

Bosnia and Herzegovina

In BEEPS V, the top three business environment obstacles identified by firms in Bosnia and Herzegovina were political instability; access to finance; and competitors' practices in the informal sector (Chart 1). SMEs ranked the practices of the informal sector above access to finance, while electricity issues were in third place for large firms. Access to finance and corruption were the main constraints for young firms, while old firms were concerned about corruption. In BEEPS IV, the top two obstacles were the same, with tax administration taking third place.

Relatively good access to loans, but increasing corruption

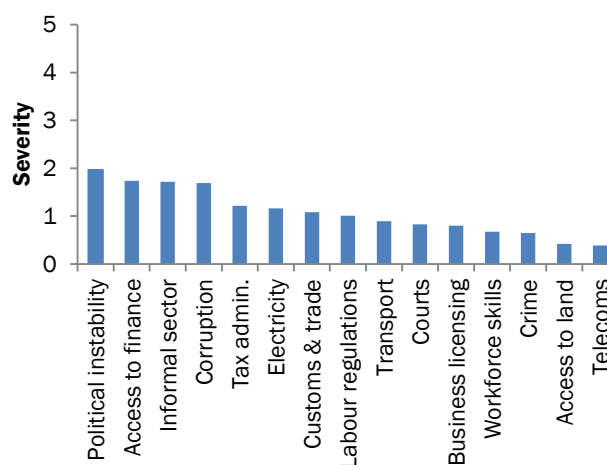
Bosnia and Herzegovina's complex administrative, political and legal framework, established after the devastating war in 1992-95, makes it one of the most corruption-prone states in Europe according to several sources. The country itself is not politically unstable, but political rigidity as a result of the war may explain why **political instability** was rated as the top obstacle.

Though some of the firms in Bosnia and Herzegovina complained about **access to finance**, many of them had reasonably good access, at least to bank loans, compared with the rest of the countries in south-eastern Europe (SEE). In financing their working capital and fixed asset purchases, firms relied predominantly on bank borrowing and credit purchases. In fact, Bosnia and Herzegovina was among the top three SEE countries with the highest share of firms that had a line of credit or a loan. Of the firms surveyed, 66.3% had a loan or a credit line – around 17 percentage points higher than the SEE average. However, the median amount of collateral required increased from 150% to 200% of the loan value and remained above the SEE average of 172% (Chart 2).

Competitors' practices in the informal sector were, as in most other SEE countries, among the top three obstacles. Of the firms surveyed, 44% reported competing with unregistered firms or firms in the informal sector.

Corruption remained an important issue in Bosnia and Herzegovina. The percentage of firms that were asked for informal payments by tax officials increased from 1.4% in BEEPS IV to 6.5% in BEEPS V, the second highest in the SEE region. The percentage of firms reporting that informal payments were expected or requested to obtain an operating licence increased from 6% to almost 14%, well above the SEE average of 5.8% (Chart 3). Transparency International reported that the anti-corruption agency had not yet started carrying out any activities as of January 2013, although its management was appointed in 2011.

Chart 1. Business environment obstacles



Estimated for a hypothetical "average" firm. Higher values correspond to a weaker business environment.

Chart 2. Median collateral required

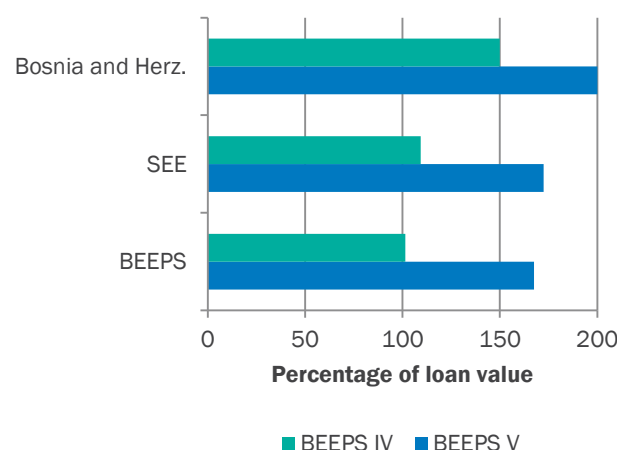


Chart 3. Informal payments to obtain an operating licence

