

ECONOMIC DEVELOPMENT CHALLENGES IN TRANSITIONAL COUNTRIES - FINANCIAL ASPECTS

ABSTRACT

At the end of the 80s of the last century, the world economic scenery went through significant changes, among which we mainly think of a shortage of revolutionary discoveries, which would increase demand and establish new big markets. Countries are faced to provide organized support for the establishment and development of SMEs which will be privately owned. It would obviously increase the country's opportunities to provide for its needs from the real sources (through tax collection). Mutual interests would empower connections among the countries and among the private entrepreneurs, which, in the end, would have a positive impact on generating the economic growth and on the total development of the national economy, i.e. the economy of the region. Through this work the authors are trying to indicate the possibilities and ways of economic development in Bosnia and Herzegovina and Croatia, recalling the experience of other countries in which economic growth, and therefore the total social development, are mainly the results of the entrepreneurial culture.

Key words: *Entrepreneurship, Financial Support, Transition, Economic Growth.*

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1. INTRODUCTION

The increased number of unemployed people in the Western Balkan Countries imposes the need to stimulate, activate and instruct the citizens to start their own business and entrepreneurship in order to employ themselves and the members of their families and others. The private entrepreneur continuously makes effort to maximize profit and minimize the risk from loss, which urges them to make innovation and rational decision making. In 27 transition countries (before EU enlargement by another new ten member countries - in 2003) there were around 11 million SMEs, with 55 million employees¹. Comparing to the transition countries, in 19 countries (15 EU member countries plus Switzerland, Norway, Lichtenstein, and Iceland) there were more than 19 million enterprises, with almost 140 million employees in the same year, of which only 0.2 percent, or 40 thousands, refers to big enterprises. In other words, in these 19 European countries 99.8 percent of the enterprises were SMEs². Of the total number of SMEs, around 90 percent are micro-enterprises with less than 10 employees.

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¹ <http://www.unece.org/indus/sme>

² Observatory of European SMEs, SMEs in Europe 2003/7, European Commission

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2. THE MAIN MACROECONOMIC INDICATORS

According to the World Bank criteria, Bosnia and Herzegovina together with Serbia and Montenegro, FYR Macedonia and Albania, belong to a group of 54 countries with lower middle income per capita (from \$736 to \$2.935). In the analysed group of countries, Croatia is the only country with upper middle income per capita (from \$2.936 to \$9.075). Table 1. shows the GNI per capita, grey economy and population in Bosnia and Herzegovina and Croatia.

Table 1.

Comparison of the macroeconomic indicators

Country	Bosnia and Herzegovina	Albania	Croatia	Macedonia	SCG
As per income:	lower middle income	lower middle income	upper middle income	lower middle income	lower middle income
Population:	4.1	3.2	4.4	2.1	8.1
GNI per capita (US\$):	2.040	2.080	6.590	2.350	2.620
Grey economy share (% of GNP):	34.1	33.4	33.4	Not available data	29.1

Source: World Bank (2006)

Even though the European Union has started the negotiations on Stabilisation and Association Agreement with the other countries in recent years, the negotiations with Bosnia and Herzegovina started on January 25, 2006. The main transition challenges are the following³:

- Privatisation and restructuring of the enterprises and elimination of obstacles to business in order to enhance the flows of private capital and rely less on donors,
- Reduction of the size of the public sector and elimination of unnecessary bureaucracy and administration,
- Structural and institutional reforms in key infrastructure sectors such as transport, energy, telecommunications and municipal infrastructure as well as in the financial sector,
- Strengthening the state-owned institutions and creation of a single economic space in BiH.

³ Document of EBRD, *Strategy for Bosnia and Herzegovina*, 2005, page 2

Table 2 shows the transition indicators in the above mentioned economic segments. This index ranges from 1, indicating little or no progress, to 4+ (4.33) indicating standards similar to advanced market economies.

Table 2.

Transition Indicators of the Western Balkan Countries

	Albania	Bosnia and Herzegovina	FYR Macedonia	Serbia and Montenegro
Price liberalization	4.33	4.00	4.00	4.00
Forex and trade liberalization	4.33	3.67	4.33	3.33
Small-scale privatisation	4.00	3.00	4.00	3.33
Large-scale privatisation	2.33	2.33	3.33	2.33
Enterprise reform	2.00	2.00	2.33	2.00
Competition policy	2.00	1.00	2.00	1.00
Infrastructure	2.00	2.33	2.00	2.00
Banking sector	2.33	2.67	2.67	2.33
Non-banking financial institutions	1.67	1.67	2.00	2.00

Source: EBRD (2004)

3. POLICIES AND GOALS ON DEVELOPMENT

Transition countries have not yet completely or clearly defined the small business and SMEs. Economists in these countries, in their definitions of SMEs, are using principles on small and medium business defined by law. Among these definitions are items that make them similar and items that make them different. In defining SMEs, the following criteria were used: annual total trade income, number of employees, shareholder's funds and total value of company. The Western Balkan Countries defined their own definitions of SMEs published in the UN Report for SMEs. Definitions of SMEs in Albania, Bosnia and Herzegovina, Serbia and Montenegro, and also in FYR Macedonia are presented in the following tables.

There are no defined policies and goals on development of SMEs in BiH, as well as no specific legislations, measures, instruments, or adjusted organizations to support SMEs development. Two laws regulate some issues related to SMEs sectors: Corporate Law and Law on Turnover. In BiH there is no official classification of enterprises as per their size. That creates significant problems in defining the small and medium-sized enterprises. RS has its definition and Law on SMEs, while in the Federation the Law on stimulating the small and medium-sized enterprises is in preparation. Table 4 shows how SMEs are defined in the proposed Law on SMEs in the Federation and passed Law on SMEs in RS.

Table 3.**Definitions of SMEs in FBiH**

Criteria	Small-sized enterprises	Medium-sized enterprises
	FBiH	FBiH
Assets in KM (in thousand of KM)	4,000	30,000
Total income (in thousand of KM)	4,000	40,000
Average number of employees	50	250

Source: Dzafic (2005, p. 29)

The table shows that there is difference in the higher range values for SMEs per assets and total income (turnover). For smaller countries like BiH the valuation criteria for SMEs proposed by the European Commission are quite high, so a small-sized enterprise in the advanced developed countries of the EU can be considered as a medium-sized or even a large-sized enterprise in a small country like BiH. Criteria as per number of employees are equal.

However, on the Internet, i.e. on the official website of the UN, about entrepreneurship and SMEs in the transition countries (Table 4.) there is another definition on SMEs in BiH, including quite different criteria comparing to the previous table.

Table 4.**Definition of SMEs in BiH according to EU**

Criteria for Small-sized Enterprises	Criteria for Medium-sized Enterprise
<i>- Per number of employees:</i> Micro enterprise: to 10 <i>employees</i> Small-sized enterprises: 11-49 <i>employees</i> <i>- Per income:</i> Income of the small-sized enterprises amounts to EUR 200.000 per year. <i>- Per assets:</i> Assets of small-sized enterprise amounts to EUR 100.000.	Medium-sized enterprise: 50-250 employees Income of medium-sized enterprises amounts to EUR 10 mil. Assets amounts to EUR 5 mil.

Source: UNECE (2006)

Table 5.

Definition of SMEs in Croatia

Criteria for Small-sized Enterprises	Criteria for Medium-sized Enterprises
- Per number of employees: Micro enterprise: to 10 employees Small-sized enterprises: to 50 employees - Per assets: Assets of small-sized enterprises cannot exceed HRK 8 mil	Medium-sized enterprise: up to 250 employees Assets of medium-sized enterprises may not exceed HRK 30 mil. And maximum annual income amounts to HRK 60 mil. Must perform operations independently. 25% of the capital of the medium-sized enterprise may be the ownership of the big enterprise.

Source: UNECE (2006)

From the tables above we can conclude that in defining SMEs the priority has been given to the law regulations, as well as to indicators defining the size of companies, but the measures of these indicators are different in certain countries.

3. BUSINESS ENVIRONMENT

In the last Report of the World Bank on competitiveness of 155 countries, BiH is 87th, while Macedonia has the best rate and is 81st. Through the next table we make a comparison of the simplicity of the operations (in ten key activities) in the Western Balkan Countries. A careful analysis shows what the economic experts, who take decisions in these countries, should do in the future to improve their position comparing to the developed countries where the business environment is stimulative for the development of SMEs and entrepreneurship. Concerning the easiness of starting a business, BiH is 123rd, while Serbia and Montenegro is 35th. So, the position of BiH among the Western Balkan Countries is quite bad. That is especially alarming considering the fact that the position of the Western Balkan Countries is the worst in Europe.

Table 6.**Comparison of the countries of the region**

Simplicity of:	Bosn. and Herz.	Albania	Croatia	FYR Macedonia	Serbia and Monten.	The Best	The Worst
Performing operations	87	117	118	81	92	New Zealand	Congo, Dem. Rep.
Starting business	123	108	103	114	35	Canada	Angola
Getting licence	141	131	148	64	130	Palau	Tanzania
Staffing	95	127	109	123	61	Palau	Burkina Faso
Registration of ownership	132	66	99	73	103	New Zealand	Nigeria
Getting loans	9	41	131	53	99	United Kingdom	Cambodia
Protection of investors	77	136	135	30	45	New Zealand	Afghanistan
Paying tax	46	132	85	58	74	Maldives	Belarus
Cross-border operating	122	100	109	96	123	Denmark	Iraq
Fulfilling contract obligations	72	113	43	111	110	Norway	Timor-Leste
Closing the business	58	73	66	109	90	Japan	West Bank and Gaza

Source: World Bank (2006)

In these countries, when the entrepreneurs decide to establish new companies they go through many procedures that approximately take almost 54 days (in BiH) and have a cost ratio of 40.9% GNI per capita (BiH). In Serbia and Montenegro these costs amount to only 6% GNI per capita. Entrepreneurs must have a high deposit in the Bank to get a registered number for their enterprises (one quite higher than the average of the OECD members). Detailed data about the countries of the region are provided in the following table:

Table 7.**Registration of Enterprises**

Registration of enterprises			
2005	Number of steps	Necessary days	Costs (% GDP per capita)
Albania	11.0	41.0	31.1
Bosnia and Herzegovina	12.0	54.0	40.9
FYR Macedonia	13.0	48.0	11.3
Serbia and Montenegro	10.0	15.0	6.0
SEE-4	11.8	39.5	22.3
OECD	6.0	19.0	6.5

Source: World Bank (2006)

Registration of the ownership and protection of the investors in these countries is also complicated. Table 8. shows how much it costs and how long it takes.

According to the research of the World Bank, it takes even 635 days for a corporate case to be solved through the regular court procedure (in Serbia and Montenegro). That is three times longer comparing to the average case in OECD countries⁴. Besides, the courts are too slow in solving the cases in these countries and there is no effective system of protection of the creditors. Instruments for capital insurance are not systemized, nor the effective apparatus exists for its collection, which is barrier for approach to higher loans to the private sector.

Table 8.**Registration of Ownership and Protection of Investors**

	Registration of ownership			Protection of the investors
	Number of procedures	Necessary days	Costs (% values of ownership)	Index of investor's protection
2005				
Albania	7.0	47.0	3.6	2.7
Bosnia and Herzegovina	7.0	331.0	6.0	4.7
FYR Macedonia	6.0	74.0	3.6	6.0
Serbia and Montenegro	6.0	111.0	5.3	5.7
SEE-4	6.5	140.0	4.6	4.8
OECD	4.0	33.0	4.7	6.0

Source: Unit for Economic Policy Planning and Implementation of BiH – EPPU BiH (2006)

Collection through collaterals is complicated and should be simplified. This problem is especially expressed in BiH. Therefore, it is necessary to adopt several laws and to amend the existing laws, in order to establish a more effective apparatus for protection of creditors. It implies harmonization of the entities' laws on obligations in the FBiH and RS. It is also

⁴ http://www.eppu.ba/pdf/unapredjenje_poslovnog_okruzenja/pdf.

necessary to adopt the draft Law of BiH about registration of collaterals for intangible properties, and to establish a unique register of collaterals for the whole BiH. According to the existing law on liquidation and solvency, creditors are not in good positions and they are not stimulated to enforce solvency and to restructure the enterprises in order to revitalize them. Creditors are more stimulated to perform liquidation of their enterprises. The following table presents the complexity of performing the procedure and closing the enterprises in the Western Balkan Countries:

Table 9.

Solving the Corporate Cases

2005	Performing the procedure			Closing the enterprises	
	Number of court procedures	Days	Costs	Years	Costs (% of property)
Albania	39.0	390.0	28.6	4.0	38.0
Bosnia and Herzegovina	36.0	330.0	19.6	3.3	9.0
FYR Macedonia	27.0	509.0	32.8	3.7	28.0
Serbia and Montenegro	33.0	635.0	18.1	2.7	23.0
SEE-4	33.8	466.0	24.8	3.4	24.5
OECD	19.0	232.0	10.9	1.5	7.6

Source: Unit for Economic Policy Planning and Implementation of BiH – EPPU BiH (2006)

Institutional support to SMEs Sector is different in the mentioned countries. BiH is in the worst position because the basic laws for SMEs are not adopted, a strategy for SMEs has not been defined, the Agency for SMEs⁵ has not been established, etc. How much BiH is in arrears regarding its support to this Sector, comparing to the other countries in the region is best presented in the following table.

⁵ The task of Agencies is to provide consulting services, technical services, economic and legal assistance. Agencies, also, participate in preparing development strategy and in proposing measures for economic politics for stimulating SMEs and entrepreneurship in cooperation with the responsible ministries. Comparing to the other countries in transition only BiH has no established Agency for SMEs at the state level.

Table 10.**– Comparison of the countries of the region – Institutions for the support of SMEs**

	SMEs Ministry	SMEs Law	Agency	Fund	SMEs Strategy	Internati onal org.	r's depart. for	Centres and Incubato rs	Educatio n	Specializ ed Institut.
Albania	+	+	+	+	+	+	-	+	+	+
Croatia	+	+	+	+	+	+	+	+	+	+
FYR Macedonia	+	+	+	+	+	+	-	+	+	+
Serb. And Montenegro	+	+	+	+	+	+	+	+	+	+
Bosnia and Herzegovin a	-	-	-	-	-	+	+	+	+	-

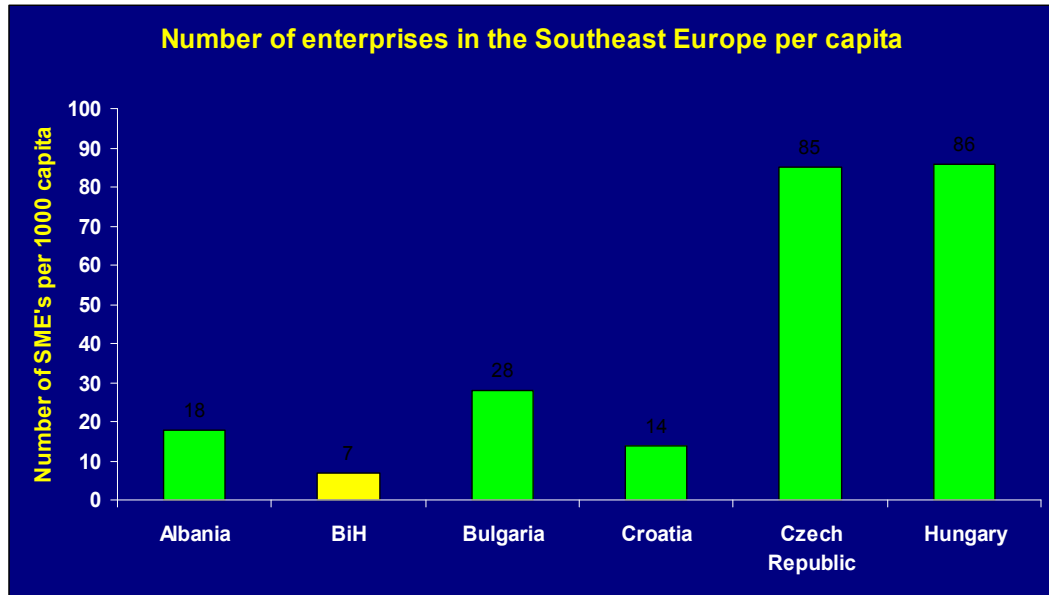
Source: Dostic (2002, p. 88)

Only the main institutions were compared and monitored. Besides them there are many other institutions for the support of SMEs such as: financial organizations, info centres⁶, etc. The following picture shows the number of enterprises in the southeast Europe per 1000 capita:

⁶ In order to provide support to SMEs, in 1987 euro-info network of the Centres (EIC) was established which currently have the status of official informatics' network of EU and beside member countries, it includes over 20 other countries of South East Europe and the Mediterranean. The importance of euro-info centres is that they are familiar with everyday problems of small and medium enterprises and they are able to motivate them in the best way to use possibilities offered to them by the European market. Due to the connection with experts of different profiles, EIC offers the answers to all questions related to performing business in the EU. One Euro-Info Centre provides answers to approximately 500 thousands issues per year, where every reply is prepared separately and includes the most updated information. Besides, EIC is trying to foresee the issues that would be interesting to the business of small and medium enterprises for which different publications are published, information through web sites, organized seminars and conferences about regional economic issues, which would be interested for SMEs business.

Picture 1.

Number of Enterprises per Thousand of Population in the Southeast Europe



Source: Unit for Economic Policy Planning and Implementation of BiH – EPPU BiH (2004, p. 84)

Agencies for insurance of foreign investments, Funds for technical support of SMEs, etc. Development of SMEs in BiH is at its first stage and it is necessary to establish many institutions in order to provide a stimulating environment for the development of the SMEs Sector.

Therefore, nobody should be surprised that BiH, compared to the other countries in transition, has the lowest rate of small and medium enterprises per capita (in total 7 SMEs per 1000 capita).

CONCLUSION

Economic policies of the developed countries give priority to entrepreneurship and SMEs as a base of a fast and stable development. Since the results of such orientation have long been confirmed in practice, the whole world is focused on the same direction. This also refers to the Western Balkan Countries that accepted such an orientation since they consider that there is no better way to accelerate the transition process and to solve many economic problems. However, while some of the analysed countries made obvious improvement, other countries only officially declare the importance of SMEs sector for economic growth.

Considering the above analyzed results, we may draw the conclusion that for radical changes in entrepreneurship and for the development of SMEs sector, it is necessary not only to

provide import of capital, but also to use the good experience of the highly developed, entrepreneurial countries.

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IZAZOVI EKONOMSKOG RAZVOJA U ZEMLJAMA U TRANZICIJI

SAŽETAK

Krajem 80-ih godina prošlog stoljeća došlo je do značajnih promjena u svjetskoj ekonomiji pri čemu uglavnom mislimo na manjak revolucionarnih ideja koje bi povećale potražnju i stvorile nova velika tržišta. Zemlje su primorane pružati potpore osnivanju i razvoju malog i srednjeg poduzetništva u privatnom vlasništvu. To bi za te zemlje svakako povećalo mogućnosti pokrivanja potreba iz stvarnih izvora (putem naplate poreza). Obostrani interesi bi ojačali veze među zemljama i među privatnim poduzetnicima što bi rezultiralo pozitivnim utjecajem na stvaranje ekonomskog rasta i cjelokupnog razvoja nacionalne, odnosno regionalne ekonomije. Ovim radom autori pokušavaju ukazati na mogućnosti razvoja Bosne i Hercegovine i Hrvatske, pozivajući se na iskustva drugih zemalja u kojima ekonomski razvoj, te stoga i cjelokupni društveni razvoj, uglavnom počiva na poduzetničkoj kulturi.

Ključne riječi: poduzetništvo, financijska podrška, tranzicija, ekonomski rast