



STARTUP ECOSYSTEM ENVIRONMENT IN BOSNIA AND HERZEGOVINA

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Abstract

The main goal of this study is to present and analyze current development status of the startup ecosystem in Bosnia and Herzegovina. This study also emphasis importance of public institutions support as a one of the most important factors for successful startup ecosystem development and critical close link between development of startups and general ecosystem status. The study lists many literary sources, which consist of the opinions and research results of experts, professional organizations, and academic ecosystem researchers. In addition, descriptive analysis was used in the paper to assess the respective national start-up ecosystem in Bosnia and Herzegovina. In addition, data were obtained from secondary sources such as press releases, company websites and social media accounts, and other sources. One of the key findings of the study is that despite the fact that the startup ecosystem in Bosnia and Herzegovina is active, with developed startups, supporting institutions, and ambitious founders, there is still great potential for further development. To make this happen, the country should create a more supportive business environment by making improvements and reforms in relevant areas.

Keywords: Startup ecosystem, Development processes, Business environment, Bosnia and Herzegovina



INTRODUCTION

It's essential to define a startup: a startup is a human institution designed to create a new product or service under extreme uncertainty. A startup is not just a product, a technological breakthrough, or a brilliant idea. A startup is greater than the sum of its parts; it is an acutely human enterprise. A startup's product or service is innovation is an essential part of the definition and a tricky part too. Startups exist to learn how to build a sustainable business and can be validated scientifically by running frequent experiments that allow entrepreneurs to test each element of their vision. The Lean Startup adapts the ideas to the context of entrepreneurship, proposing that entrepreneurs judge their progress differently from the way other kinds of ventures do. The principal activity of a startup is to turn ideas into products and services, measure how customers respond, and then learn whether to change or persevere. All successful startup processes should be geared to accelerate that feedback loop (Niculescu, Jinaru, Cojocar, 2014). The startup's primary goal is to confirm the hypothesis about the business model. After that, it switches to execution mode. At this point, the company needs an operational plan, financial forecasts, and other well-known tools (Blank, Dorf, 2020).

With goal to prepare the overview of Bosnia and Herzegovina startup ecosystem, different sources of data were used. Most sources gather quantitative and qualitative data and use descriptive studies to evaluate their respective national startup ecosystems. These sources relied on local expertise and interviews with relevant stakeholders and startup experts within their ecosystems. Additionally, these sources used information from secondary sources including press releases, company websites and social media accounts, specialized startup databases, and other sources.

Roman et al. (2018) found a significant correlation between macroeconomic figures (GDP), demographic variables (population growth rate), and the spirit of entrepreneurship. Besides macroeconomic and demographic features, other factors and events can support startup entrepreneurs naturally.

When it comes to the current analysis of the situation within the start-up sector in Bosnia and Herzegovina, the data on the development of the social economy ecosystem is critical and will be presented here.

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Bosnia and Herzegovina economic overview and business environment

Bosnia and Herzegovina signed the EU Stabilization and Association Agreement in 2008 and applied for EU membership in 2016. For Bosnia and Herzegovina, which after sending the answer to the EC Questionnaire, is still waiting for the Opinion on the

application for EU membership, it is predicted that with continuous work and engagement, the status of a candidate for membership in the Union can be obtained. This perspective is far from promising regarding BiH's prospects of becoming a member of the EU shortly.

“Bosnia and Herzegovina is still far from the level of development of production capacities and the level of competitiveness that the former members had when they joined the European Union. Bosnia and Herzegovina's exports are still at a low level, and for a country in transition with a higher middle income, it should account for around 50-60% of GDP. The private sector is weak, overshadowed by the vast public sector. Exports are low because production is low. The transport infrastructure is inadequate, and BiH lags behind the EU member states and the other ZB-6 countries every year in terms of business innovations and technologies. Bosnia and Herzegovina must maintain its focus on EU integration, obtain the status of a candidate country for EU membership, start opening chapters of the EU acquis and become a member of the WTO.” (Kostić, 2018).

Regardless of the questionable perspective of BiH regarding the upcoming entry into the EU, the procedures or the praise and criticism coming from the EU, the views of socioeconomic development, and the need for actual positive developments are what the citizens of BiH most need and expect shortly. For these reasons, a detailed analysis of the initiative provides a direction for action and future development of BiH.

According to the 2013 census, the population of Bosnia and Herzegovina decreased from 4.3 million to 3.5 million in 1991. Even though the Human Development Index increased by 5.2 % between 2005 and 2014, social and economic disparities and poverty are rising, particularly in rural areas. Additionally, gender inequality remains problematic: of all working-age women, only 34 % are employed or actively looking for a job. Concerning men, the labor force participation rate stands at 57 % (SDC, 2016, p.11).

The World Bank's 2017 Doing Business report measures the ease of doing business in a country, according to which BiH is in the 81st position out of a total of 190 countries. Bosnia and Herzegovina has regressed by two ranks compared to last year's report, and is it the worst place compared to the region?

According to the above Doing Business report and the indicator that measures initiation of business, BiH is ranked 174th because to open a company; you must go through 12 procedures and wait an average of 65 days. It is necessary to obtain a building permit to wait 179 days and undergo 15 procedures. Introducing electricity is also a lousy segment where we are ranked 123rd; it takes 125 days and eight courses (Mrnjavac, Efendić Adžajlić, 2017).

It is important to note that the projected real GDP in Bosnia and Herzegovina for 2022 (% change) was 2.5. Forecasted consumer prices for 2022 (% change) amounted to 6.5.

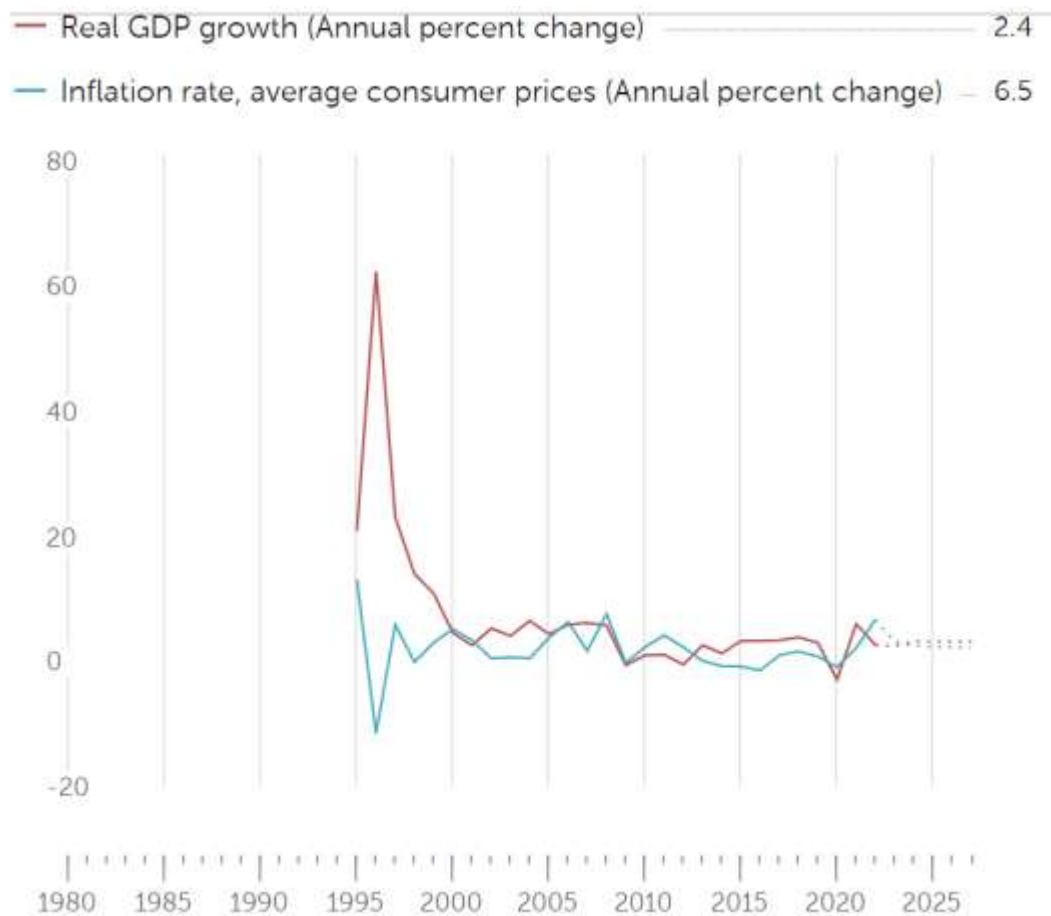


Figure 1: Growth of GDP and inflation in Bosnia and Herzegovina

Source: <https://www.imf.org/en/Countries/BIH#countrydata>, access 10.08.2022.

The COVID-19 pandemic in Bosnia and Herzegovina had severe negative consequences on the economy. After introducing health restrictions to combat the pandemic, economic activity was severely affected, leading to a significant reduction in demand.

The authorities of Bosnia and Herzegovina significantly influenced progress in improving the business environment and the labor market's functioning. However, institutional weaknesses were also recorded, especially at the state level. The Weak rule of law, poor quality of public infrastructure, and delays in implementing critical regional connectivity projects remain vital factors undermining the country's attractiveness for private sector development and foreign investment (IMF, 2022).

Table 2: Key economic indicators for Bosnia and Herzegovina

	2017	2018	2019	2020	2021
				Est.	Proj.
Nominal GDP (KM billion)	31.4	33.4	35.3	33.2	34.8
Gross national saving (in percent of GDP)	16.2	17.7	18.5	18.4	16.5
Gross investment (in percent of GDP)	21.1	21.1	21.6	21.9	21.5
	(Percent change)				
Real GDP	3.2	3.7	2.8	-5.5	3.5
GDP Deflator	1.7	2.7	2.6	-0.4	1.1
CPI (period average)	0.8	1.4	0.6	-0.6	1.2
Money and credit (end of period)					
Base Money	12.4	10.3	6.9	0.3	6.2
Broad Money	9.5	8.8	8.7	1.1	6.3

Source: <https://www.imf.org/en/News/Articles/2021/02/26/pr2151-bosnia-and-herzegovina-imf-executive-board-2020-article-iv-consultation>, access 10.08.2022.

Economic growth in Bosnia and Herzegovina is expected to rise in 2022, although vaccine uncertainty dampens the outlook. Decisive policy and reform efforts, which are based on political consensus, are some of the critical factors in fostering a sustainable recovery.

Current startup environment in Bosnia and Herzegovina

The Bosnia and Herzegovina Startup Ecosystem is an emerging innovation hub, ranked at number 95 globally, and shows a negative momentum -10 spots since 2021. Bosnia and Herzegovina also ranks at number 23 for startups in Eastern Europe (Startupblink, 2022).

Bosnia and Herzegovina is an ideal location for Software and Data, Education, and Health startups. As the most popular industries in the country, there is a sample of 2 Software

and Data startups in Bosnia and Herzegovina, 2 Education startups in Bosnia and Herzegovina, and 2 Health startups in Bosnia and Herzegovina, on the StartupBlink Map.

On the StartupBlink Global Startup Ecosystem Map, there is a sample of 9 startups in Bosnia and Herzegovina, no accelerators in Bosnia and Herzegovina, five coworking spaces in Bosnia and Herzegovina, one organization in Bosnia and Herzegovina, and no leader in Bosnia and Herzegovina. (Startupblink, 2022).

The startup and venture ecosystem in Bosnia and Herzegovina is growing but still underdeveloped and unexplored.

Based on the report, the number of programs for young entrepreneurs is expanding, from university programs through non-governmental organizations and government initiatives to professional incubators and accelerators. The geographical scope is also increasing, and those above can be found in all the bigger towns in the country, including Sarajevo, Mostar, Banja Luka, Tuzla, and Zenica. Smaller towns are also exposed to this trend through more significant initiatives and as a part of current projects. Below you will find a short description of the key players in a national startup ecosystem that has been most active in the past five years and that has brought about some results and outcomes (Mygatewayproject, 2022).

Measuring the national startup ecosystem in Bosnia and Herzegovina is a quite challenging task. There is no existing official statistics but there are some similarities in data from different national and international organizations like that majority of companies are not registered as a startups, information about scores and turnovers are not complete, number of employees are missing etc. In accordance with available data Bosnia and Herzegovina has a low startup density value: 16 startups/1 million inhabitants where the most developed startup ecosystem can be found in capital city Sarajevo.

On the other hand, it is important to mention that the IT industry is the fastest growing industry in BiH, with the potential of becoming a leading industry in terms of domestic revenues as a percentage of GDP. There are constantly increasing number of IT companies in Bosnia and Herzegovina, estimating around 1,400 companies and about 2,500 to 3,500 programmers working in information technology, communications, and computer programming. There is umbrella association of the largest IT companies in B&H which have been united since 2014 under BIT Alliance. This is head association of IT industry in Bosnia and Herzegovina. Through their very active approach on local market their most important goal is to further develop positive business environment of Bosnia and Herzegovina IT industry through answers to two top questions and these are the lack of highly skilled employees and poorly developed IT industry infrastructure, accompanied with lack of development incentives.

It is essential to mention the public institutions' increased interest in Bosnia and Herzegovina startup ecosystem environment in the last few years. There are specially designed programs for startups with available grants from different institutions and ministries. On the other hand, expectations from startup companies are not linked with the available grants but rather to improvement of current business environment and investment risk decrease since there is a great potential for foreign investment for startup ecosystem in Bosnia and Herzegovina.

Besides support for startups from local public institutions there are different international organizations which are active in this field. For example USAID's Partnership for Innovation project helps young market entrants improve their work readiness and skills to prepare for jobs in the ICT sector. It also assists SMEs in adopting and better utilizing the latest ICT technologies and processes to improve their efficiency and competitiveness. Based on the South-east Europe Startup Report 2018 the last year, UNDP has been actively working on developing the startup community all across the country. Over 200 business ideas from various areas with a social responsibility component were presented during six startup days held in Tešanj, Zenica, Sarajevo, Ljubuški, Bijeljina, and Banja Luka, gathering more than 1,000 participants from 25 partner local communities. YEP in Bosnia and Herzegovina offers support to the programs that promote entrepreneurship through the institutions of all entities. The most significant projects they have done in this field are "Young Entrepreneur," "Online School of Entrepreneurship," and general support in developing mechanisms that promote entrepreneurship.

There are different stakeholders of the Bosnian and Herzegovinian startup ecosystem but the key stakeholders are the following ones:

Startups: Emerging startups, including the selection by Southeast Europe Startup Report 2018 by EIT Digital and ABC Accelerator: Koola, Fress, Vidiovo, Bizbook, Goodies, Printheos, Bookvar, Parttimers, Zoblak, Amplius, Kliker, Cadence, Giikly, blablaDev, Sophico.

Incubators, technology parks, accelerators, startups program: Start center, ICBL, SPARK, INTERA, Networks, Fondacija Mozaik, Linnovate, Beezone, HUB387, Bit Centar, QLab.

Investors: South Central Ventures SCV, ICT HUB Ventures, SEEBA.

Corporations: NSOFT, Mistral, Atlant BH, Authority Partners, Symphony, KLIKA, Ministry of Programing, BS Telecom Solutions, code-Nest, Comtrade, Green River Media, Lanaco, Mania, Misija: web, PING, Zira, BH Telecom, MTel, Unicredit Bank, Raiffeisen bank, Intesa Sao Paolo bank, etc.

Public institutions: Ministry of Foreign Trade and Economic Relations of Bosnia and Herzegovina, Federal Ministry of development, entrepreneurship and crafts, Ministry of

Economy and Entrepreneurship of the Republika Srpska, Cantonal ministries of economy and entrepreneurship Universities.

The key HUBs of the Bosnian and Herzegovinian startup ecosystem are: HUB387, SPARK, INTERA Technology Park, ICBL - Innovation Centre Banja Luka, BIT Centar, QLAB, Foundation Networks and Foundation Mozaik

CONCLUSION

Although it can be concluded that startup ecosystem in Bosnia and Herzegovina is alive and active because there are developed startups, supporting institutions, ambitious founders and there is still great potential for further development. It is evident that political and business environment is critically linked with the current development status of startup ecosystem in Bosnia and Herzegovina.

Most early-stage startups have faced challenging political, policy, and regulatory issues regarding attracting investment with complicated and expensive administrative procedures, big fiscal and parafiscal levies on business people and lack of favorable lending programs. This is a quite big issue which result in significant equity financing gap which represents insufficient resources to financially support and invest in the national startups. Once the country implement needed reform and accelerate acquisition path to the EU, the startup ecosystem can improve significantly.

Even in these circumstances, there is still great potential for creating fast-growing startups in Bosnia and Herzegovina but the country should create business environment for this through improvements and reforms in the fields like ease of opening companies, tax incentives, educational system, equity investment gap and (regional) networking.

There may be some possible limitations in this study and the greatest one is limited access to data about startup ecosystem environment in Bosnia and Herzegovina since this is relatively new field in Bosnia and Herzegovina. Since this study involved surveying certain people and organizations in the country, the author has faced the problem of having limited access to these respondents. On the other hand, since the author used official data from relevant institutions, the study findings are very reliable and valid despite the mentioned limitations.

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