

ENHANCING ENTREPRENEURSHIP DEVELOPMENT IN BOSNIA AND HERZEGOVINA THROUGH ADEQUATE GOVERNMENTAL FINANCIAL SUPPORT

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Entrepreneurship and SME sector is extremely important for general economic development in Bosnia and Herzegovina. In order to enhance further development of the SME sector adequate sources of financing for businesses need to be available and accessible. Entrepreneurs and owners of small and medium businesses in Bosnia and Herzegovina are facing certain challenges in obtaining finances. The issue of accessing sources of finance for SMEs in this country has remained problematic for years. Many relevant studies worldwide emphasise the importance of adequate sources of financing entrepreneurship and SME development. However, a variety of factors influence financing of SMEs depending on the region, economic development, development of financial markets etc. In this paper the authors are addressing the problem of financing SMEs focusing on the governmental support, with emphasis on Bosnia and Herzegovina. The main aim of the paper is to provide an answer to the question whether the government support in Bosnia and Herzegovina enables SMEs to access initial financing, needed for their entrepreneurial activity. The paper presents results of an empirical research conducted among managers of SMEs in Bosnia and Herzegovina in regards to availability and adequacy of financial products for these businesses. The results indicate that entrepreneurs in B&H rarely use government funds as a source of financing business activities, which is mostly caused by insufficient funds and inefficient government procedures.

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1. THEORETICAL BACKGROUND OF THE RESEARCH

The problem of financing entrepreneurial activity is probably as old as this activity itself. Many businesses fail due to problems in financing. Mostly, early stage businesses are in need of start-up capital.

Literature on financing entrepreneurial activity recognises two main sources of financing entrepreneurial activity: personal resources and financing from external resources. There are numerous factors which influence the use of these sources of financing (e.g. stage of development, age, entrepreneur's gender, development of financial markets etc). Sherman (2005) found that in the initial phase of business development entrepreneurs mostly use personal funds, or rely on government funds.

Early stage funding of entrepreneurial activity in the Western Balkan countries is influenced by a number of market failures which are considered to be major obstacles for further entrepreneurship development in this region. Even though the Balkan region has an emerging start-up scene the governments are not sufficiently supporting their development. Government support for entrepreneurs in early stages of entrepreneurial activity is of great importance because most of these businesses are not eligible to apply for commercial bank loans due to formal, and strict procedures, as well as a high risk which is related to the early stages of business operations. In most cases banks are unwilling to consider giving loans to start-ups, which are mostly in need of new capital in order to finance their further growth or even in need of initial capital in order to start a business. According to Aktekin & Sohl (2011), searching for capital for entrepreneurs is a time consuming process that can have serious effects on survival of the business and its growth. Cassar (2004) claims that early stage external funding is important and critical in the early stage of the venture's existence.

Lerner (2009) stated that governments have a positive role in "*kick-starting entrepreneurship*" and their funding is important, especially in times of crisis, because entrepreneurship is a business with increased returns. Even though the general entrepreneurial climate is important, it is equally important that governments "*intervene directly in the entrepreneurial process*" through fund allocation. Vanacker and Deloof (2013) believe it was the financial crisis which began around 2008 that turned the focus of researchers towards financing and

success of business start-ups. Availability of financing for SMEs has also been determined as important for their growth and development (Ou, Haynes, 2006; Cook, 2001). Specific financing strategies are required especially during the start-up phase due to the lack of trading history or higher risks (Berger & Udell, 1998; Cessar, 2004; Huyghebert & Van de Gucht, 2007). However, some authors agree that financing of start-ups cannot be standardized and that the life-cycle/financing approach is not applicable to all SMEs in all industries and of all sizes (Abdulsaleh & Worthington, 2013; Gregory et al., 2005; Berger & Udell, 1998). These findings, however, are opposite to the presumptions of Myer's (1984) pecking-order theory suggesting that internal sources of financing are prioritised during early stages of firm's existence wherein external sources are being considered afterwards. On the other hand, other empirical studies like Abdulsaleh & Worthington (2013), Gregory et al. (2005) led to conclusions that older businesses rely more on internal financing due to the fact that they can accumulate earnings and that internal funds are mostly available for their business operations. A recent OECD study (2015) claims that broadening financing options which are available and accessible to SMEs is a key challenge for policy makers in the quest for fostering their development.

Different and often contradictory results of various empirical studies indicate that more scientific attention should be directed towards researching this area. Generally speaking, financing sources of start-ups are determined mostly by the age and size of the business, development stage of financial markets, governmental policies, and financial support for entrepreneurs. Abdulsaleh & Worthington (2013) argue that entrepreneurship and SMEs are important for economic development, access to external finances is crucial in achieving economic development goals, and government programs and incentives aiming to ease access to financing are of great importance. Mensah (2004), Boocock & Shaffiff (2005), and Klyev (2008) are of the belief that grants, subsidies, and guarantee schemes implemented by governments provide necessary financial support to entrepreneurs especially in the early stages.

2. REVIEW OF EMPIRICAL STUDIES ON FINANCING OF START-UPS

Securing sufficient finances is very important for a business in its early stages. In accessing adequate finances start-ups face numerous challenges. Some studies support the thesis that start-ups mostly rely on personal sources of financing (Berger & Udell, 1998; Storey, 1994; Klapper et al., 2002). These findings have also been confirmed by Global Entrepreneurship Monitor (GEM

research). The following table shows the major sources of financing for start-ups according to GEM data 2012-2014.

Table 1. Major sources of finance (GEM 2012-2014)

Source	18-24 years	25-34 years	35-64 years
Personal savings	51%	52%	52%
Family savings	22%	18%	15%
Bank or other financial institutions	19%	23%	25%
Friends	3%	3%	3%
Other sources of financing	5%	5%	5%

Source: GEM 2015 Youth Report (<http://www.gemconsortium.org/report>).

Most entrepreneurs rely on their personal savings to finance their business activity, wherein other sources of financing (such as government funds, subsidies or grants) are rarely a source of financing. Based on the GEM data for B&H it can be concluded that access to adequate finance has been more of an obstacle than a facilitator of SME development. As can be concluded from this research data SMEs are using mostly traditional external sources of financing (such as commercial bank loans). Government subsidies or other so called non-traditional sources of financing are rarely chosen. The GEM research measures attitudes of SMEs towards financial support. Entrepreneurial finance is considered to be one of the key entrepreneurial framework conditions. According to Gem methodology the availability of financial resources (equity and debt) and government grants and subsidies are crucial for SMEs. In the following table we present the GEM scores regarding the main indicator „Finance“ of the Entrepreneurship framework conditions approach for Bosnia and Herzegovina, EU, and non-EU countries.

Table 2. Entrepreneurship framework conditions (EFC): Main indicator „Finance“

EFC	2014		
Finance	Non-EU average	B&H	EU Average
	2.43	2.29	2.68
	2013		
	2.5	2.20	2.6

Source: GEM Global Reports 2013- 2014 (<http://gemconsortium.org/report>).

The scores for B&H are below regional averages. Even though a slight improvement is evident from 2013 to 2014, the scores are still far below the

maximum score of 5. This data indicates that access to finance is still a major obstacle in creating a favourable environment for the development of entrepreneurship. Further analysis of the data for this indicator of the EFC for B&H is presented in Table 3.

For the purpose of further comparison, we analysed institutional framework for entrepreneurship development in terms of financing start-ups and entrepreneurs. Samardžija and Živković (2005) concluded that several factors represent main obstacles for entrepreneurship, one of these being access to financing (loans, credit information, etc). According to the results of other relevant research a decline of entrepreneurial activity is evident during lifecycle phases in B&H and government policies and incentives and programmes are inadequate, insufficient and inefficient. When it comes to institutional and regulatory framework for entrepreneurship and SME development in B&H the country's constitutional structure must be taken into consideration.

Government policies are implemented at multiple levels (state, entity, canton, and municipality), which has a negative influence on coherent and transparent implementation of development policies and government support measures. This institutional framework creates confusion among entrepreneurs and potential entrepreneurs due to the lack of adequate information and possibilities for accessing government financial support for entrepreneurs. Differences in governmental support programs between entities are also evident.

Currently, in Federation B&H approximately 2% (around 4 million EUR) of the federal budget is spent on incentives by Federal Ministry of development, entrepreneurship and trade in form of grants and co-financing of loans and approximately 100 million EUR are granted by the Federal Development Bank. In the Republic of Srpska (RS), entrepreneurship policies and incentives are within the jurisdiction of the Ministry of industry, energy and mining.

The Ministry, the Agency for SME development and the Development bank of RS manage a total of approximately 900 million EUR in granted funds and loans, of which 14 million EUR have been granted in the period 2008-2010 for initial entrepreneurial activity. However, given the current statistical data, presented international studies and other empirical studies, it is highly questionable how the effects of the granted funds are measured and whether these programs really have a positive impact on entrepreneurial development and activity in general because according to legal requirements start-ups are mostly not eligible to apply for these funds in B&H.

Table 3. Scores for EFC indicator „finance“ for B&H 2008-2013

Finance	Bosnia and Herzegovina					
	2008	2009	2010	2011	2012	2013
<i>There are sufficient personal sources of finance for new and growing businesses.</i>	2.43	2.33	3.20	2.39	2.31	2.14
<i>There are sufficient debt sources for new and growing businesses.</i>	2.78	2.56	2.79	2.81	2.86	2.69
<i>There are sufficient governmental support measures for new and growing businesses.</i>	1.92	1.89	2.11	1.89	2.20	2.31
<i>Private sources (other than owners') are an important sources of financial support to new and growing businesses.</i>	2.03	2.08	2.34	2.63	2.89	2.45
<i>There are sufficient risk capital funds for new and growing businesses.</i>	1.97	1.61	1.84	1.86	1.87	1.81

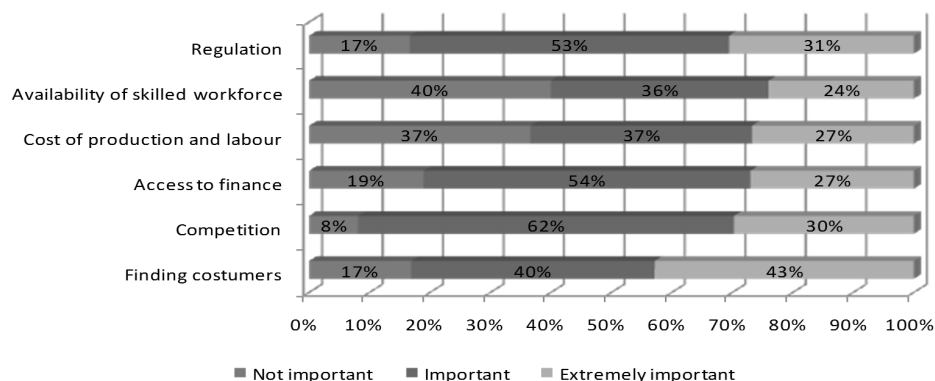
Source: National Expert Survey (NES) 2008-2013, GEM research.

Generally speaking, based on the presented results, the lack of sufficient access to finance and financial support for entrepreneurs and SMEs in B&H has been identified as an obstacle for further entrepreneurship development in this country. Availability of personal savings, as well as access to credits was lower in 2013 than in the previous years. Compared to the previous years, the scores in 2013 decreased in all of the components except for the government support which indicates a slight improvement from 1.89 in 2011 to 2.31 in 2013.

This can be explained by the measures and funds, which were established by the B&H governments, even though effects of these funds are still to be assessed. A study by Kokorović Jukan and Kozarević (2014) has been conducted on 100 SMEs in B&H.

As demonstrated by Figure 1, 81% of respondents indicated that access to finances is of importance to their businesses. In the same study, the respondents indicated that 41% of them have not used grants in the past year and as much as 49% of respondents had never used grants as a possible source of financing the business.

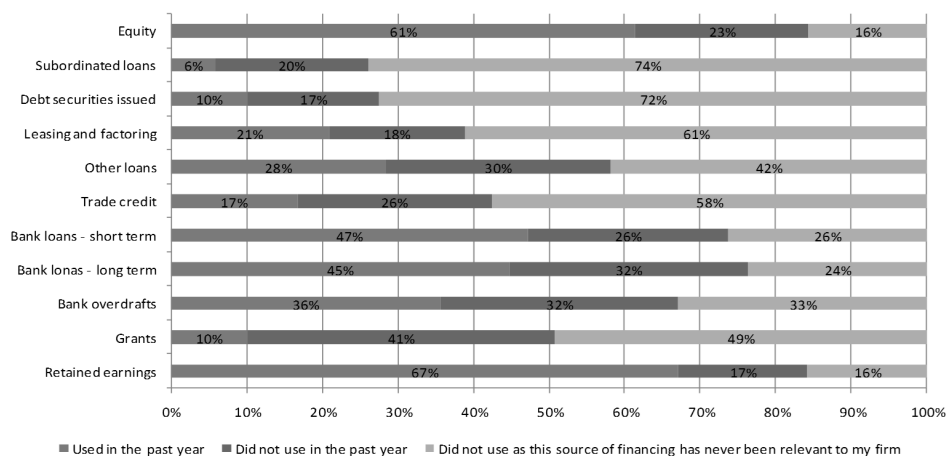
Figure 1. Most important problems faced by SMEs in B&H



Source: Kokorović Jukan M., Kozarević E., (2014), Comparative Survey of the Small and Medium Enterprises' Access to Finance in The European Union and Bosnia and Herzegovina, 3rd REDETE scientific Conference (<http://www.redete.org/doc/conference-proceedings-2014.pdf>).

As confirmed by other research studies, the majority of respondents indicated that the main source of financing was internal financing from retained earnings, followed by equity financing and external source short-term and long-term bank loans (see Figure 2).

Figure 2. Sources of financing of SMEs in B&H



Source: Kokorović Jukan M., Kozarević E., (2014), Comparative Survey of the Small and Medium Enterprises' Access to Finance in The European Union and Bosnia and Herzegovina, 3rd REDETE scientific Conference (<http://www.redete.org/doc/conference-proceedings-2014.pdf>).

The results of the studies presented in this paper in the area of financing of entrepreneurship and SMEs and the measures of governmental support for entrepreneurs indicates that a deeper analysis is necessary in order to determine whether this type of support is sufficiently used in B&H. The most common types of government support provided for entrepreneurs are grants, contributions, subsidies or loan guarantees. It is in particular in times of economic crisis and growing unemployment that governments in Western Balkan countries should act as important sources of grants in order to enhance entrepreneurship and SME growth which is crucial for the economic development.

3. GOVERNMENT PROGRAMS AS SOURCES OF FINANCING OF ENTREPRENEURIAL ACTIVITY: EMPIRICAL EVIDENCE FROM BOSNIA AND HERZEGOVINA

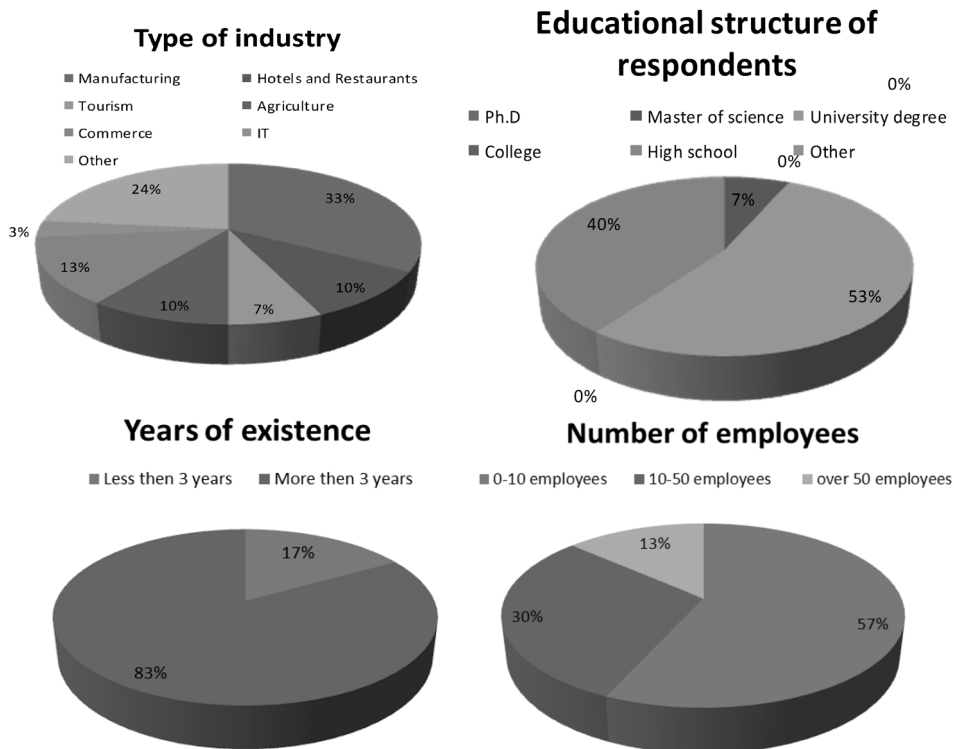
The main aim of the paper is to provide an answer to the following research question: does governmental support in Bosnia and Herzegovina allow SMEs to access initial financing needed for their entrepreneurial activity?

Based on the presented theoretical background and the research aim, we formulated our main research hypotheses: *Subsidy, grants and other governmental support options in Bosnia and Herzegovina are not adjusted to the needs of SMEs in financing initial entrepreneurial activity.*

The research aiming to identify entrepreneurs' attitudes towards governmental support measures was conducted as a questionnaire survey of entrepreneurs/managers of SMEs in Bosnia and Herzegovina. The descriptive analysis and t-tests were used in statistical analysis. The questionnaire was developed based on the theoretical background introduced in the introductory part of the paper, and adapted to the specific circumstances in B&H and aims of the research.

It consists of 19 questions that try to determine entrepreneurs' attitudes towards the availability and adequacy of governmental financial support measures in B&H, towards funding resources, obstacles which influence access to funding options, and improvement of governmental support measures. Demographic characteristics of respondents are presented by Figure 3.

Figure 3. Demographic characteristics of the sample



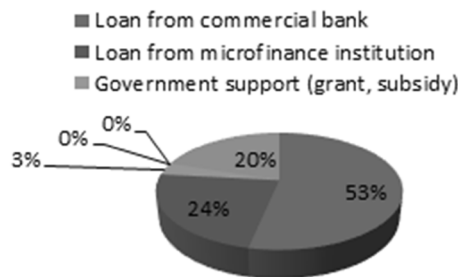
Source: Empirical research.

Majority of respondents have a university degree (53.33%), followed by respondents with completed secondary education (40%), and followed by respondents with an MA degree (6.67%). Distribution of respondents in accordance with the sector indicates that most of the entrepreneurs are in the manufacturing sector (33.3%), followed by entrepreneurs from other industries (design services, construction) with 23.3%, and trade (13.3%), catering (10%), agriculture (10%) and tourism/hospitality (6.7%).

Most of the businesses in the sample have operated for more than three years (83.33%), while there is a significantly smaller share (16.67%) of respondents who have been operating less than three years. Regarding the size of business, defined by the number of employees, those with less than 10 employees account for 56.67% of the sample, followed by enterprises with 10 to 50 employees (30%) and the remaining are businesses with more than 50 employees.

Research results show that the major external source of start-up financing are loans from commercial banks, wherein governmental support was used by only 3% of the surveyed entrepreneurs. Figure 4 shows major sources of external financial sources in the start-up phase.

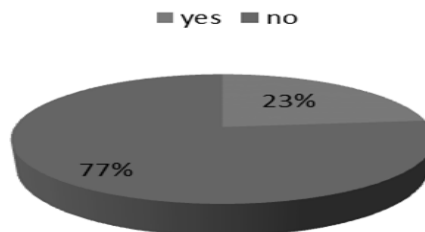
Figure 4. Structure of external sources of funding used when starting up a business



Source: Empirical research.

Furthermore, in this research entrepreneurs were asked whether they ever applied for some government program of financial support in the early stages of their business. Figure 5 indicates that 77% of respondents had never used grants or subsidies.

Figure 5. Use of government financial support programs



Source: Empirical research.

In order to determine the perceived quality of government financial support programs in B&H entrepreneurs had been asked questions about these programs, based on a 5-point Likert scale. The answers are presented in Table 4.

Table 4. Managers' attitudes towards government support measures

	Strongly agree	Agree	Partially agree	Disagree	Strongly disagree
<i>Awarded grants to entrepreneurs in B&H were inadequate</i>	0.00%	3.57%	17.86%	78.57%	0.00%
<i>I think that financial support directed towards the owners of new businesses in B&H acted as a stimulus for creating a more favourable business environment and for creating more jobs.</i>	0.00%	3.57%	35.71%	42.86%	17.86%
<i>The process of granting financial support was transparent, with clearly defined criteria.</i>	0.00%	14.29%	10.71%	46.43%	28.57%
<i>At the local level, there are enough incentives directed towards entrepreneurs in the early stages of starting a business.</i>	3.57%	7.14%	14.29%	46.43%	28.57%
<i>Government financial support measures followed a simple procedure and slight criteria for awarding funds.</i>	0.00%	7.14%	25.00%	46.43%	21.43%

Source: Empirical research.

As shown in Table 4, majority of the respondents expressed disagreement (Column 4) with the current government support measures. Over 78% of the respondents expressed the opinion that the grants awarded to entrepreneurs in B&H are inadequate. As many as 46.43% of entrepreneurs thought that that process of granting was not transparent and there were no clearly defined criteria, and nearly 68% of the respondents indicated that procedures for granting government financial support should be simpler and with less criteria.

In total, nearly 78% of the respondents stated that there aren't sufficient incentives at local levels of government for entrepreneurs in the early stages. Furthermore, entrepreneurs were asked to identify which improvements should be made by government in order to improve access to finance for start-ups. These responses are shown in the following table.

Table 5. Possible government interventions in the future

Statements	Percentage
Government support measures in the form of subsidized interest rates which would reduce the costs of financing	56.67%
Government measures of guarantee funds, which would issue guarantees for entrepreneurs who can provide quality collateral	43.33%
Stronger financial support as stimulus for creation of local and state level in the form of one-off grants for newly established enterprises	56.67%
Improve legislation to enable the development of capital markets in order to develop alternative forms of financing.	23.33%
The introduction of simpler procedures and less rigorous criteria for granting financial support	66.67%
Increasing transparency in granting financial support for entrepreneurs in the early stages of establishing and running a business.	46.67%

Source: Empirical research.

The introduction of more simple procedures and less rigorous criteria for granting financial support was indicated as the main factor which would (in terms of state intervention) improve and upgrade access to finance for most of the respondents (66.67%). In order to test hypothesis, the t-test has been performed (see Table 6).

Table 6 Statistical analysis of data

	Valid N	Mean	Std.Err.	Reference – Constant		t-value	df	p
Var 1	30	4.10	0.13	0.00		0.77	29	0.00
	Valid N	Geom. Mean	Harm. Mean	Median	Mode	Freq. of Mode	Sum	SD
Var 1	30	4.03	3.95	4.00	4.00	18	123.00	0.71

Source: Empirical research.

Arithmetic mean of the sample is 4.1, while the variance of the sample is $\sigma=0.49$. The decision on accepting or rejecting the hypothesis is made based on the empirical t-value ($0.77 < 2.46$), with 29 degrees of freedom 29, which leads to the conclusion on the significance level of 0.025. Thus, the research hypothesis is confirmed. Based on the responses related to the criteria and

transparency of the procedure of approval of funds, it can be concluded that this is one of the major obstacles in utilisation of government support financing.

4. CONCLUSION

Based on the defined research question of the paper and its main aim, we presented relevant theoretical and empirical findings of research which was conducted in the past years on the subject of start-up financing. Most of the research focused on credits and financial markets as factors of influence of entrepreneurship and SME development. Relatively few researchers have paid scientific attention towards government support and government funding for start-ups and SMEs, especially in the region of Western Balkans. In this paper we presented research results of relevant worldwide studies which indicated importance of access to governmental financing especially for business in early stages. Special emphasis in the paper was put on the GEM research and its results in regards to finance as the main indicator of entrepreneurial framework conditions.

The data obtained during the GEM research led us to conclude that many countries, as well as B&H, are having difficulties to ensure adequate government funding and other programs for entrepreneurs and start-ups. These findings were also confirmed in the empirical research which we presented in the paper. Based on all of the presented arguments we conclude that further analysis of government funding programs and measurement of efficiency of these programs are an interesting field of further research. Also, the results indicate that a special attention in regards to government funding should be paid to procedures, legal framework, and selection criteria and transparency, as these aspects of the research have also been emphasised. A limitation in this study is related to the size of the sample. However, the data obtained from entrepreneurs with higher levels of education and with businesses which have existed for longer than three years (and therefore passed the critical phase of existence, according to GEM-established businesses) confirms the results of prior studies which indicate that these results are reliable and can be used to design future research which should be based on a larger sample.

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RAZVOJ PODUZETNIŠTVA BOSNE I HERCEGOVINE KROZ ADEKVATNU FINANCIJSKU POTPORU VLADE

Sažetak

Poduzetništvo i sektor malih i srednjih poduzeća vrlo je važan za opći ekonomski razvoj Bosne i Hercegovine. Kako bi se poboljšao daljnji razvoj sektora malih i srednjih poduzeća, adekvatni izvori financiranja moraju biti dostupni i raspoloživi. Poduzetnici i vlasnici malih i srednjih poduzeća u Bosni i Hercegovini suočavaju se s određenim izazovima u dobivanju financijskih sredstava. Pitanje pristupa izvorima financija za mala i srednja poduzeća u ovoj zemlji problematična su već godinama. Mnoge relevantne svjetske studije naglašavaju važnost adekvatnih izvora financiranja poduzetništva i razvoja malih i srednjih poduzeća. Veliki broj faktora, koji utječu na financiranje malih i srednjih poduzeća ovisni su o regiji, ekonomskom razvoju, razvoju financijskog tržišta itd. U ovom radu, autori se bave problemom financiranja malih i

srednjih poduzeća, usmjeravajući se na potporu vlade s posebnim naglaskom na Bosnu i Hercegovinu. Glavni cilj rada je pružiti odgovor na pitanje osigurava li vladina potpora u Bosni i Hercegovini malim i srednjim poduzećima mogućnost inicijalnog financiranja potrebnog za njihovu poduzetničku aktivnost. Rad predstavlja rezultate empirijskog istraživanja na uzorku menadžera malih i srednjih poduzeća u Bosni i Hercegovini u svezi pristupa i prikladnosti financijskih sredstava za njihova poduzeća. Dobiveni rezultati upućuju kako poduzetnici u Bosni i Hercegovini rijetko koriste vladine potpore kao izvor financiranja svojih poslovnih aktivnosti, uglavnom zbog nedostatka sredstava te neučinkovitosti vladinih procedura.