-2020

Creation of workplaces			Creation of companies		
daily	annually	2012.-2020.	monthly	annually	2012.-2020.
6,5	1.622	14.598	45	541	4.866

The annual growth rate of employment of the small and medium-sized entrepreneurship should amount to 3,5% a year, as is visible from Table 18.⁸

Table 18: Projected growth rate of employment in the SME sector, 2012-2020

	2011.	2020.	growth rate
• Formally employed in the SME sector	29.211	49.227	
• Informally employed in the SME sector	11.057	5.529	
• Overall employed in the SME sector	40.268	54.866	3,5

⁸ The assumptions on which the calculation is based are:

- Growth rate of the able-bodied population 0,5%
- Growth rate of the inactive population -1,5%
- Growth rate of labour 0,8%
- Net rate of emigration 0,0
- Decrease of the current employment in informal economy by 50%
- Decrease of the employment ratio between the SME sector and other employment from 71,4 down to 70%
- Growth rate of BiH economy 7% (economy productivity 3,3% and overall employment in HNC 3,7%). By the realisation of these assumptions, HNC would have a total employment rate of 50% by the end of 2020, and the unemployment rate of 13,2%; the anticipated goals for EU-27 are: employment rate 75% and unemployment rate 5-8%.

V. STRATEGIC OBJECTIVES

SMEs operate in an environment regulated by a single business legal framework, common to other economic subjects, too. The specifics of the SME sector should be treated in such a manner that the laws and sub-laws regulating individual business fields – passed by and advocated at the federal level by the HNC – should provide a milder treatment for the SME sector. Namely, when drafting laws, the rule “**Think Small First**” should be the guiding principle. If laws, rules and practices suit small companies, they should be acceptable to large companies as well.

The basic prerequisite for creating a competitive SME sector is **establishment of a stable and stimulating legal environment**, created in keeping with the requirements and capacities of the SME sector. One should achieve the greatest possible turbulence of the HNC economy through the possibilities of a fast appearance and disappearance of SMEs. In this way labour and capital move fast from one unprofitable to another considerably more profitable activity, thereby ensuring restructuring of economy while increasing its efficiency. However, it is not only necessary to ensure a free entry into and an exit out of a business activity, but also to ensure that the result of a business activity should belong to those who have achieved it, by creating an environment in which financial indiscipline and the need for forced payment will be reduced down to a much lower level.

The current situation in HNC calls for further strengthening and improvement of the **support to start-up entrepreneurs** through:

- development of new models of non-financial support, combined with financial instruments aimed at mitigating the problem of the initial capital shortage, as a basic problem in starting a business,
- simplification of and fee reduction for business registration and other administrative procedures, and for business start, such as obtainment of permits, consents etc.,

which will allow the largest possible number of newly formed companies to survive the first three years of business.

The development of SMEs requires an appropriate financial framework, which makes possible a **convenient access to capital**. The experience of the countries with developed market economy and a high income shows that this can be realised through special institutions and instruments tailored to SMEs' needs. This especially applies to the countries like BiH where the financial system has been reduced to the banking system, de facto to five foreign banks, and the financial instruments to a bank credit.

Considering that about three fourths of economic ties (viewed from the viewpoint of the share of home in the overall number of buyers and suppliers) refer to the home market, the role of LSU in stimulating SME development is of great importance. This is especially evident in creating a favourable business environment at the local level by ensuring a necessary **local business infrastructure**, which provides local information, services and training for SMEs, as well as certain forms of financial support. That is why the joint action of LSUs and cantonal institutions, as well as their partnership actions with civil society organisations, is necessary for the establishment of a **support package to SMEs** (office space, referrals, information, advice, capital, technology), starting from business accelerators in rural environments – which can be instrumental in the development of rural non-agricultural activities (food and beverage processing industry, timber and wood industry, stone industry, tourism, renewable energy sources etc.) – proceeding to export incubators and all way up to

technological parks located around leading exporters of the region, which will make possible the production of products of high value added along with high energy savings.

The basic precondition for all this is **improvement of education and training**. There is no way out of the middle income trap, in which HNC is caught, without a thorough educational reform, where entrepreneurial education takes an important place. In addition to the individual-based knowledge acquired at schools and faculties, it is necessary to develop company education, that is, education in a learning company. Modern organisations are learning companies, which acquire knowledge also through company-to-company instruction (which accounts for about one fifth of the total acquired knowledge of modern societies).

Table 19: Overview of strategic and priority objectives, institutions and financial instruments in the implementation of the SME Development Strategy

1. Promotion of entrepreneurial development	<ol style="list-style-type: none"> 1. Improved cooperation of educational institutions and SMEs 2. Promotion of the best entrepreneurial practices 3. Establishment of a legal framework in line with requirements and capacities of SMEs
2. Strengthening of institutions offering support to SMEs	<ol style="list-style-type: none"> 4. Establishment and development of business infrastructure: <ol style="list-style-type: none"> a. Business accelerators b. Export incubators c. Business zones ^x 5. Development of referral, information and consulting services supporting SMEs: <ol style="list-style-type: none"> a. Cantonal Info Centre ^x b. First-stop-shop c. One-stop-shop d. Other institutions (chambers ^x, associations etc.) 6. Improvement of IT and communication capacities of SMEs <ol style="list-style-type: none"> a. IT and communication training centre ^{xx}
3. Improved access of SMEs to financing	<ol style="list-style-type: none"> 7. Improved financing of start-up entrepreneurs: <ol style="list-style-type: none"> a. Guarantee fund ^x b. Grants offered by HNC and LSUs tailored for start-up entrepreneurs 8. Improved financing of gazelles: <ol style="list-style-type: none"> a. Risk Capital Fund b. Revolving loan schemes ^x
4. Strengthening competitiveness of SMEs	<ol style="list-style-type: none"> 9. Improved cooperation of SMEs: <ol style="list-style-type: none"> a. Entrepreneurial clubs in LSUs ^x 10. Support of internationalisation of SMEs: <ol style="list-style-type: none"> a. Technology parks ^x b. Competence centres

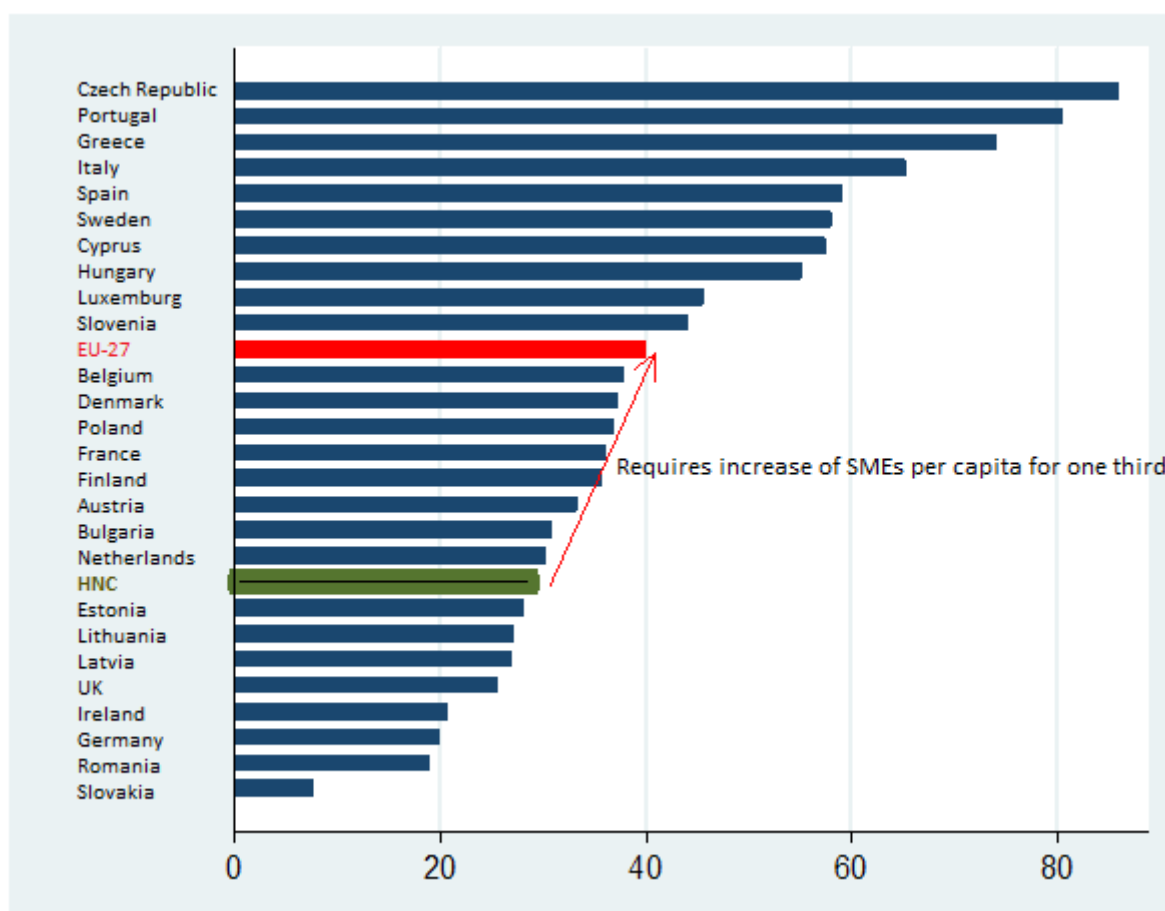
^x Already present to a certain extent; ^{xx} establishment plans present

V. 1. Promoting Development of Entrepreneurship

On its way to high income countries and its EU way, BiH must build the organisational structure of production similar to the one existing in OECD and EU member countries.

EU-27 has an average of 39,3 SMEs per 1000 inhabitants. The Czech Republic has the highest density of SMEs of all these countries (86), followed by the Mediterranean countries: Portugal (80,5), Greece (74,0), Italy (65,3) and Spain (59,1). At the other end are Germany (20,9), Romania (18,9) and Slovakia (7,8) with the lowest SME density.

Graph 6: SME number per 1000 inhabitants, EU (2005) and HNC (2011)

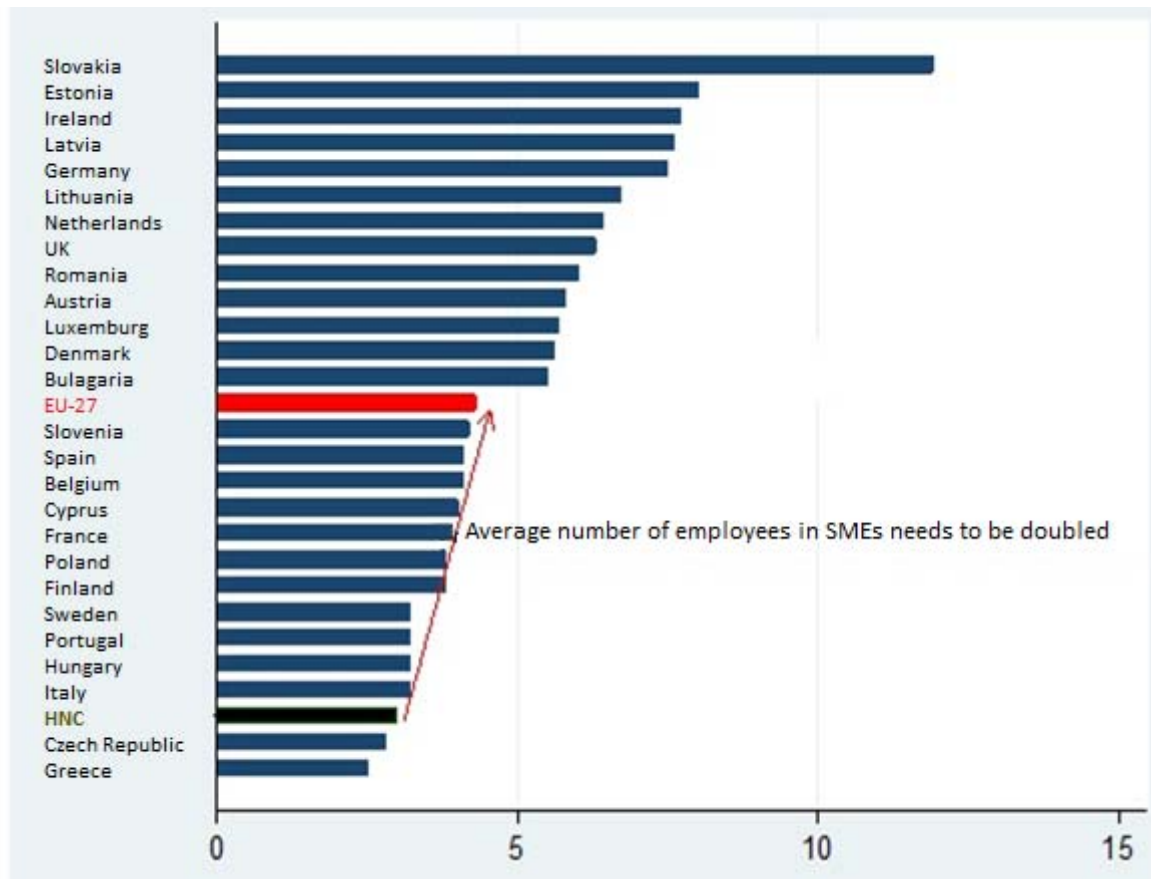


Source: Schmiemann (2008) for EU, and HNC Ministry of Economy for HNC

HNC has got 29,1 active SMEs (companies and crafts) per 1000 inhabitants, which is by 27,1% below the EU average, and which is at the level of the Baltic EU member countries.

SMEs in HNC are, viewed from the standpoint of employment volume, micro enterprises (SMEs employing fewer than 10 persons), which employ 3 persons on the average. In EU-27 countries SMEs are also micro enterprises, but they employ 4,3 persons on the average, i.e. 43,3% more. EU-27 member countries have an employment average in SMEs higher than the SME average in HNC, except Greece, whose SMEs employ 2,5 persons on the average, and the Czech Republic whose SMEs employ 2,8 persons.

Graph 7: Average number of employees in SMEs, EU (2005) and HNC (2011)



Source: Schmiemann (2008) for EU and HNC Ministry of Economy for HNC

In the necessary increase of the number of SME, one should, having in mind the huge unemployment and massive inactivity of the population on the one hand and very limited incentive resources on the other, stimulate the establishment of micro enterprises as a pool for creation of gazelles, which have a decisive effect on the employment growth.⁹

As one should facilitate the creation of SMEs, so one should also facilitate the termination of activity for honest entrepreneurs and ensure them a new beginning, all in keeping with the SBA principle. SMEs in BiH stop operating due to the underdeveloped business climate and legal frameworks, to the lack of a real support from the government, to the lack of capital under acceptable conditions and unfair competition. However, newly founded companies stop operating because they were established by inadequately competent owners/operators who had not been adequately prepared to manage the business. Entrepreneurial education both at the regular education level and at the additional training level – seminars and similar forms of education – is far below the needs of practice.¹⁰

Training in business skills and entrepreneurship must be focused on the curricula of all types of education. This will lead to a change in views of entrepreneurship and development of entrepreneurial competences through general and in-service training. This will allow pupils and students to become independent citizens, who can take their destiny into their hands, and

⁹ According to an OECD definition, gazelles are high-growth small and medium enterprises up to 5 years old, which means that a timeframe of the SME Development Strategy covers almost two cycles of their creation.

¹⁰ SME Development Strategy for Bosnia and Herzegovina 2009-2011

who will know how to cooperate with others in launching and developing business ideas. In this way the objective of promoting the development of entrepreneurship will be achieved through creating a foundation for choosing entrepreneurship as one's career. One of the basic objectives of expert training is the ability to act as an independent business person in formal economy.

In the HNC primary education system entrepreneurship is not treated as a separate subject, while in secondary schools it is studied to a certain extent only in commercial schools. Therefore, it is necessary to radically change curricula and so make possible a systemic development of entrepreneurial competences.

As concerns faculties in HNC, the field of entrepreneurship should be defined by legislation and sub-legislation, within the framework set by the Law on Higher Education, the TEMPUS EU framework program. Universities and faculties should work on the introduction of postgraduate studies, as well as of various kinds of shorter seminars for those who are not in position or are not interested in studying within the formal regular programs (SMS BiH 2009-2011).

In order to motivate citizens to become entrepreneurs, it is first of all necessary to develop the awareness of entrepreneurship, especially among specific target groups (rural population, the young, women). Therefore it is necessary to form a **platform for the development of entrepreneurship** that would promote the issues of entrepreneurship development, and lobby in favour of the local and regional entrepreneurship for the purpose of defining clear measures and activities supporting its development. Such a platform would ensure a transfer of good practices and benchmarking of local and regional practices for the purpose of developing best home entrepreneurial practices. Benchmarking and promotion of entrepreneurial practices promote the business environment and the development of entrepreneurship. Furthermore, the platform would also ensure the creation of a basis for a coordinated appearance of HNC stakeholders in relation to:

- joint efforts in the process of defining and implementing legal provisions;
- shaping and implementing public economic policies;
- implementing programs and projects in the field of business environment and local economic development and the like.

Promotion of the development of entrepreneurship will be done through:

- promoting and developing the cooperation between educational institutions and SMEs by including entrepreneurship into the curricula of primary and secondary schools, secondary vocational schools, junior colleges and faculties; by organising seminars in all sorts of educational institutions; support to youth and student companies, etc.);
- benchmarking entrepreneurial practice (for example, by promoting high-growth small and medium-sized enterprises and examples of successful companies, which implement the program of entrepreneurial education in rural areas, youth and student entrepreneurship, social entrepreneurship, etc.);
- stimulating and strengthening the linking up of entrepreneurs into clubs, associations and the like.

According to the results, the average rate of social entrepreneurial activity (SEA) in all 49 GEM countries amounts to 1,8%, ranging from 0,1% to 4,3%. As might be expected, in BiH

the frequency of the early stage of social entrepreneurial activity is low, while the average rate of social entrepreneurial activity is considerably lower than the GEM average.

An increase of the employment rate in Bosnia and Herzegovina can be facilitated by supporting establishment of SMEs, supporting particularly the youth and women through **creating more favourable business environment for the existing domestic and new foreign investors** as well as through development of social entrepreneurship. According to EU experiences, only social entrepreneurship has a capacity to successfully integrate into the labour market unemployed and other vulnerable categories of the population of working age, which makes about 80% of the total number of the unemployed in Bosnia and Herzegovina.

Bearing in mind all the above said, within its first strategic goal DSSME defines the following priority objectives:

- 1. Improvement of cooperation between educational institutions and SMEs;**
- 2. Promotion of best entrepreneurial practices;**
- 3. Initiation of a legal and regulatory framework in accordance with requirements and capacities of SMEs.**

V.2. Strengthening Institutions Offering Support to SMEs

The business infrastructure, which supports the development of small and medium-sized entrepreneurship, includes academic pre-incubation centres, technology transfer centres, research and development centres, innovation centres, business incubators, scientific/technological parks, business zones (zones for companies / zones for crafts), technological centres (in companies) centres of excellency, etc.

At the present stage of business infrastructure development in the HNC, of special importance are business zones, centres of excellence, technological park and export incubator.

It should be kept in mind that there is no universal model of financing a business zone. Each is a specific case depending on the availability of resource, strategy/policy of the respective municipality/canton, the level of interest of the private sector, etc.¹¹ The formation and development of BZs is a medium-term business, calling for year-long efforts. For BZs to bear fruit, they need to be linked to cluster initiatives.

There are no fully built BZs in HNC yet. The present level of completeness amounts to 43% and varies within the 30-59% range (Redah, 2010).

As opposed to BZs that should be developed on the outskirts of urban environments, business accelerators (BA) should be developed in rural areas in order to support rural entrepreneurship. Their aim is to stimulate the foundation and development of sustainable SMEs, by performing the following activities:

- Offering reliable business referrals, information and advice;
- Development of business and computer literacy in distant rural areas;

¹¹ The Czech Republic and Hungary have sped up their industrial development by establishing industrial BZs. In the Czech Republic there are state-owned and private industrial BZs. It has been estimated that for every crown which the government invests in the foundation and development of BZs, the private sector invests 36 crowns into production equipment used in that particular BZ. Industrial BZs in Hungary give 40% of industrial exports and 25% of total industrial production; productivity in industrial BZs is 70% higher than the industrial average, and only 15% below the EU average (OSCE, 2006).

- Provision of on-line resources and organisation of e-events based on the networking with HNC support institutions.

One of BZ integral parts can be an export **incubator (EI)**. EI, economically located within cluster initiatives and physically in BZ, can contribute to the development of HNC export forces. Several functional export incubators contribute to the establishment of an export platform that may constitute a part of an international development corridor, for example Konjic-Ploče. Such coordinated development, based on the networking of home and foreign companies and on “learning by doing”, helps a faster growth of home micro companies into small and medium-sized transnational companies. It is a basis for the increase of the HNC competitiveness in Bosnia and Herzegovina, and for a sustainable job creation.

While solving the “middle income trap”, a current situation in Bosnia and Herzegovina and HNC, when it is impossible to go back (among countries with low income or rather impossible to be a competitor to low wages), or to go forward (among countries with high income, since it is not easy to create high tech products which require highly educated and expensive work force), export incubators may be particularly useful.

When there is a lack of good quality resources it is necessary, for more rational use of them, to jointly mobilize them at certain points. However, even in such case, a lot of effort is necessary to achieve results.

Export incubator is a group of production SMEs operating within a business zone, exclusively designed for a development of production for export, equipped with common physical and business infrastructure and supported by a common services package (starting from lab researches, through joint procurement of inputs, financing and placement of products). An integrated network of the flow of knowledge, skills, goods and services may offer a significant support to establishment and development of the exporting forces in HNC.

Export incubators may support domestic and foreign entrepreneurs, understand the business environment of the country it is located in, improve its communication and develop trust among its members. What makes it even more important is that a research of the internationalisation of industrial companies shows that a socio-cultural distance significantly influences a decision on a manner of entering certain market. Bigger the distance, more companies opt for a contractual rather than an investment mode of entrance. Therefore, export incubators may facilitate overcoming geographical and cultural differences among entrepreneurs in HNC and those coming from other countries, by utilising a “learning by doing” method.

Researches of intercultural relations practised by those entering foreign entrepreneurial operations show that such entrepreneurs value personal characteristics and experiences more than a product, market or financial criteria. They value an entrepreneur’s personality and experience more than his production, market or financial characteristics.

Export incubators may serve as (i) a mechanism simplifying development of export oriented domestic industry and (ii) as a focal point, a platform for foreign companies (companies from EU countries, other countries and companies from non-European countries such as Mediterranean countries), which is useful for penetrating markets of ex-Yugoslav countries, other countries in SEE and Mediterranean countries.

Access to export incubators should be granted to those domestic SMEs which have the following characteristics:

- Exporting potential;
- Innovative potential;
- Potential to attract foreign investors;
- Potential to use new, energy-saving technologies;

- Potential to launch new products.

It would be ideal to have export incubators as an institution established through a partnership between public and private sector. Export incubators could be supported by international and national development agencies, foreign production corporations and leasing companies, domestic banks and other institutions.

Foreign companies could participate by leasing out equipment and providing technical consultancy, particularly in a case when an export incubator is specialised for certain types of production.

Preconditions required to establish a successful export incubator are the following:

- Existence or a possibility to establish a value chain;
- Convenient access to foreign markets (waterways, roads, rail and air),
- Available infrastructure (land, water, sewage, power supply, telecommunications, funds and banks, existing production lines, etc.)
- Available resources,
- Effective “one-stop” administration.

Institutions offering “everything under one roof” support to SMEs could be established and developed as physically separate from business zones/accelerators, however it is much better, if possible, to have them as a part of a business zone/accelerator.

First-stop shop and **one-stop shop** are local support instruments for SMEs, operating in rural and urban areas respectively.

Their purpose is to decrease transaction costs in a communication with municipal and cantonal authorities – a “never-stop labyrinth”, by consolidating a wide variety of contacts with municipal and cantonal authorities into one focal point.

SMEs maintain a number of different contacts with authorities: registration process, taxes, building permits, protection of the environment etc.

Table 20: Models of “everything under one roof” support institutions

	Interactions with the authorities	Support to SMEs' operations
Role of a SME:	SME is a subject	SME is a client
First-stop-shop: a referral and information about institutions and programs is provided under one roof		
One stop-shop: the following services are provided under one roof: <ul style="list-style-type: none"> •Communication with different institutions or a person representing a contact for all institutions •Communication with advisers specialised to provide support for SMEs 	Offering information to SMEs on institutions dealing with: <ul style="list-style-type: none"> • registration • taxes • Building permits • Protection at work • Protection of the environment etc. 	Offering information to SMEs on agencies dealing with: <ul style="list-style-type: none"> • Support for SMEs • Support for export • trainings • Improvement of operations • Research and development • Fiscal incentives and subventions

In a one-stop shop a number of services are offered under one roof, such as: providing information and/or advice on acquiring permits, employing, registration of real estate, getting a loan, protection of investors, all the way to internationalisation of operations, paying taxes, implementation of contracts and, finally, closing a business down.

Improvement of skills, as the main internal limiting factor of a SME development, could be realised by establishing a HNC Training Centre.

SMEs show a lack of knowledge related to e-business and maintaining communication with e-government, therefore it is necessary to encourage SMEs to adopt information and communication technology solutions. Without such skills, it is impossible to develop an internationally competitive economy founded in knowledge.

Considering all of the above, the SME Development Strategy defines the following priority objectives within its strategic goal “Strengthening institutions offering support to SMEs”:

- 1. Establishment and development of business infrastructure;**
- 2. Development of referral, information and consulting services provided as support to SMEs;**
- 3. Improvement of information and communication technology skills in SMEs.**

V.3. Improving SMEs’ Access to Finances

SMEs are persistently and constantly highlighting inappropriate access to capital as one of the main obstacles to their operations and development. On the other hand, availability of capital is one of the main prerequisites for a development of SMEs. Therefore, it is necessary to show more understanding for needs of SMEs and introduce more appropriate instruments.

Financial limitations influence growth and development of SMEs on a global scale. However, because of a low level of development and diversification of the financial sector in Bosnia and Herzegovina and HNC, in comparison with developed economies, gravity of this limitation is much greater in Bosnia and Herzegovina and HNC, than in advanced market based economies. It applies to all companies, no matter their size. Commercial banks dominate in the financial sector in Bosnia and Herzegovina and HNC, with its resources exceeding 80% GDP. As a matter of fact, five big banks, completely controlled by foreign capital, own about 60% of the total resources of the banking system. The banking system is also underdeveloped, since its total savings, which have been collected since 1995, does not exceed the level of two-year inflow of bank-assignments to the country.

Absence of an adequate legal and regulatory framework obstructs even further diversification of the financial system and more versatile access of SMEs to capital. Insurance sector (assets of this sector are estimated to be about 3.2% of GDP) is fragmented. Leasing industry (assets of this sector are valued at 2.4% of GDP) is highly underdeveloped and it is mainly focused at spending as an activity of micro-financial institutions (its assets are valued at 2.5% GDP) which develop at a respectable rate. Resources of risk capital funds, tailored for SMEs, are very rare, and they boil down to one to two funds which have not reached sustainable levels of investment.

Financing, which is concentrated in commercial banks, needs to be diversified quickly. In addition, mobilizing domestic savings through a development of financial institutions and financial products needs to be supported to a greater extent. If not, long term financing and investments will not reach levels required to increase both demand, as one side of the economy, and outputs and employment rate.

Leasing could be a good model for small and medium enterprises which require financing of new technologies. However, leasing companies are setting such rigorous conditions that only a small number of small and medium-sized enterprises are able to acquire it.

A Credit Guarantee Fund, managed by the LiNK, operates in the territory of HNC (and North West Bosnia). CGF supports financing of SMEs in a way to secure a part of loan duties of entrepreneurs and it agrees with banks on lower interest rates for loans granted in this way. CGF has, since 2004, issued 219 guarantees in total value of 5.7 million KM. In this way, 812 jobs have been preserved and 388 new jobs created.

LiNK CGF should be transformed into HNC CGF which would widen the scope and further focus its operations. Such fund would support SMEs developing clusters by issuing guarantees for investment and exporting loans and loans for clusters and training. Also, this fund would support a development of companies and crafts which operate within business accelerators and craft zones as well as a development of self employment in the sector of social entrepreneurship.

While the CGF would support small entrepreneurs and crafts oriented to domestic market, preferably organised within micro-clusters, a Risk Capital Fund (RCF) would support high-growth companies and gazelles which are entering international value chains.

High-growth companies and gazelles require more financial resources and use more external sources of financing than other types of SMEs. On the other hand, high-growth SMEs and gazelles face a number of problems such as: lack of guarantee sources for loans, limited own capital, limited credit history, lack of understanding of bank managers etc.

As the practice of transitional countries shows, it is common for high-growth SMEs and RCF to operate together, particularly in countries with high income. More than 10.000 SMEs receive risk capital in Europe per year.

On the other hand, it is necessary to invest more managerial input into companies operating in transitional economies than in companies operating in market economies. Therefore, a RCF almost always takes hold of a control share in companies in which they invest and they elect at least one manager, usually CEO or a Head of the Steering Board.

Considering all of the above, the SME Development strategy defines the following priority objectives within its strategic goal “Improving access to capital”:

- 1. Improving financing of start-up entrepreneurs;**
- 2. Improving financing of gazelles.**

V.4. Strengthening Competitiveness of SMEs

It is difficult for SMEs to organise its networking on their own for a lack of time, capital, organisational and managerial skills etc. Therefore, policy makers should support clustering.

Clustering is desirable because it lowers costs of a search for markets and inputs, transport costs (for the proximity of partners and better information flow) and because it can contribute to a joint monitoring and coordination. That is why clustering leads to improvements of productivity, cost-effectiveness and profitability.

Clustering is a foundation of incubation of small and medium transnational companies (SMTC), particularly gazelles. Members of clusters should represent the key engine of economy development in HNC. Without its establishment and operations, it is difficult to quickly improve foreign trade instability in HNC. SMTC need to become a driving force of the economy in HNC.

HNC and LSUs need to create environment which attracts international companies, promotes learning/training, transfer of technology, stimulates establishment of SMEs, supports creation and development of supply chains, develops institutions which facilitate

exporting, support operation of RCF and provide a full support to a development of distribution channels to the EU and Mediterranean markets.

Clustering policy needs to support **Marshall** and **Leadership types of clusters**. **Marshall** clusters are micro-clusters which include a group of interconnected companies at the LSU level while **Leadership** clusters represent strong, privately owned companies – leaders of development at the level of HNC which attract small companies from the territory of HNC around themselves.

Clustering policy aspects should be the following:

- Policy of attracting FDI – Foreign Direct Investments (through direct investment certification of the canton);
- Policy of business relations;
- Sector oriented economy policy;
- Scientific and educational policy and training of the workforce;
- Policy of competitiveness and market integration.

It is desirable if cluster initiatives are also founded on FDI. In such case, small and medium domestic companies would cluster around these few foreign strategic investors. That is why it is crucial for cantonal/municipal authorities to support inflow of FDI as much as possible through their policies.

While implementing clustering policies, focused on the Marshall type of clusters, it is necessary to focus at **entrepreneurs with great expectations**¹², and while implementing clustering policies aimed at the Leadership type of clusters, it is necessary to focus at **high-growth companies**¹³.

Development of economy in HNC and a growth of the employment rate need to build up on such high-growth companies. Such companies need to be detected, supported and attracted to business zones and business accelerators through public-private partnership and different business related benefits, connected with other companies, thus, strengthening clusters and value chains.

While supporting development of clusters, selection criteria are the leadership role of a cluster, vision and strategy of a cluster and the impact on the economy of the local administrative units (LSUs) and HNC. Cluster initiatives usually relate to targeted clusters which are in their early stages of development and which have a tendency to develop at a regional or European level.

Improving competitiveness is a challenge for the HNC economy which is composed of isolated companies reminiscent of solitary vessels rather than of a fleet. Key objective of the internationalisation of companies in HNC should be a high-quality result: **reaching foreign markets and foreign currency reserves with a limited number of SMEs**. This requires a large number of start-up companies which should be supported, among other things, by support packages primarily based on organised learning, learning by doing.

Six key players in a cluster initiative should be the following:

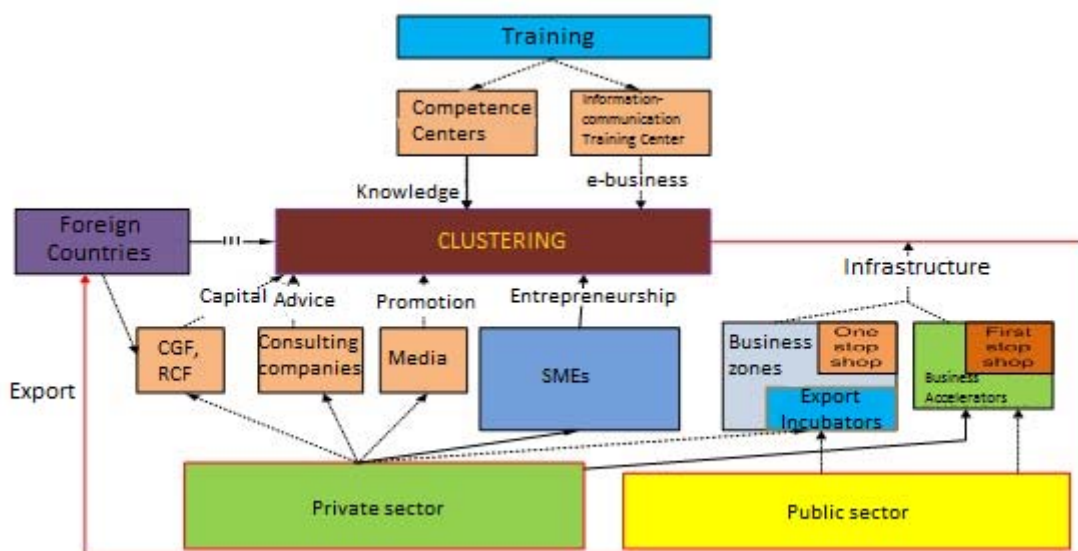
1. Production companies (ascending/descending, up/down a production chain, companies with a common interest, e.g. similar type of the workforce and/or technology etc.; companies providing common service: consulting, legal, business and similar);
2. Financial organisations (RCF, business angels, development banks, etc.);

¹² Emerging and existing entrepreneurs which expect to have over 20 employees in next five years of operations

¹³ Companies which increase the number of employees (or their total revenues) for 20% during a period of at least three years while, during the first year of operation, they have at least 10 (stricter criteria: 20) employees

3. Public institutions (LSU/HNC authorities, agencies dealing with economy, economic development policy and science-technology policy etc.);
4. Universities
5. Organisations for cooperation (civil society organisations, formal and informal networks, foreign development agencies);
6. Media (reporting on cluster initiatives and brands).

Graph 8: A model of a cluster initiative for HNC



Export incubators could offer the following export development services to small companies: market research, long-term consulting services, training, financial resources, quick access to authorities, IT, information and export partners – everything they require. Export incubators may operate as a normal, export friendly environment.

The best way to assist small companies is to offer them a support package at one place relatively isolated from the external influences, such as export incubator located in a business zone. This would facilitate a quick development of small and medium transnational corporations in spite of all obstacles found in their environment.

A claim that small entrepreneurs operate in isolation is valid particularly for small entrepreneurs in Bosnia and Herzegovina and HNC. By supporting them through export incubators it is possible to connect them with foreign small companies using relatively small resources. Export incubators could facilitate establishment and development of a competent exporting cadre.

Export incubators could serve to incubate small and medium transnational corporations in HNC and Bosnia and Herzegovina and other countries, foreign trade companies, staff for exporting companies, shipping agents and other organisations and cores of the future foreign trade networks. This could be achieved through strategic partnerships and joint investments of domestic and foreign companies.

Activities of export incubators may be utilised as a tool to offer guidelines for the HNC authorities, for a research of the economic potentials of HNC, preferences of the business community, directions of development of the industrial portfolio of HNC and to facilitate acquiring ideas about further economic development of HNC, and so on.

It is even more important since Bosnia and Herzegovina and HNC are currently in a “medium income trap”, squeezed between cost and technology competitive countries.

Economic development strategies of the Federation of Bosnia and Herzegovina and HNC need to clearly specify in which areas companies from HNC should be internationally

specialised, or rather in which areas they should **reach technological leadership and develop economies of scope**. Such strategies are still lacking – currently, only initial researches are being conducted which should point optimal directions of HNC development (REDAH, 2011), so it is not easy to profile cluster initiatives and clustering policies which should be utilised since, currently, there are no developed sector policies in HNC.

Technological competitiveness relates to the ability of a successful competitiveness with new products and services. Therefore it is closely related to innovativeness of the economy. If the position of HNC, in regard to the technological competitiveness, is relatively low, it does not have to be low in utilising new technologies.

In order to strengthen competitiveness, HNC needs to move up in the value chain of creating products/services. First of all, it needs to increase **applicative competitiveness** and better utilise the proximity of the EU and Mediterranean markets.

More added value in the production and more sophisticated production, higher the level of its geographical clustering. Industries with a high level of technological content (for example, computers, aircraft components, electrical components) are much more geographically concentrated than automated production (metal industry, machines, equipment, etc.).

Workforce tends to go where it is in abundance, and not where it is rare – as opposed to views of the conventional economical science. Conventional economical science assumes that people would go to places where their skills are rare. But, it is quite opposite in the reality. Educated people search for placements where they can find other people with similar skills. The explanation for this is that educated workers have a benefit of being close to people with a similar level of education.

Inclusion of companies from HNC into international value chains raises standard of clusters. Researches of clusters and global value chains show that the key aspect for such an improvement is **interaction**, stressing that in the case of clusters, interaction with domestic companies and institutions has a crucial role while in the case of global value chains the crucial role is played by interaction with foreign companies and institutions.

A concept of value chains refers to activities related to transformation of raw materials into final products and a sale of such products as well as to added value that has been created in each of these phases. A value chain starts with researches which lead to a development of a product, followed by a purchase of raw materials required for a production of a product, processing of raw materials, pre-assembly of elements, final assembly of a product, distribution, marketing and sales and, finally, post sale services.

Individual companies rarely carry out all of these chain activities. Design, production and marketing of a product make up a chain of activities carried out by a number of companies which are, increasingly, located in different places, very often in different countries. Companies from a number of countries, which are included in a value chain with a global reach, make up a global value chain. The purpose of internationalisation of a company's operations is, eventually, a search for competitive advantages and greater profits.

For the companies from HNC, participation in value chains is an opportunity to get information on different ways and possibilities to improve standards of their operations (creation of better products, more efficient production process or embracing skills of intensive operations) which is necessary in order to secure access to the world market as well as to **maintain and develop the existing niche markets**. This is a basic direction¹⁴ of global operations of companies from small countries with open economy. Winning and maintaining a niche in the global market requires certain standards have been met, in relation to quality, delivery etc, standards required by these markets.

¹⁴ Vizjak, A. (2007) – Champions of niche markets – a perspective of Slovenian companies in the struggle against global competitors. Belgrade: FEFA. (Andrej Vizjak was a Slovenia Minister of Economy in the period 2004-2008).

Activities which could facilitate development of clusters and value chains are the following:

- Supporting development of external economy
 - To form a specialised workforce – establishment of Competence Centres¹⁵
- Promotion of relations between companies
 - Establishment and strengthening of trust among companies,
 - Promotion of joint projects,
 - Establishment and development of business clubs and associations,
 - Improving local offer of financial and non-financial services,
 - Strengthening external connections of clusters,
 - Promotion of innovativeness.
- Strengthening local positions within value chains
 - Attracting chain leaders to clusters,
 - Supporting development of suppliers,
 - Simplifying interactions within a value chain,
 - Promotion of new markets and value chains,
 - Supporting SMEs in reaching international standards

A new model of a local/regional industrial policy, based on the experiences of the “third Italy” and other European countries, shows that development and a dominant role of the knowledge within clusters are not a result of accidental synergies but rather of a support to a development of innovation driven companies through a development of networks of private and public subjects which:

- Promote assigning of functions to a number of state and non-state institutions,
- Operate through institutions located in a vicinity of the companies,
- Expand the care for entrepreneurship from private to public sector,
- Promote self-help through business associations and consortiums of producers.

Strengthening of a position of domestic companies and clusters within value chains calls for the following efforts:

- Attracting chain leaders to clusters,
- Supporting development of suppliers,
- Simplifying interactions within a value chain,
- Promotion of new markets and value chains,
- Supporting SMEs in reaching international standards.

It is easy to determine the level of effectiveness of this type of competitiveness improvement. A success test is the exporting performance – or more exactly, increase of the competitiveness abroad, added value and sales in foreign markets and, finally, retention of the existing and creation of new jobs.

¹⁵ Encouraging companies to locate in a vicinity of educated workforce which grants savings on external factors through a decrease of the operating costs

Considering all of the above, the SME Development Strategy defines the following priority objectives within its strategic goal “Strengthening competitiveness of SMEs”:

- 1. Improving relations between SMEs;**
- 2. Support to internationalisation of SMEs.**

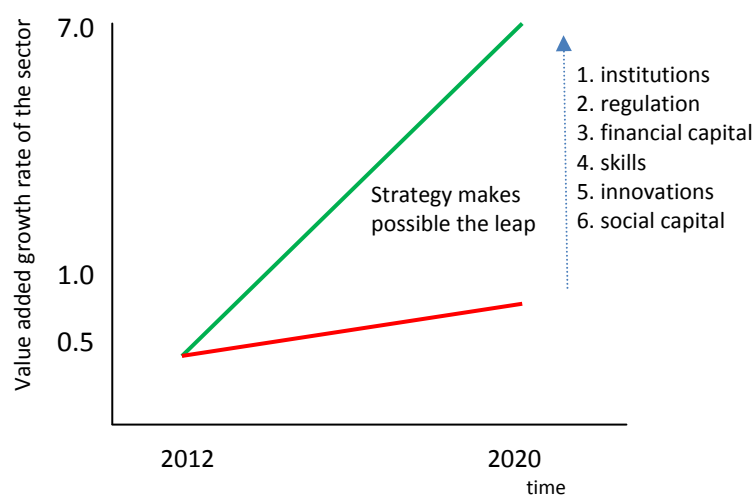
VI. FRAMEWORK ACTION PLAN

The basic purpose of the SME Development Strategy in HNC 2012-2020, is to familiarise SMEs and the publicity with how the HNC Government is going to support the SME sector journey from “here” to “there”, that is, how the Government is going to change the present situation in the Canton regarding SMEs so that by 2020 it may become the best region for entrepreneurs in BiH. To put it most simply, DSSME tells what tools the Government is going to use in order to realise the vision of SMEs’ development. Prepared jointly with SME representatives and their associations, DSSME can become a credible document and a safe guide for SMEs. When the road the Government is following is known in advance and when SMEs accept it with confidence, the risks of SMEs’ operations are reduced (which is the basic purpose of every strategy). This encourages the existing entrepreneurs to invest into growth and development, and prospective entrepreneurs to follow suit and found their enterprises or crafts.

The encouragement of existing and potential entrepreneurs is done on the basis of a clear framework action plan and annual plans for DSSME implementation, which identify the activities to be undertaken through the introduction of new institutions and instruments of support to SMEs, improvement and development of the institutional-regulatory framework of SME operations, introduction of new forms of education and training, supporting establishment and development of SMEs by certain amounts of capital, backing the innovation of products and production processes, as well as through joining small and medium-sized entrepreneurs into networked associations.

In the process, the HNC Government and the Ministry of Economy will be acting within the limits of their competences independently, and in cooperation with other bodies of BiH authorities in cases of shared responsibility.

Graph 9: Basic kinds of public support to SME development



The public sector, or more exactly the HNC government bodies, will act as partners with the private sector, i.e. with SMEs, as well as with the organisations of the civil society, all for the purpose of contributing to the development of the entrepreneurial sector, and consequently to the HNC economy in general.

Table 21: Strategic goal 1: Promoting development of entrepreneurship

	Activity	Result	Source of verification	Competence	Time framework
1.1.	Priority objective 1: Improvement of cooperation between educational institutions and SMEs				
	<i>Task: To increase the number of those potentially interested in entrepreneurship</i>				
1.1.1.	Develop entrepreneurial competences in primary and secondary schools, vocational schools, junior colleges and faculties	Acquired basic and advanced entrepreneurial competences	Approved curricula	Ministry of Education, ME, SME, CDC, CSO	2012.-2013.
1.1.2.	Increase the number of students having practice in SMEs	Acquiring basic practical entrepreneurial competences	Certificates of internal practice	Ministry of Education, ME, CDC, SME, CSO	2012.-2020.
1.1.3.	Support development of business incubators in secondary and higher schools	Acquiring practical entrepreneurial competences	Registered youth and student companies/ crafts	Ministry of Education, ME, CDC, SME, schools, faculties,	2012.-2020.
1.1.4.	Support development of mentor schemes for start-up entrepreneurs	Number of prepared business plans of start-up entrepreneurs	CSO	ME, CDC, CSO, EO, SME,	2012.-2020.
1.2.	Priority objective 2: Promotion of best entrepreneurial practices				
	<i>Task: Identify growth problems of high-growth SMEs</i>				
1.2.1.	Make databases of HNC SMEs and update them regularly	<ul style="list-style-type: none"> • Established number of total and active SMEs • Established annual number of new and closed down SMEs • Established number of SME employees • Established value added of the SME sector • Established list of high-growth SMEs • Established list of gazelles 	Web site ME	CDC, ME, SME, Federal Bureau for Statistics, EO, CSO	2012.-2020. (half-year)

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1.2.2.	Make a selection of gazelles	Identified main growth problems of high-growth SMEs and possible solutions	Web site ME	CDC, ME, EO, CSO	2012.-2020.
1.3.	Priority objective 3: Initiation of a legal and regulatory framework in accordance with requirements and capacities of SMEs				
	<i>Task: Initiate at the federal level a reduction of procedures, time and costs of foundation, development and liquidation of SMEs</i>				
1.3.1.	Make an analysis of registration of companies/crafts/cooperatives	Determine procedures, time and costs of coming into being of an enterprise	Web site ME	CDC, ME, SME, CSO MJALS	2012.
1.3.2.	Prepare a proposal of amendments to the Law on Company Registration	Percentage of laws and other regulations declared null and void or amended	Decisions published in FBiH Official Gazette	ME, MJALS	2013.
1.3.3.	Make an analysis of termination of an enterprise/craft/cooperative	Determine procedures, time and costs of termination of an enterprise	Web site ME	CDC, ME, SME, MJALS, MF, CSO	2012.
1.3.4.	Prepare a proposal for law amendments	Percentage of regulations declared null and void or amended	Decisions published in FBiH Official Gazette	CDC, ME, MJALS	2013.
1.3.5.	Initiate reform of court proceedings regarding SME commercial disputes	Percentage of regulations declared null and void or amended	Decisions published in FBiH Official Gazette	CDC, ME, MJALS	2012.
1.3.6.	Analysis of taxation and quasi-taxation in SME business operations	Determine the amount of total taxation and quasi taxation in SME business operations in the HNC and as per its municipalities	Web site ME, LiNK, LSU	ME, MF, MJALS, LSU	2012.
1.3.7.	Prepare a proposal for changes of decisions and regulations relative to taxation and quasi-taxation, and for their reduction	Percentage of regulations declared null and void or amended	Published in official Gazettes	ME, MF, MJALS municipal bodies, CSO	2012.-2013.

Table 22: Strategic goal 2: Strengthening institutions offering support to SMEs

	Activity	Result	Source of verification	Competence	Time framework
2.1.	Priority objective 1: Form CIC (Cantonal Info Centre)				
	<i>Task: Transform the branch of the Regional Info Centre (RIC) into CIC (Cantonal Info Centre)</i>				
2.1.1.	Prepare a feasibility study for transforming the RIC branch into CIC	Expert proposal based on consulting SMEs	Study and web site ME	CDC, ME, CSO, SME	2012.
2.1.2.	(in case of a positive proposal) prepare an operational plan of transformation	Operational plan of transformation	HNC Government's decision	ME, HNC Government	2012.
2.2.	Priority objective 2: Support the development of business infrastructure				
	<i>Task: Establish the institutions of business infrastructure</i>				
2.2.1.	Prepare an analysis of the needs for business accelerators	Locations for business accelerators in every LSU determined	Web sites LSU and ME	LSU, CDC, ME, CSO	2012.-2013.
2.2.2.	Mobilisation of partners in the public and private sector and civil society	Forming partnership between the public and private sector for building business accelerators	Contract	LSU, SME, CSO	2013.
2.2.3.	Translation of operational plans	Business accelerators built	Registered accelerators	LSU, SME, CSO	2014.-2015.
2.2.4.	Prepare an analysis of the need for an export incubator	Locations for export incubators in every LSU determined	Web sites LSU and ME	LSU, CDC, ME	2015.
2.2.5.	Mobilisation of partners in the public and private sector and civil society (companies, banks, funds, universities, etc.)	Forming partnership between the public and private sector for building export incubators	Contract	LSU, ME, SME, CSO, financial institutions, foreign development agencies	2015.-2017.

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2.2.6.	Implementation of operational plans	Export incubators built	Export incubators registered	LSU, ME, SME, CSO, financial institutions, foreign development agencies	2018.-2020.
2.2.7.	Prepare an action plan for building HNC business zone	Action plan determined (on the basis of a study by REDAH)	Web sites LSU and ME	LSU, CDC, ME, LiNK, REDAH	2012.-2013.
2.2.8.	Mobilisation of partners in the public and private sector and civil society (companies, banks, funds, universities, etc.)	Forming partnership between the public and private sector for building business zones	Contract	LSU, SME, CSO, LiNK	2013.-2014.
2.2.9.	Implementation of operational plans	Business zones built	BZs registered	LSU, ME, LiNK, REDAH	2015.-2017.
2.3.	Priority objective 3: Development of referral, information and consulting services provided as support to SMEs				
	<i>Task: Establish first-stop shops in business accelerators and one-stop-shops in business zones</i>				
2.3.1.	Prepare a feasibility study and business plan for first-stop shops in business accelerators	Operational plan for building first-stop shops	Web sites LSU, ME	LSU, ME, SME, CDC, REDAH, CSO	2014.
2.3.2.	Implement operational plans for building	First-stop shop established	First-stop shops registered	LSU, ME, MF	2015.
2.3.3.	Prepare a feasibility study and business plan for one-stop shops	Operational plan of building one-stop shops	Web sites LSU, ME	LSU, ME, SME, CDC, CSO	2014.
2.3.4.	Implement operational plans for building	One-stop shops established	One-stop shops registered	LSU, ME, MF, CSO	2015.
2.3.5.	Develop an integral voucher scheme of advisory services	Scheme developed	HNC Government's decision	CDC, ME, MF, REDAH	2012.-2013.

2.4.	Priority objective 4: Improvement of information and communication technology skills in SMEs				
	Task: Establish HNC IC training centre				
2.4.1.	Prepare a feasibility study and business plan for IC training centre	Operational plan for building IC TC	Web sites ME and LiNK	CDC, ME, SME, CSO, HNC Employment Office	2013.
2.4.2.	Mobilisation of partners in the public and private sector and civil society (companies, banks, funds, universities, etc.)	Forming the public/private partnership for building IC TC	Contract on PPP for IC TC	CDC, ME, MF, SME, CSO, HNC Employment Office	2014.
2.4.3.	Implement operational plans for building	IC TC established	IC TC registered	ME, MF	2015.

Table 23: Strategic goal 3: Improving SMEs' access to finances

	Activity	Result	Source of verification	Competence	Time framework
3.1	Priority objective 1: Improving financing of start-up entrepreneurs				
	<i>Task: Form HNC development fund</i>				
3.1.1.	Prepare an analysis of the activity of the LiNK credit guarantee fund	The potential volume of financing start-up entrepreneurs defined	Web site ME	CDC, ME, SME, MJALS, LiNK	2013.
3.1.2.	Prepare a feasibility study and business plan for the transformation of the LiNK credit guarantee fund into HNC GF	Operational plan of transformation	Web site ME	CDC, ME, MF, SME, MJALS, CSO, LiNK	2014.
3.1.3.	Implementation of the operational plan of transformation	Law on HNC GF	Decision published in HNC Official Gazette	CDC, ME, MF, MJALS, LiNK, HNC Assembly	2015.
3.1.4.	Implementation of the operational plan for GF establishment	GF established	GF registered	CDC, ME, MF, HNC Assembly, LiNK	2020.
3.2.	Priority objective 2: Improving financing of gazelles				
	<i>Task: Form HNC risk capital fund</i>				
3.2.1.	Prepare an analysis of the needs, a feasibility study and business plan for the establishment of a risk capital fund (RCF)	Operational plan for RCF establishment	Web site ME	CDC, ME, SME, MJALS, CSO, LSU	2017.
3.2.2.	Mobilisation of partners in the public and private sector and civil society	Forming the public/private partnership for RCF establishment	Contract for RCF establishment	CDC, ME, MJALS, LSU	2018.-2019.

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3.2.3.	Implementation of the operational plan for RCF establishment	Law on HNC RCF	Decision published in HNC Official Gazette	CDC, ME, MF, MJALS, LiNK, HNC Assembly, LSU	2018.
3.2.4.	Implementation of the operational plan for establishment	RCF formed	RCF registered	CDC, ME, MF, MJALS, HNC Assembly, LSU	2020.
3.2.5.	Formation of a revolving credit line for SMEs for financing existing SMEs and gazelles	Revolving credit line for SMEs formed	Contract with the selected bank	ME, MJALS	2012.-2013.
3.2.6.	Support to employment in gazelles	Training for potential employment in gazelles	PIO records	CDC, ME, EO, CSO	2018.-2020.

Table 24: Strategic goal 4: Strengthening competitiveness of SMEs

	Activity	Result	Source of verification	Competence	Time framework
4.1.	Priority objective 1: Improvement of SME cluster connection				
	<i>Task: Support micro cluster initiatives</i>				
4.1.1.	Support the linking of SMEs	Local clubs of entrepreneurs formed	Web site ME	CDC, ME, CSO, SME	2012.
4.1.2	Cluster mapping	Clusters identified	Research study	CDC, ME, LSU, SME, CSO	2013.
4.1.3.	Invite tenders for support to micro clusters with GF funds, ME grant funds and donors	Potentially best micro clusters in every LSU selected	Tender and tender results published	ME	2014.-2020.
4.2.	Priority objective 2: Support to the integration of SMEs into international value chains				
	<i>Task: Facilitate transfer and development of technology</i>				
4.2.1.	Prepare a feasibility study and business plan for competence centres (CC)	Operational plan for CC establishment (a group of individuals having the knowledge that can support micro cluster development)	Web sites LSU, ME	LSU, ME, CDC, SME, CSO	2014.
4.2.2.	Mobilisation of partners in the public and private sector and civil society (faculties, schools, etc.)	Forming the public/private partnership for CC establishment	Contract for CC establishment	CDC, ME, SME, CSO	2015.
4.2.3.	Implement the operational plan for building CC	CC establishment	CC registered	LSU, ME, MF, CSO	2016.
4.2.4.	Prepare a feasibility study and business plan for a technological park (TP)	Operational plan for building TP	ME	CDC, ME, CSO, SME	2017.

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4.2.5.	Mobilisation of partners in the public and private sector and civil society (companies, banks, funds, universities, etc.)	Forming the public/private partnership for building a TP	Contract for TP establishment	CDC, ME, MJALS	2018.-2019.
4.2.6.	Implement the operational plan for building TP	TP established	TP registered	CDC, ME, MF	2020.

VII. MONITORING AND EVALUATION SYSTEM

VII.1. Formation of a Competitiveness and Development Council

For the purpose of a best possible execution of DSSME, the HNC Government will form a Competitiveness and Development Council (CDC), as its own standing advisory body.

VII.2. Composition of the Competitiveness and Development Council

CDC will have 29 members and be composed of the representatives of the public sector, private sector and civilian society as follows:

- **From the public sector - 16 representatives, namely:**
 - Local self-government unit: 9 representatives
 - HNC Ministry of Justice: 1 representative
 - Federal Ministry of Development, Entrepreneurship and Crafts: 1 representative
 - HNC Ministry of Education, Science and Sports: 1 representative
 - HNC Ministry of Finance: 1 representative
 - HNC Ministry of Justice, Administration and Local Self-Government: 1 representative
 - Federal Bureau for Statistics: 1 representative
 - HNC Employment Office: 1 representative
- **From the private sector - 9 representatives, namely:**
 - Representatives of companies from 9 LSUs: 9 representatives
- **From the civilian society - 4 representatives, namely:**
 - LiNK: 1 representative
 - REDAH: 1 representative
 - HNC Chamber of Commerce: 1 representative
 - HNC Chamber of Trades and Crafts: 1 representative

In this way, through a transparent process of dialogue and partnership, synergy is realised and a basis created for the evaluation of the realisation of individual projects of support to the advancement of SMEs and clustering, and/or to the SME competitiveness and innovation, and guidelines given for the preparation of medium-term and annual plans of the HNC Ministry of Economy and Government.

This strengthens institutional capacities for an efficient implementation of the SME Development Strategy 2012–2020, strengthens the coordination of responsible institutions in implementing other strategic development documents having an effect on SME development, contributes to the implementation of the principle of the Small Business Act and creates conditions for strengthening the dialogue of the public sector, private sector and civilian society.

VII.3. The Task of the Competitiveness and Development Council

Since donors' support constitutes one of the pillars for an efficient realisation of the SME sector development policy, CDC will be developing partner relations with donors as well, and

endeavour that, with the realisation of projects, the effects in the function of systemic reform of the SME support and approach to EU may be realised. In this connection, it will make efforts to ensure the necessary coordination of different donors' projects in order to ensure full efficiency and avoid overlapping in individual activities.

The methodology of preparing the Strategy included the research and analysis of relevant data and documents, public consultations of the public, private and NGO sectors, individual alignments with the representatives of the competent institutions, individual SMEs and their business associations, as well as with the representatives of international communities present in the HNC.

CDC will stimulate the establishment and development of CDCs at the LSU level and thereby contribute to further advancement of support to SMEs at local levels, and endeavour to establish the closest possible cooperation with the respective bodies of the Federal Ministry of Development, Entrepreneurship and Crafts.

VII.3.1. Connecting Developmental and Budgetary Planning and Preparation of Annual Plans

Annual plans of implementing the Small Business Development Program and the DSSME find their foothold in the Cantonal Law on Incentives to Small Business and Protection of Traditional Activities (Crafts), in the four-year programs of the HNC Government for small business development.

The mapping out of annual plans for the implementation of the Small Business Development Program and DSSME is for the purpose of realising these documents, and/or of connecting the developmental planning process with the budgetary planning process. Annual budgets of all agents of development of HNC small business have to be linked with the HNC developmental planning, and also with the SME development planning.

The annual plan of implementing the Small Business Development Program and DSSME has its financial part and non-financial part, which comprises the activities related to the institutional/regulatory framework and other activities. When drawing up the annual plan, all legal agents of HNC small business development and CDC members propose their annual plans and activities, as well as projects, with the amounts and sources of financing, which will be integrated into the Annual Plan of Implementation of Small Business Development Program and DSSME for the respective year.

The financial framework of annual plans is based on:

- Allocated budget funds of all economic development agents in HNC;
- EU pre-accession funds;
- Donors' funds realised through CSO and other organisations;
- Funds provided through public-public partnership, primarily with BiH government authorities (federal and cantonal ones), as well as with the Dubrovnik-Neretva County;
- Funds provided through the partnership with the private sector on the project principle;
- Resources realised through the operation of HNC funds.

On the basis of the financial resources available, budgets for individual strategic projects are drawn up, as parts of the Annual Plan of Implementation of Small Business Development Program and DSSME.

The coordinator of the CDC work and the linchpin of expert activities on the drawing up of annual plans is LiNK, which is at the same time the main linchpin of the activities of the HNC Government Implementation Unit for the preparation and monitoring of the Strategy Development and HNC Action Plans.

Once the CDC has committed itself, LiNK will prepare a proposal of the Annual Plan for the current year and submit it to the HNC Ministry of economy, which will forward it to the HNC Government for adoption.

VII.3.2. Monitoring Annual Plans and Reports

CDC will half-yearly monitor the realisation of the Annual Plan, and send its standpoints and conclusions in the form of reports, through LiNK, to the HNC Ministry of economy, in order to ensure full involvement of the key factors in the realisation of the DSSME strategic and operative objectives.

It is on these bases that corrective measures, if need be, would be proposed and implemented in order to ensure in the most effective way the implementation of SME policy.

Within the process of association with EU and the obligation to adhere to the SBA principle, the CDC will also give its views of the **annual report on the implementation of the SBA principle, which will make a separate part of the Annual Plan** of Implementation of Small Business Development Program and DSSME. In this way, the progress in harmonising the HNC small and medium-sized entrepreneurship policy with the SME policy in EU will be assessed, and the comparison with the realisation within the West Balkans made.

VII.3.3. Defining Statistic Indicators, Forming Databases, and Polling

Quality, reliable and updated statistic data, brought into line with EUROSTAT and OECD methodology and standards, constitute a precondition for policies based on facts. Such policies require efficient management, observation and evaluation of the effects of the created and implemented measures of support to SME sector.

Considering the necessity of a quantitative definition of the Strategy results, it should be noted that at this moment the HNC statistics does not possess a broad spectrum of reliable data on the basis of which one could monitor the realisation of a broader set of results.

That is why the development of SME statistics will be oriented to the development of opinion polls involving HNC employment and employers in order to develop adequate indicators of employment, value added, and exports of the SME sector.

The creators of SME policy are well aware of the lack of precise, timely and quality data in the HNC statistics about the SME sector, so they will undertake activities to improve these data, and ensure adequate indicators for monitoring the goals and processes of the SME sector development.

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*** **BiH Development Strategy for Small and Medium-Sized Enterprises 2009-2011**.

*** **FBiH Development Strategy for Small and Medium-Sized Entrepreneurship 2009-2018**.

ANNEXES

Table 25:

List of Coordinating Board members for preparing HNC Development Strategy for Small and Medium-Sized Entrepreneurship 2012-2020

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