

**INSTITUTIONAL INFRASTRUCTURE FOR SME DEVELOPMENT
IN BOSNIA AND HERZEGOVINA**

Policy Development Fellowship Program 2006

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This policy paper was written with the support of the Open Society Fund B&H. The views expressed here are solely those of the author and do not necessarily reflect those of the OSF.

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Executive Summary

Micro, small and medium sized enterprises constitute the backbone of the BiH economy, contributing to over 60% to GDP and much of the job creation. However, there is no specific strategy or institution for the SME sector at the state level.

The institutional framework for enterprise development and SME support in BiH is weak and underdeveloped, when compared both with international best practices and the institutional frameworks developed by other countries in South East Europe.

Besides the existence of regional development agencies as a key part of institutional infrastructure, a body at the national level is needed which will solely deal with the generating of ideas and SME sector policies. In this study we shall try to explain how such a policy *think tank* centre functions in Croatia, and give guidelines for establishing a similar policy centre in Bosnia and Herzegovina.

International organizations made a considerable contribution to the SME sector development, among others, they made a good organizational analysis of the existing institutional infrastructure. But the analysis made no impact on the national policy regarding the SME sector. To wait for the political will to solve the above mentioned problems is also very uncertain.

Therefore, a proactive approach of relevant actors in the sector is needed; in this case of the development organizations (i.e. RDA), the academic institutions (universities, institutes), and businessmen associations (i.e. Chambers of Commerce), with the aim of organizing a think tank organization (a policy centre) focused on the SME sector issues. This centre could be designed by following the example of the policy centre that exists in the Republic of Croatia and adopting its positive practice.

List of Acronyms and Abbreviations:

Center for Policy for SME Sector	CEPOR
European Bank for Reconstruction and Development	EBRD
European Commission	EC
European Union	EU
European Union Regional Economic Development	EURED
Gross Domestic Products	GDP
International Monetary Fund	IMF
Ministry of Foreign Trade and Economic Relations	MOFTER
Organization for Economic Cooperation and Development	OECD
Poverty Reduction Strategy Paper	PRSP
South East Europe	SEE
Small and Medium Sized Enterprises	SME
World Bank	WB
Nongovernmental organizations	NGO
Central and Eastern Europe	CEE

1. Introduction

Despite the fact that entrepreneurship and small businesses are very important part of the economy of Bosnia and Herzegovina (BiH), sufficient political and social attention has not been directed to this sector yet. High unemployment rates, low GDP combined with the requirements of the European Union (EU) that small and medium-sized enterprises (SME) and entrepreneurship have strategic importance for the process of accession to the EU, should force Bosnia and Herzegovina to think about the SME sector through a strategic perspective.

The indispensable condition for the generation, establishment and implementation of policies for entrepreneurship and SME sector development is an adequate institutional infrastructure.

The institutional framework, which is adequate for entrepreneurship consists of “the set of fundamental political, social and legal rules that establish a basis for production, exchange and distribution”¹.

Taking into consideration the complexity of the country such as Bosnia and Herzegovina, the existing institutional framework to support the SME sector is also complex, with a number of institutions operating at the state, entity and local level, and with at least three different locally based policies.

¹ David Smallbone & Friederike Welter, Institutional Development and Entrepreneurship in Transition Economie, ICSB 48th World Conference - Advancing, Entrepreneurship and Small Business. June 2003, Belfast (Northern Ireland)

This framework is still going through a process of transformation as new relations are being developed between the state and entity institutions, with the support of the international community.

The institutional framework for the enterprise development and SME support in BiH remains weak and underdeveloped, when compared both with international best practices and the institutional frameworks developed by other countries in South East Europe.

The Republic of Croatia is one of the countries in the South-East Europe region, which has a better developed institutional infrastructure for the entrepreneurship and SME sector development, which is illustrated, among others, by the number of researches in the field.²

It is questioned whether it is possible to apply positive practice from this country, especially when the policy centre (*think tank* centre) function is to be focused on the SME sector and the entrepreneurship development. This kind of policy centre still does not exist in Bosnia and Herzegovina in spite of the fact that the establishment and activity of such a centre is of crucial importance for the process of policy formulation and execution.

One of the reasons for the positive practice application from this country is of course the fact that for many years not only the same socio-political system was shared, but also the economical and cultural space.

In addition to regional development agencies as a key part of the institutional infrastructure in BiH, a body/ an institution is needed, which will exclusively deal with generating ideas and

² There is quite well-developed infrastructure of institutions supporting the development of the SME sector, but there is too much overlap, which prevents them from cooperating more effectively. Many surveys confirmed such conclusions, like the surveys conducted by the SME Policy Centre - CEPOR (Global models and top-class support). Entrepreneurship Monitor project, the World Bank (Doing Business in 2005), OECD (Croatia: Enterprise Policy Performance Assessment), the Ministry of Economy, Labour and Entrepreneurship (by answering a questionnaire related to the implementation of the European Charter on Small Enterprises).

defining SME sector policies. In this paper we shall explain how such a policy *think tank* centre functions in Croatia, and give guidelines for establishing a similar policy centre in Bosnia and Herzegovina.

2. The Main Characteristics of Institutional Infrastructure for SME policy in BiH until 2006

In BiH there is no single national policy, but at least three different locally based policies for the enterprise sector. Even in the case of the two entities and Brcko District, policy elaboration is still at an initial stage, as both the institutions and the policy tools have been only recently set up.

The result of this situation is a major policy vacuum. Micro, small and medium sized enterprises constitute the backbone of the BiH economy, contributing to over 60% to GDP and much of the job creation. However, there is no specific strategy or institution for the SME sector at the state level. This contrasts sharply with the situation in other policy areas, such as privatization, financial sector development, establishment of a common economic space, and with that of the other countries of South East Europe. This also partially explains generally poor rating given by private entrepreneurs to policy performance pertaining to this field.

The main characteristics of the SME sector policy framework in Bosnia and Herzegovina are:

- ✚ Bosnia and Herzegovina has made serious efforts, together with other countries in Western Balkans, to design of a medium-term SME strategy that also includes the setting up of an SME agency for the implementation of this strategy. However, this document has not been adopted by the Parliament yet. Therefore, according to the

OECD Regional Assessment (November 2005) that covers all SEE countries plus Moldova (see Table 1), Bosnia and Herzegovina is the only country that does not implement the SME strategy. The design and adoption of the medium-term strategy has been enshrined in the new European Partnership for Bosnia and Herzegovina as a short-term political priority for the country.

Table 1

	Policy elaboration	Policy implementation
Albania	Ministry of Economy (MOE)	SME Development Agency (SMEDA)
Bosnia and Herzegovina	Ministry of Foreign Trade and Economic Relations (MOFTER)	-
Bulgaria	Ministry of Economy (MOE)	Bulgarian Small and Medium Enterprise Promotion Agency (BSMEPA)
Croatia	Ministry of Economy, Labour Entrepreneurship (MELE)	Croatian Small Business Agency (HAMAG)
FYR Macedonia	Ministry of Economy (MoE)	Agency for Entrepreneurship Promotion (AEP)
Moldova	Ministry of Economy (MoE)	Nongovernmental organizations
Montenegro	Ministry of Economy (MOE)/SMEDA	The Agency for Small and Medium Enterprises Development (SMEDA)
Romania	Vice-Prime Minister	National Agency for SME and Cooperatives (NASMEC)
Serbia	The Ministry of Economy and Privatization (MoEP)	The Republican Agency for the Development of SMEs and Entrepreneurship (ASMEE)

Source: Enterprise Policy Performance, A Regional Assessment, OECD, November 2005

The Mid-term Development Strategy of BiH (Poverty Reduction Strategy Paper - PRSP) for 2004-2007 has a section on the private sector development. The PRSP, elaborated with the support of the World Bank and the IMF and adopted by the State Parliament in March 2004, is the most comprehensive mid-term economic policy document, elaborated and endorsed at the state level and at the same time supported by international community.

 Infrastructure for SME development:

- Social (legal institutions),
- Physical (communication, transportation, energy systems),
- Institutional (information services, financial services, education, entrepreneurship support associations, business incubators, development

agencies and think tanks etc.; notwithstanding the significant efforts during the last three years, institutional infrastructure is still undeveloped, inadequate and insufficient.

- ✚ There is no systematic approach to the measuring of the existing entrepreneurial ventures with the aim of increasing:
 - Entrepreneurial activities,
 - Monitoring capacities for the measuring of the efficiency of the existing institutional infrastructure,
 - Capacity for the identification of new policies, especially regarding the improvement of institutional infrastructure.

- ✚ In Bosnia and Herzegovina there is no relevant institution that is dedicated to the promotion and initiation of either entrepreneurial ventures or related policy that encourages the development of a basic strategy to strengthen entrepreneurship (think tank organization, SME policy centre).

- ✚ There is no coordination and mutual cooperation between institutions and agencies supporting the SME sector development.

- ✚ There are sporadic initiatives for entrepreneur development, which include projects that encourage the development of small and medium-sized enterprises. However, these projects are not well coordinated nor are they implemented in a strategic way. Also, the problem is that the results and effects of these initiatives are not measured; hence there is no systematic approach that can give us a clear picture of the current

situation. Consequently, there is no possibility of establishing future development directions either.

2.1. The Role of Government Institutions in Transition Countries in SME Sector Development and Entrepreneurship

The state has an important role to play in fostering entrepreneurship by developing a strategy for removing obstacles to the enterprise creation, for establishing an environment facilitating the private sector development and contributing to the development of appropriate institutions, which are important part of the business environment in a market economy.

Although specific policy priorities for small business development vary between individual transition economies, a key underlying theme is the importance of institutional development and capacity building, over which governments exert a key influence.

The main characteristic all transition countries share is the transition process i.e. the switch from a centrally planned economic system to a more market oriented system. Though different in terms of degree of change, all transition countries have experienced dramatic changes to socio-economic and political conditions on the macroeconomic level. In addition, on the microeconomic level, all transition countries have had to address the 'reorganization of work' (Johnson and Loveman 1995) which includes the acceptance of private forms of enterprise. Even though in some CEE countries limited forms of private enterprise were allowed even under socialist regimes, most transition countries lack a recent 'productive' entrepreneurial tradition (Smallbone and Piasecki 1995). A 'hostile economic environment' (high inflation rates, persistently high unemployment rates, declining real earnings, etc.) again in various degrees, has characterized the transition process (Smallbone and Piasecki 1995; Smallbone and Welter 2001). The lack of private enterprise tradition in most transition countries resulted in an absence of business infrastructure (Smallbone and Piasecki 1995).

Moreover, the initial growth of private business activity coupled with the implementation of neo-liberal transition programs resulted in a lack of private business support services (ibid.). Gros and Suhrehke (2000) conducted a comprehensive analysis of the similarities and differences between transition countries in Eastern Europe and comparable developing countries. Their analysis highlighted that the transition countries had a certain common characteristics in the initial stages of reform such as a concentration of firms in the industrial and manufacturing sector, the underdevelopment of financial systems as well as low legal and governance standards. A number of studies have also indicated that lack of finance is a barrier for businesses in the transition context (Roman 1991; World Bank 1995; Slonimski 1999; Pissarides et al. 2000; Glas et al. 2000; Hashi 2001; Bartlett and Bukvic 2001; Kaganova 2002; Aidis 2003; Bartlett 2001; EBRD 2002; Pissarides 2004). Additional environmental barriers that interfere with day-to-day business operations include low purchasing power (Aidis 2004), lack of qualified workers (Bohata and Mladek 1999), access to equipment and premises (Radaev 2003) and late payment by clients (Bartlett and Bukvic 2001). Finally, skill-based barriers, such as the lack of business-related skill development, stem from the absence of previous private business experience in transition countries (Roberts and Tholen 1998). In many cases, private business owners may not be aware of their skill shortcomings though it can impede with the survival and growth of private businesses in transition countries (Aidis 2004).

Furthermore, the lack of developed business infrastructure and support services leads many business owners to depend on business assistance (financial, advice, etc.) through private networks.

Table 2: Entrepreneurship in Transition Countries: General Characteristics

Factor	General characteristics
Environment	Macro: Dramatic changes to socio-economic and political conditions
	Micro: Reorganization of work
	Lack of recent 'productive' entrepreneurial tradition
	Hostile economic environment
	Initial explosion of business activity followed by declining SME start up rates
	Absence of business infrastructure and support activities
	Lack of external financing
The role of the state	Neo-liberal government stance; hesitant to intervene in marketing processes
	No previous experience with business tax system or legislation
	Negative attitude towards entrepreneurs
	Over-regulation, interference, corruption
Business owner characteristics	New Business, new career
	Diverse social origins
	Primitive business methods
	Dependence on assistance through private networks
	Government skepticism
	Passive, bureaucratic attitude
	No previous experience with business tax system or legislation
	More progressive and market-oriented than general population
Illegal entrepreneurship experience	

Source: Adapted from Aidis (2004)

It has been recognized and shown in numerous cases that the most effective way for a developing country like Bosnia and Herzegovina to overcome underdevelopment is through the development of entrepreneurship and entrepreneurial infrastructure. 'As Aidis and Sauka further note, SMEs are of special importance to transition countries for a number of reasons (2005). Firstly, they are able to provide economic benefits beyond the boundary of the

individual enterprise in terms of experimentation, learning and adaptability. These characteristics are especially important in economies undergoing radical transformation as has occurred in the formerly centrally planned countries. Secondly, research in transition countries shows, that even if SMEs do not generate net new jobs, they reduce the erosion of human capital by providing alternative employment opportunities for relatively skilled yet unemployed workers (EBRD 1995). Though it is often argued that SME development is especially crucial for the early phases of transition (EBRD 1995; Smallbone and Welter 2001), it is, in fact, just as important for the advanced stages of post-transition. As Michael Porter (1990) has argued, invention and entrepreneurship are at the heart of national advantage and country competitiveness.’³

2.2. Institutional Framework for SME Sector Development and Entrepreneurship in BiH

The main weaknesses of the institutional framework for enterprise development and SME support in BiH are:

- the complexity of the institutional arrangements, due to the existence of 14 governments on their territorial entities, each with its own policy prerogatives,
- the lack of co-ordination and cooperation among the institutions dealing with SMEs policy at the state and entity level,
- the limited capacity of those institutions, and
- the high dependency on donor sponsored initiatives and programs.

³ Entrepreneurship in Transition Countries: A Review Ruta Aidis; SSEES, University College London

The economic development, including enterprise development at the state level falls under the portfolio of the Ministry of Foreign Trade and Economic Relations of BiH (MoFTER). Within the Ministry a Division for Development and Entrepreneurship was set in 2003, including a Department for Promotion and Development of Entrepreneurship. Today this department has only two employees: the Head of the Unit and an Expert Associate. The resources available to this Department are limited, covering just the salaries and office costs, leaving no space for program funds.

The main areas of responsibility of the Department for Promotion and Development of Entrepreneurship are related to the adoption of development policies in economic fields, macroeconomic analysis and forecasts, analysis and information for BiH institutions, proposing economic measures in cooperation with the entities, following the effects of economic policies and their socio-economic impacts. These include: legal and regulatory activities, analytical and operational work, provision of information and documentation, administrative and technical work. In the field of SMEs the responsibilities are: cooperation with the state and entity level institutions to improve the business environment for SMEs, cooperation with international and domestic (state, entity and Brcko District levels) institutions that are related to the SME development, in order to improve their operation, get financial support for SMEs, promote SMEs and develop a database of SMEs.

A strategy, to be harmonized with the European Charter on Small and Medium-Sized Enterprises, must define the measures and the institutions which will support the development of entrepreneurship and small and medium-sized enterprises, taking into account the specific characteristics of the FBiH, the RS and Brcko District. Defining the measures for the enhancement of the business environment for the development of SMEs is a particularly

important segment, which includes the removal of administrative barriers, the reduction of costs for SME registration, the definition of incentives for SME support in the field of fiscal policy, and the development of new technologies.

The RS has already adopted the Law on the Development of Small and Medium-Sized Enterprises and now the FBiH and Brcko District must do the same. By signing the European Charter on Small and Medium-Sized Enterprises, BiH has made a commitment to establish an Office of a State Coordinator within the Ministry of Foreign Trade and Economic Relations of BiH (Sector for Support to and Promotion of Entrepreneurship). The Ministry of Development, Entrepreneurship and Trade of the FBiH, and the Ministry of Economy, Energy and Development of the RS, deal with the above issues.

Furthermore, local communities must establish centers for development that will support SMEs in defining their programs and projects, and in disseminating information on SMEs and their projects. These centers must be equipped to assist the SMEs in strengthening their competitiveness, increasing their productivity, and constantly improving their technical capacities, through promoting business incubators, clusters, technological networks, industrial parks and associations. The establishment of agencies for the promotion of human resources would assist SMEs in training of their staff.

In light of the above, it is important to enable the relevant ministries to implement the recommendations of the European Charter on Small and Medium-Sized Enterprises and to coordinate the implementation of the Charter with the Office of the State Coordinator, as well as with other ministries and institutions in the process of implementing SME development projects. It is particularly important that the Office acts as a promoter of BiH SMEs in European and regional development projects."⁴

⁴ Medium Term Development Strategy (PRSP)

2.3. Contribution of International Organizations to the Creation of Policy Development of SME Sector and Entrepreneurship

To pave the way to the EU accession, and to create favorable conditions for the economic growth, the EU Regional Economic Development project (EURED) has established five economic regions or zones that go beyond the entity and other political barriers in pursuing the integrated regional economic development. Five Regional Development Agencies (RDAs) work with the municipal governments in their areas of responsibility and coordinate local economic development initiatives in those economic regions.

The follow-up project EURED II extends this initiative by initiating activities to create a legal and regulatory environment for the regional economic development in Bosnia and Herzegovina. By continuing its support to the SME development and capacity building of the five regional development agencies, EURED II looks forward to partners dedicating their resources to directly support these efforts.

In addition to them, there are other EU funded projects such as EU TAC (Training and Consultancy for Businesses), EU EXPRO (Building Export Promotion Capability in BiH), EU 100 VET (Vocational Education and Training Program) and others. World Bank programs and projects as support to employment and business environment and BAS – Business Advisory Service Program of the EBRD are also significant initiatives. USAID-funded projects include LAMP (Linking Agriculture Markets to Producers), Cluster Competitiveness Activity, ELMO – Enabling Labor Mobility Activity in Bosnia and Herzegovina.

Research on the institutional infrastructure which supports the SME sector, business support centers and local and regional development agencies is done by the Commission of the European Communities in the Report on the Implementation of the European Charter for Small and Medium-Sized Enterprises in Moldova and the Countries in the Western Balkans.

Therefore, taking into consideration that there is a good organizational analysis, but not the impact analysis of the existing institutional infrastructure, it becomes questionable whether the work of the existing institutional infrastructure (the agencies and support centers) is satisfactory enough and how much it actually supports the SME sector development.

EURED II is a good illustration of the mentioned statement that there is quite a good organizational analysis of institutional infrastructure for the SME sector development.

Namely, the excellent organizational analysis was given in this report, as opposed to the weak impact analysis of the institutional infrastructure for the SME development.

EURED II provides maps and the analysis of the institutional framework for Regional Development and the Small and Medium-Sized Enterprise Development and Promotion in Bosnia and Herzegovina. In addition, international and bilateral projects ongoing in the country as of August 2006 and which are relevant for Regional and SME Development and Promotion are included. (Appendix 1)⁵

Obviously there is some progress, due to the above mentioned international organizations' initiatives in the institutional infrastructure improvement, primarily in establishing the regional development agencies, and, subsequently in establishing business incubators and a smaller number of clusters. But, all of that is still insufficient for the establishment of quality business and competent infrastructure for the SME sector development, and far behind the countries in the region.

⁵ EURED II Mapping and Analysis of Existing BiH-SME and RED Institutional Framework, August 2006

2.4. The Role of Regional Development Agencies in Development of SME Sector

The important institutional infrastructure segment that exists in Bosnia and Herzegovina, due to the initiative of International Community representatives', are regional development agencies, which are the key institutions supporting the SME and entrepreneurship development.

As mentioned above, the European Commission established five regional development agencies: ARDA NW for the Northwest Region, NERDA for the Northeast Region, REZ-RDA for the Central Region, SERDA for the Sarajevo Macro-Region and REDAH for the Herzegovina Region.

'Regional Development Agencies (RDAs) were first set up to assist regions undergoing economic crisis to identify new economic opportunities. RDAs should act as the catalyst, and driving force of the regional development process. In the broadest sense, RDAs have a wide remit which encompasses developing a strategic framework, establishing mechanisms for consultation with partners in the region, coordinating and representing partners' views, managing and implementing projects and providing or identifying sources of matching funding for projects. There is no universal model or structure for an ideal development agency, each country has its own concept.

The more common activities RDAs engage in include: Regional Strategic Planning, SME Development, Training, Development of Business Parks, Enterprise Zones, Business Incubators, Innovation Centers and Technology Parks.'⁶ One of the characteristics of the regional development agencies is the evolution from the provision of SME services (financial services, technology parks, services to investors) through the implementation of specialized

⁶ www.eured-bih.org

projects (active ways of employing, organization of educational activities) to the catalyst of social and economic reforms.

“The five RDAs have each drawn up development strategies, highlighting the particular strengths and economic possibilities of their own regions, and each is actively engaged in business development and investment promotion. While they have enjoyed some success, much still has to be done in order to transform regional development into job creation, as has happened in other transition economies”.⁷

According to the EU regional development model, an economic region is a single economic space comprised of multiple local units bound together by geographic, historic, cultural, and economic ties.

With the support of the European Commission, the process of strengthening the regional development has started. This process was well received by the municipalities. There are five economic regions being developed in BiH at the moment.

The experiences of Hungary, Poland, Slovenia, and the Czech Republic show that the regional development has a large effect on the overall improvement of a country’s economy. In the case of BiH, the establishment of economic regions will lead to the strengthening of the single economic space in the country.

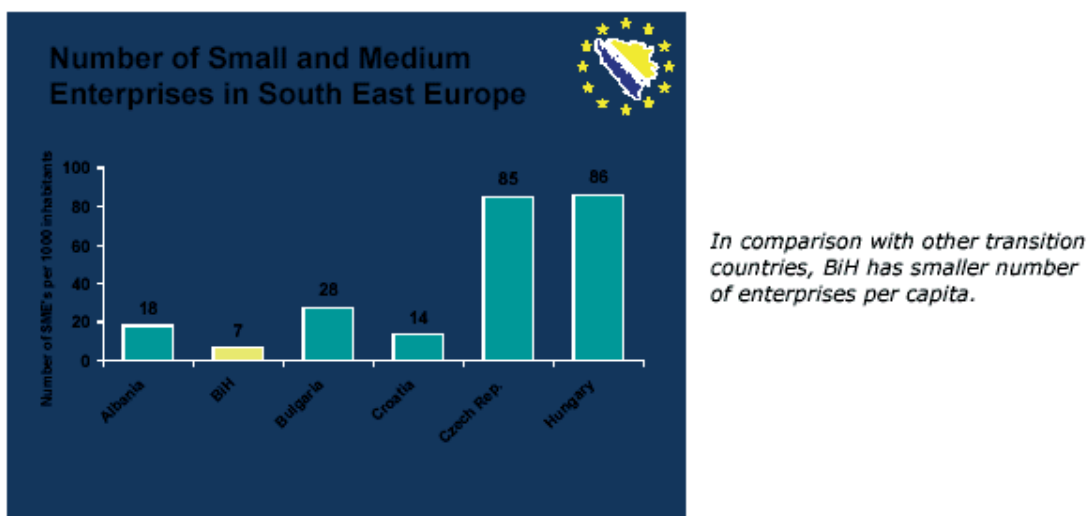
The existing network of regional development agencies in BiH is very weak at the moment. Due to insufficient staff and resources, these agencies have limited capabilities in stimulating the regional development. Therefore, they must be strengthened and provided with sufficient

⁷ www.ohr.int/ohr-dept/preso/pressb

funding by interested municipalities. Furthermore, it is necessary to improve coordination between the agencies and the governments at the local level.

The priorities for further development of the economic regions are as follows:

- Adopting a suitable legal framework and establishing a proper forum, at the BiH level, which would propose policies and measures for regional economic development;
- Finalizing the process of defining economic regions, based on voluntary linking of municipalities;
- Defining a strategy for regional development at the national level;
- Strengthening the existing and eventually establishing new regional development agencies.



Source: PRSP, page 77

The European Union creates RDAs by combining new organizations and by expanding the existing bodies. The European Union also points out the partnership approach of joining member municipalities with partners that come from the private and NGO sector.

In the beginning RDAs monitored the grant program (EU funds) for funding of local projects for economic and social revitalization, including services to SME. There are plans that RDAs will monitor guarantee funds for support to SMEs which need credit financing, although the source of funding is yet to be established.

RDAs circumvent the political structures of the entities and the cantons and rely on the participation of municipalities and their private and social partners in order to include them in public policies. This organizational strategy will provide an impetus to their long-term feasibility. The strategy fully depends on the level of achievement of local development strategies and their integration with the regional one. These local development strategies have to include the main technical assistance programs. Otherwise, it could turn out that the development initiative of RDA is on shaky grounds. The success requires a combination of local political support and the involvement of private sector as a full partner, both in the development of revitalization ideas and in the implementations of plans, which will follow consequently.

RDAs are aware of this fact because at the moment they significantly depend on the international support on which they cannot count forever. Therefore, they express their readiness to join the new development initiatives for the SME sector support like the one for the establishment of policy center for SME sector development. Among the academic society members there are also those who are interested in initiating the SME policy centre establishment, especially due to the fact that there is already a good cooperation between the universities from Bosnia and Herzegovina and Croatia (i.e. between Tuzla in BiH and Osijek in Croatia).

2.5. Business Support Centers, Business Incubators and Clusters

In addition to the regional development agencies, an important part of the institutional infrastructure for entrepreneurship and SME sector development are business support centers, incubators and clusters. An overview of these centers is given in Table 3.

“The objective of business incubators is to foster the creation of new companies in innovative sectors. However, in many SEE countries incubators are still limited in number and resources, and they are more focused on employment creation rather than on innovation.

The services offered in incubators should be extended beyond physical infrastructure towards high value added services. As with business advisory services, examples include: business planning / feasibility studies, marketing, access to finance, quality standards, mentoring/ “business angels”.

In moving towards a knowledge-based economy, incubators should be linked with universities, research institutions and innovative sectors in order to become an engine for growth and productivity.”⁸

“There is a lack of policy with respect to business incubators in BiH; the responsibility for implementation is unclear; and the national and international resources to promote them effectively are missing. More generally, there is still a lack of awareness of what they are on the part of entrepreneurs, ministries, business associations, etc.”⁹

⁸ OECD Investment Compact, Enterprise Policy Performance, A Regional Assessment, November 2005

⁹ SME Panorama in the CARDS Region, Page 23

According to the Report on Implementation of the European Charter on Small Enterprises in BH 2005, the following business support structures operate in Bosnia and Herzegovina:

Table 3

	Local/regional business support centers	Business incubators	Clusters
Federation BiH	In the Federation there are 3 business support centers which are part of the municipal administration in Mostar, Sarajevo, and Zenica, while in Vitez it is still in the process of being established. Additionally, there are 5 regional developing agencies that are located in the Federation.	There are 3 incubators in the Federation: in Zepce, Mostar and Tuzla.	In the Federation there is one motorcar industry cluster (it operates both in the Republika Srpska and the Federation) and the establishment of a wood manufacturing cluster in the Central Bosnia region is in process.
Republic Srpska	Local agencies have been formed in the following towns of the RS: Prijedor (PREDA), Banja Luka (City Development Agency), Srbac (APIS), Modrica (Municipal Agency for MSEs Development), Novi Grad (Local Agency for Development of the Municipality), Mrkonjic Grad (Agency for Economic Development of the Municipality) and Trebinje (Agency of Development of SMEs of the Municipality).	In 2004, in the Republika Srpska the “Topola” Business Incubator has been formed in the field of agricultural production. The incubator is formed with the aim of increasing employment and connecting agricultural producers and processors, planning agricultural production for contracted markets and supporting the entrepreneurship initiatives.	Companies from the Republika Srpska are members of the motorcar industry cluster of BiH that was formed in 2004, with the aim to represent interests of the members in economy associations and other organizations, exchange interests and information, establish contacts with local and foreign partners, implement seminars, initiate and take care of vertical (research and development) and horizontal networks (connecting suppliers), and strengthen the recognizability of the member companies in BiH and abroad. The cluster comprises 24 enterprises from the field of motorcar industry, of which 7 are from the RS, and three institutions as well (the Faculty of Mechanical Engineering in Tuzla and Sarajevo, and FIPA Sarajevo). Seven enterprises that are furniture producers and distributors of production material from the

			Republika Srpska formed the association (cluster) “AMF Group”.
Brcko District	<p>The Brcko District Development Agency of BiH – as part of Regional Development Agency in north-eastern Bosnia NERDA has been active in the fields of local economic development, development of small and medium-sized enterprises, promotion of direct foreign investments, inter-regional cooperation and development of labor market.</p> <p>The Brcko District Development Agency is the most significant promoter of foreign investment and trading possibilities of Brcko District. The promotion refers to the identification of appropriate preconditions for the development of industrial capacities, construction zones, tourist potentials, and investment possibilities and the emphasis on the competitive advantages of local business activities in Brcko District.</p>	Business incubator and clusters have not been established in Brcko District yet.	Business incubator and clusters have not been established in Brcko District yet.

Table 4

Indicative overview of business support services				
	Local/regional business support centers	Business incubators	Clusters	Business/ technology parks
Bosnia and Herzegovina	16 centers	6 incubators	2 clusters	None
Croatia	33 centers	16 incubators	3 clusters	4 parks
Albania	63 centers	1 incubator	5 clusters	None
Kosovo	9 centers	1 in initial phase, 2 planned	5 clusters initiated	1 in initial phase, 1planned

Source: Report on the Implementation of the European Charter for Small Enterprises in Moldova and the Countries in the Western Balkans

3. The Role of Think Tanks (Policy Centers) in Formulating and Issuing SME Policies

3.1. Think Tank Organizations – A Field Of Activity, Users, Founders, Products and Financial Sources

The aim of this chapter is to explain the policy centre notion, i.e., the *think tank* organization, describe its field of activity, users, founders, products and financial sources of these organizations, as well as the *policy centre's* role in formulating policies relevant to the development of small and medium-sized enterprises in Croatia, which can also be relevant to BiH.

As the term *think tank* is more frequently used in the countries with developed democracy and transparency in public policies modeling, both terms will be alternately used hereinafter.

The most common definition of *think tank* organization describes this term as: “...*an institute, corporation, or group organized for interdisciplinary research (as technological and social problems)... called also think factory.*»¹⁰

The World English Dictionary reads that *think tank* is: “...*consultative committee of experts that undertakes research or gives advice, especially to a government.*»¹¹

In most cases *think tanks* are unprofitable, independent organizations, which by seminars, conferences, workshops, or different kinds of publications, influence the political decision-making process, and their basic activity is independent, publicly available *policy* research.

¹⁰ Schneider, J.: “Think-tanks in Visegrad Countries (From policy research to advocacy), Final Research Paper”, Center for Policy Studies, Central European University, Budapest, 2002., page. 6,

¹¹ Encarta: “World English Dictionary”, North American Edition, Microsoft Corp., 2001.,

Think tank organizations have expanded their *policy* research on all kinds of issues and problems that exist in the society. Depending on financial sources, information, data, or ideologies, which they use as inputs for the research process, as well as the research aim, their research fields range from scientific researches, researches on governmental needs (ranging from legal regulation issues to national security issues), researches for particular companies or business sector (i.e. telecommunication and energy) needs, as well as needs of particular political parties.

Depending on the conditions in which they emerge, and the financial sources, the *think tank* organization founders may be academicians, university professors, governments of particular countries, political parties, companies, consultants and researchers, but also different donors (domestic and foreign).

The founders, taking into consideration their aims, affect the organization work, research area, organization growth and financing, but also the choice of institutional form of a *think tank* organization.

The basic preoccupation of all *think tank* organizations is how to keep the independence in their researches, but also to influence the field of activity. The most important things for the independence of *think tank* organizations are the sources of research funding, and the institutional form of the organization.

In his work, *Think Tanks in Visegrad Countries*, Schneider¹², taking into consideration the sector in which they act, points out three different *think tank* organization forms: academic,

¹² Schneider, J.: "Think-tanks in Visegrad Countries (From Policy Research to Advocacy), Final Research Paper", Center for Policy Studies, Central European University, Budapest, 2002.

profitable, and non-profitable *think tank* organizations. Schneider links these three kinds of institutional forms, with stakeholders in the process of political decision-making, the role that *think tank* organizations have in the policy process, and the public environment.

Most of the authors agree about the fact that the non-profitable form gives the most opportunities to fulfill the purpose of these organizations' existence. The shortcomings of these organizations can be overcome by using the knowledge and experience of academic and profitable organizations (reputation, innovation in work, organization management).

Think tank organizations have three development phases. In the first phase there is a very small number of steadily employed researchers (one or two persons), a high number of outside collaborators, financial sources are unstable and the organization relies on a primitive financial and administrative system. If they want to continue the development and pass to the second phase (a higher number of steadily employed researchers, from five to ten, relatively stable financial sources, more advanced operative system, and researchers' higher specialization for a particular research field) these organizations are obliged to develop their management and financial systems, so that they could be efficient. The third development phase distinguishes the most important prestigious *think tank* organizations in the field of their activity.¹³

The funding of *think tank* organizations is consequentially connected with the type of the organization. The organizations that are independent cannot completely rely on different types of state support. Depending on founders, and *think tank* organizations' orderers, the funding of these organizations can come from the following sources:

¹³ Struyk, R.J.: "Managing Think-tanks – A Practical Guidance for Maturing Organizations", Urban Institute Press, Washington D.C., 2002.

- Private foundations (*Open Society Institute, Ford Foundation*)
- Different governmental agencies or entrepreneur funds (e.g. USAID, British Know-How Fund)
- State/Party foundations (like *Konrad Adenauer Stiftung, Friedrich Ebert Stiftung*, etc.)
- International organizations (World Bank, International Monetary Fund, etc.)
- European Union Funds (structural funds, general funds for development and research).

By reviewing the reports of different *think tank* organizations, it can be concluded that most of the organizations do not have only one financial source.

Most financial sources are assigned for *policy* research expenses, but the problems in funding these organizations are actually the fixed expenses (administration, rental, telephone expenses and internet, etc.). In order to cover these expenses as well, *think tank* organizations choose one of the possible options:

- Merging with academic organizations (universities, faculties, academies of science),
- Merging with profitable organizations (consultant companies, financial companies),
- Reducing the number of employees, engaging volunteers for administrative work, coordination of projects, and public relations, and employing researchers for particular projects only.¹⁴

¹⁴ Schneider, J.: “Think-tanks in Visegrad Countries (From policy research to advocacy), Final Research Paper”, Center for Policy Studies, Central European University, Budapest, 2002.

Think tank organizations as mediators between the government and public and as a *vox populi* in policy process affect the development of democratic societies. By their independent research they input into *policy* processes new ideas, innovative problem solutions which are in interest of all citizens. By monitoring the impact on already made political decisions, they realize their effects, and instigate a modification if necessary. Finally, as a product of these organizations we can consider human resources as well, who very often serve to governments as counselors in specialized fields.

From the *policy* process itself, it is evident that the biggest users of *think tank* organizations are decision makers (98%). Right behind them, according to the Boucher investigators, are the media (68%) which monitor *think tank* organizations in the interaction phase, and the public – civil society (61%); they are followed by the universities (44%), profitable sector (34%), and syndicates and other *think tank* organizations (15%).¹⁵

3.2. Think Tank Organizations in Croatia

Notwithstanding the undisputable role and importance of *think tank* organizations in the political decision and solution making process, they are not sufficiently recognized in Croatia, and in particular in BiH.

In the conversation about his book *Reconstructive Critics: Think Tanks in Post-Soviet Bloc Democracies*¹⁶, Struyk stated that the possibilities and needs for *policy* centre services of *think tank* organizations were enormous. Transition countries that inherited the process of political decision and solution making from communism are characterized by the closed *policy*

¹⁵ Boucher, S.: “Europe and Its Think Tanks: A Promise to Be Fulfilled”, Notre Europe, Pariz, 2004.

¹⁶ Struyk, R.: “Reconstructive Critics: Think Tanks in Post-Soviet Bloc Democracies”, Urban Institute Press, Washington D.C., 1999.

process, an insufficient number of alternatives when providing legal suggestions and solutions, unanalyzed problems, and non-evaluation of adopted programs and laws. As a step forward to a better, stimulating legal environment, Struyk suggests the *think tank* organizations that “...with well trained staff, can be the source of stronger, more rigorous, and more thoughtful policy advice...”¹⁷

The EU accession countries in accordance with the Copenhagen criteria have to create stable institutions which insure democracy, the rule of law, respect for human rights and minority groups, and have to prove the ability in taking obligations that emerge from the membership.

To reinforce these rules, the European Union suggests the following principles:

- Openness in communication with public and transparency,
- More intensive involvement of citizens in politics,
- Bigger responsibilities of leading political stakeholders,
- Efficacy in political performance,
- Coordination of all political measures and authority levels in order to achieve consistency.

In that sense, the European Union wants to give a bigger role to the civil society organizations (*policy centers, think tank organizations*), so that the services offered are adapted to citizens' needs as much as possible.

In the Republic of Croatia there is only one *think tank* organization – Centre for SME policy development (CEPOR), which is focused on the creation of positive environment for the SME sector development. But, some other organizations and institutes also do *policy* research as part of their activities, which the Government of the Republic of Croatia can use in the political decision-making process. Among these organizations, certainly the Institute for

¹⁷ <http://www.urban.org/pubs/reconstructive/author.html>,

International Relations (IMO), the Institute for Public Finance, and the Economy Institute Zagreb should be mentioned.

The recommendations of *policy* researches conducted in the Republic of Croatia by the institutes and Centre for Small Companies' Development Politics (CEPOR), that were given to the stakeholders in political decision-making process encourage the SME sector development.

The appreciation of the *policy* centre research which functions in the Republic of Croatia, as well as the appreciation of other researches in the field of entrepreneurship, and SME sector, will contribute to better legal regulations, better policies and the creation of a stimulating environment for the development of small and middle entrepreneurship, i.e., it will launch the development of the entire economy.

Policy centers in the Republic of Croatia have been created in response to the changes that occurred due to transition to the market economy, and out of need to follow the world economic trends in 21st century, which demand the creation of new development policies. The National Council for Competitiveness, the Centre for SME Development Politics (CEPOR), and the Institute for Public Finance have been created in response to the challenges with which the Republic of Croatia has to confront if it wants to develop a competitive economy.

As stated on the website of the National Council for Competitiveness¹⁸, in order to create a productive and competitive economy, the cooperation of private and public sectors is necessary, as well as governmental agencies, i.e., all *policy* process participants. Being led by Porter's words, who stresses that "the nations choose the prosperity if they create such politics, laws, and institutions that support the productivity growth", it is clear that regardless

¹⁸ <http://www.konkurentnost.hr/nvk>,

of the existing monetary and fiscal politics, judicial system and stable democratic institutions, the country cannot be competitive, unless it creates by its policies a stimulating environment for the growth and development of small and medium-sized enterprises.

The Centre for Small Companies' Development Politics (CEPOR) is organized as a *think tank* organization, and it is the only organization in the Republic of Croatia that deals with the issues of small and medium-sized enterprises. The CEPOR's mission is to "affect the public policy environment stressing the key role of entrepreneurship, and small and medium-sized enterprises in the development of Croatian economy".¹⁹ The fields of CEPOR activities are independent researches on the SME sector development policy "in order to define problems objectively and propose solutions", *policy* process stakeholders' counseling in order to create a stimulating entrepreneurship environment, and organizing the activities that enable SME sector to carry out and discuss their issues. The most important CEPOR projects are GEM (*Global Entrepreneurship Monitor*) that monitors the level of entrepreneurship activities, and points out the obstacles in the SME development, and the project *Support to Promotion of Reciprocal Understanding of Relations and Dialogue between the European Union and the Western Balkans* aimed at supporting the understanding between the European Union and the Western Balkans countries through reforms encouraged by the European Union, and "the project will support the implementation of the integration politics the Western Balkans countries, institutional and legislative potential development of each country in particular."

All *policy* centers in the Republic of Croatia, as well as the institutions like the Economy Institute Zagreb, the Institute for Tourism, the Institute for International Relations, and others, are founded with the aim to "...promote ideas and principles which should enable the long-term economy development and viable long-term results. In their work these institutions and

¹⁹ <http://www.cepor.hr>,

centers neither compete with the existing bodies, nor do they duplicate their work, but their primary aim is to support development policies, laws and other important social processes which have the effect on creating and strengthening the competitiveness of the economy of the Republic of Croatia.”²⁰

3.3. Think Tank Organizations in Bosnia and Herzegovina

In the situation in Bosnia and Herzegovina, i.e. as it has been described in the above mentioned research subjects, the necessity of establishing the think tank as an institution has been expressed in order to influence the removal of shortcomings caused by the non-existence of integral and coordinated policy for entrepreneurship development at the state level and SME support in the entire Bosnia and Herzegovina.

The form and the role of this think tank will probably differ from the common forms that exist in the world, primarily due to its functional role in the entrepreneurship and SME development in Bosnia and Herzegovina.

As there is no national institution supporting the entrepreneurship development, the think tank’s role is very important, because it will provide the opportunity for development by affecting the launching of business processes and entrepreneurship activities, which then proceed and reproduce, and expand by their own dynamics. Due to this, it is very important that the impetus is strong enough in order to cause and multiply a further cycle of an autonomous economic activity renewal in a bigger scope with no additional engagement of national support instruments. Here we talk about creating “critical mass of change”, which this type of think tank can and must produce.

²⁰ <http://www.konkurentnost.hr/nvk>,

The think tank's role is even more important if we know that its activity can refer to the creation of a coalition for entrepreneurship development and support, primarily with strategic conception and operative support, in three main fields, which are:

- Strategy (policy) development towards entrepreneurship and SME development,
- Encouraging the support institutions development for entrepreneurship and SME,
- Development and implementation of different support programs for these processes.

The most important weakness and obstacle in coordinating the entrepreneurship development in Bosnia and Herzegovina is the non-existence of entrepreneurship and SME strategy development at the state level. The existence of some other strategies, which are partly connected with this field, is insufficient and cannot contribute to the long-term entrepreneurship and SME development (this primarily refers to the existing PRSP strategy). The existence of different forms of infrastructural support has also been mentioned in the introductory part, consequently, it is evident that only particular types of those elements are developed in Bosnia and Herzegovina, and there is still lack of many other types of supporting infrastructure, which are yet to be developed.

4. Conclusions and Recommendations

It is necessary to improve the existing institutional infrastructure for the entrepreneurship and SME sector development by establishing a think tank organization (policy centre) that is focused on creating policies from entrepreneurship and SME sector development spheres, based on the model of think tank that exists in the Republic of Croatia.

The Role and the Main Activities of the Centre

The Centre for development of policies and support for entrepreneurship and small and medium-sized enterprises in Bosnia and Herzegovina, in the form of the suggested think tank, would have as its first task the adoption of entrepreneurship and SME development strategy at the state level. Subsequently, the Centre would take over the task of coordinating and directing other necessary activities towards the operationalization of that strategy and its practical implementation.

Consequently, the main Centre activities, in addition to the strategy adoption, would be:

- To support and establish a development coalition at the state level,
- To enable the entrepreneurship and SME development by different types of support,
- To monitor impacts and effects of measures and activities undertaken and evaluate the impact on development trends, especially in the field of entrepreneurship and SME development,
- To support and create the institutional framework offering support measures and services to all targeted groups that are active in the field of the entrepreneurship and SME development,

- To affect the adjustment of all development measures at the state level as well as the regional level, and coordinate the measures and activities with regional development agencies,
- To ensure key information to all stakeholders involved into the entrepreneurship and SME development, in order create a long-term and permanent basis for it,
- To affect the development of new types of support infrastructure in cooperation with other stakeholders at the regional and local level,
- To exchange the best experiences and practices in Bosnia and Herzegovina pertaining to the targeted field of the Center's activities,
- To affect and lobby the state bodies on behalf of all stakeholders (SME, entrepreneurs, all people who are interested in entrepreneurship, etc.); to affect the change of legal and other regulations that deal with the entrepreneurship and SME issues and to affect the enactment of the necessary regulations,
- To support the processes of political and other changes in Bosnia and Herzegovina.

It is necessary to stress once again that this Centre should operate at the state level in order to cover the whole territory of Bosnia and Herzegovina. This Centre must have the central (the so-called apex) function, and it will coordinate other activities and institutions involved in the entrepreneurship and SME development. Its activity will also include professional and vocational training of Centre employees as well as other key stakeholders that will participate in its work in the future (development of new Centre services, and training of employees); it will intervene in case of any problems; it will coordinate and link the activities of a whole range of other institutions and organizations that by their work and activity affect the entrepreneurship and SME development.

Of course, it is necessary to separate the roles and responsibilities of this “state-level body” and regional institutions according to their basic function and development focus. All the above mentioned refers solely to the work of the Centre in the form of the suggested think tank in Bosnia and Herzegovina.

The successful existence and work of this Centre can be ensured by constant focus of the management on the following (supported by the strategic management concept based the Balance Score Card model):

- Concrete results measured by economic indicators,
- Needs of the targeted groups of users,
- Constant and permanent learning and high-quality achievement growth,
- Maintaining the internal processes quality.

Establishment of the Centre (Think Tank)

The founders of this Centre will be the representatives of the academic community, i.e. the University representatives, representatives of businesses associations in Bosnia and Herzegovina, representatives of nongovernmental organizations that already operate in the field of the entrepreneurship and SME development, representatives of governmental institutions and organizations, and other interested stakeholders.

The form of the Centre establishment can be different, but it is recommended to be formed inside a nongovernmental, i.e. non-profitable organization at the state level (It should be established by Ministry of Civil Affairs and Communications of Bosnia and Herzegovina which is an institution in charge of establishing associations and foundations at the state level). The suggested form of organization is simple from the aspect of all those involved in its establishment due to its development function and a possibility of the Centre to submit a tender for the implementation of development projects at the national and international level.

The Main Resources and Funding of the Centre

Funding of the Centre should be insured mostly from the projects that the Centre would create, and from compensations for the services offered to the users that are interested in the Center's services. By this structure of self-financing its almost complete independence in work can be achieved, as well as the achievement of good results

The most important resources of the development of this Centre are human resources, i.e. the staff that should be highly motivated and open to the challenge of the Center's implementation activity and, on the other hand, highly skilled and experienced. It is necessary that it also has an office space, with indispensable office furniture, computer equipment, vehicles, etc.

Coordination and Networking

Finally, the work of Centre would be focused not only on "knowing what", but first of all on "knowing how", and by that its full functionality will be achieved. Of course, it is necessary that from the beginning of its activity the Centre fulfills its coordination and integration role in the development coalition of all organizations and institutions that are involved in the development and support of entrepreneurship and SME at the state and the regional level (this primarily refers to cooperation with regional development agencies in Bosnia and Herzegovina).

The importance of this Centre is essential from the aspect of cooperation on international projects and activities as well, especially in cooperation with similar think tank organizations in the neighboring countries that belong to the Western Balkans region.

Projects and Support

One of the most important projects for this Centre is the initiation and adoption of the Strategy for entrepreneurship and SME development in Bosnia and Herzegovina that would be in accordance with all important acts that regulate this field in the European Union.

Additionally, important projects of this Centre would be:

- The development and implementation of the “Global Entrepreneurship Monitor” project in cooperation with other Centers in the region that already implement this project (CEPOR),
- With regard to economic development, the development and implementation of benchmarking projects for the evaluation of economic potentials and developments at the local, regional, and national level,
- The development and implementation of the Benchmarking project for the evaluation of competitive abilities of small and medium-sized enterprises in Bosnia and Herzegovina compared to the standards of the European Union,
- Initiating projects for establishing other types of entrepreneurial support infrastructure.

In this manner the former important role of international organizations in terms of support to the development of BiH will be maintained on one hand, and on the other, the strengthening of a local institution will also be enabled, which will have a long-term and constant effect on the entrepreneurship and SME development in the entire Bosnia and Herzegovina.

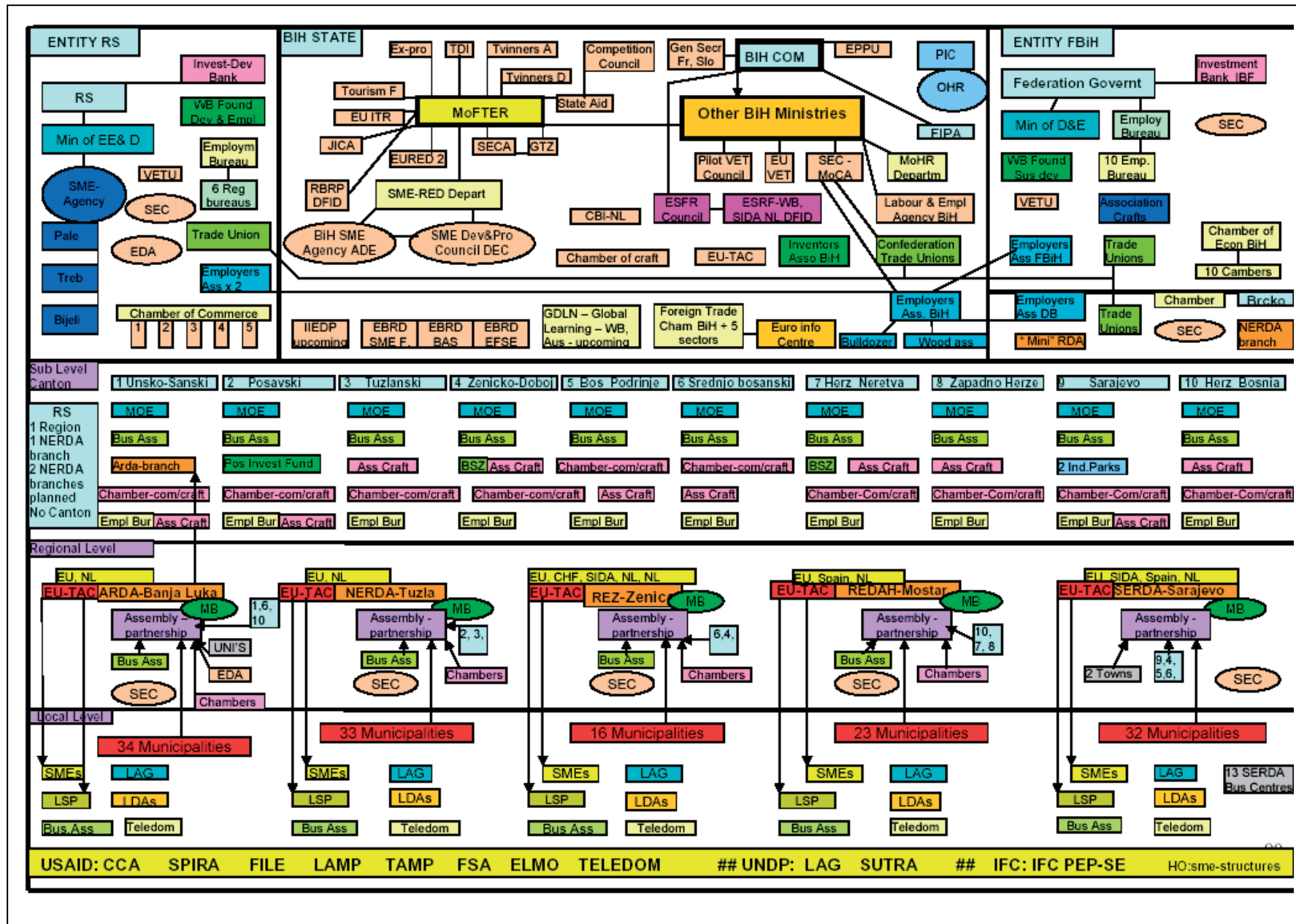
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- **Appendix 1:** Overview – SME and RED institutions
- **Appendix 2:** Organizational Structure of the Ministry of Foreign Trade and Economic Relations (MoFTER)



Ministry of Foreign Trade and Economic Relations (MoFTER) is in charge of:

- Foreign trade and customs policy,
- Drafting contracts, agreements and similar acts related to economic relations and trade with other countries,
- Drafting bilateral and multilateral agreements related to the reconstruction of BiH,
- Relations with international organizations and institutions in the field of foreign trade and economic relations,
- Elaboration of macro-economic documents in the field of economic relations,
- Business environment, single economic space,
- Development and promotion of entrepreneurship,
- Controlling trade of goods and services subject to a special export/import regime,
- Consumer protection,
- Competition,
- Coordination of international economic aid programs, excluding EU aid programs,
- Veterinary.

MoFTER is also in charge of the coordination of policies and plans of entities' bodies and international institutions in the following fields:

- Agriculture,
- Energy,
- Environment protection and natural resources,
- Tourism

