

INSTITUTIONAL FRAMEWORK AND OBSTACLES TO DEVELOPMENT OF CRAFTS IN THE FEDERATION OF BOSNIA AND HERZEGOVINA

Zdenko Klepić, Igor Živko, Nikola Papac

Faculty of Economics, University of Mostar

Abstract

A craft in FB&H is an independent and permanent pursuit of legal and registered economic activities in primary, supplementary or additional occupation, by physical persons, for the purpose of generating profits through production, trades or provision of services on the market. Crafts fall into the category of SMEs, and SMEs constitute almost 90% of the total number of companies in BiH. In order to develop entrepreneurship in B&H, it is therefore very important to improve the legislative framework, provide balanced conditions for development of crafts throughout B&H and try to have a stimulating effect on craftsmen in order to provide adequate place to this sector in the overall economy and encourage growth and development of the overall economy.

The legislative framework for development of crafts in FB&H is divided into a part related to laws, and a part related to decrees and regulations on crafts in FB&H. In their operations, crafts and craftsmen face many challenges and obstacles, such as the inadequate legislative framework that does not ensure development of crafts in compliance with international standards and brings inconsistent conditions in the whole territory of FB&H. Bringing the legislative framework for crafts into line with international standards and harmonizing it in the entire territory of FB&H would help create better conditions for development of crafts but also for development of the overall B&H economy.

Key words: craft, Federation of B&H, SME

1. INTRODUCTION

A craft in FB&H is an independent and permanent pursuit of legal and registered economic activities in primary, supplementary or additional occupation, by physical persons, for the purpose of generating profits through production, trade, or provision of services on the market. The legislative framework for the development of crafts in FB&H is divided into a part related to laws, and a part related to decrees and regulations on crafts in FB&H. The environment in which economic entities registered as "crafts" operate requires identification of obstacles and limitations in their operation from the start and practice of the activity for which they are registered. Crafts fall into the category of SMEs, and SMEs account for almost 90% of the total number of enterprises in B&H and their role in the overall business system and development of B&H is very important. This research will analyze laws and subordinate legislation (decrees and regulations) governing craft activities, as the first part of the research.

In the next step, it will identify the key obstacles and problems for development of crafts by mapping the law and subordinate legislation and conduct a survey by examining craftsmen and their opinions on the identified problems. Based on the analysis and analytical results using the synthesis method the main problems will be presented as well as suggestions for overcoming them. The final part will give an overview of the most significant practical weaknesses of the legal framework and define recommendations for their elimination.

The aim of this paper is to establish weaknesses and obstacles to development of crafts that are found in the institutional framework and provide adequate suggestions for solving the weaknesses and obstacles. It is possible to postulate two hypotheses: H1 - the legal framework has deficiencies and is not in compliance with international standards for crafts; H2 - craftsmen and representatives of institutions have different opinions about what the problems are in the legislative framework for development of crafts in BiH.

2. CRAFT - THE TERM AND MEANING

2.1. The term of craft

A craft in FB&H is an independent and permanent pursuit of legal and registered economic activities in primary, supplementary or additional occupation, by physical persons, for the purpose of generating profits through production, trade, or provision of services on the market. Related activities are the registered economic and other activities performed by physical persons according to principles of crafts, and which are not considered crafts. Related activities allow any economic and other activity that is not banned by the law and that is not regulated by a special law. Craftsman or person performing a related activity is a physical person who performs an activity in his/her own name and for his/her own account, and while doing so, s/he can also use the labor of other persons with whom s/he is obligated to conclude a contract of employment, pursuant to the Labor Law and collective agreement.

The advantages of setting up a craft are the following:

1. lower costs of setting up and starting a craft,
2. craftsman sets up a craft on his/her own, which makes the procedure significantly more cost-effective and easier in relation to other legal persons,
3. simpler bookkeeping system,
4. advantages in payment of taxes (tax payment for what has been collected - tax on income and VAT calculation only after collection of receivables and payment of obligations).

The specified advantages also represent the main stimulation for setting up a craft and development of craftsmanship as one of the SME segments (small and medium enterprises, SME sector).

2.2. The legislative framework for crafts in FB&H

Before specifying the legal or legislative framework itself, it should be noted that B&H is a complex country, consisting of two entities (FB&H) and the Brcko District. The legal framework for crafts is related to entities and local government (municipalities). Such regulations are the cause of three separate legal frameworks in B&H at the state level and many specifics at the level of each particular municipality in the field of regulation of crafts. The research analyzed only the territory of FB&H, and the main reason for that is the fact that researchers are bound to it but also that its development is not in a causal connection with the development of crafts in other entities.

The legislative framework for development of crafts in FB&H has to be divided into a part related to laws, and a part related to decrees and regulations on crafts in FB&H.

The legal framework related to crafts in FB&H is:

1. Law on Crafts and Related Activities (Official Gazette of FB&H, 35/09), Coming into force of this Law on Crafts and Related Activities caused the Law on Crafts to cease to be effective ("Official Gazette of the Federation of B&H", 52/02, 29/03, and 11/05),
2. Law on Encouraging the Development of Small Enterprises (Official Gazette of FB&H, 19/06, 25/09),
3. Law on Business Companies ("Official Gazette of the Federation of B&H", 23/99, 45/00, 2/02, 6/02, 29/03, 68/05, 91/07, 84/08, 88/08, 7/09, and 63/10),
4. Law on Accounting and Auditing in FB&H ("Official Gazette of FB&H", 83/09).

Decrees related to crafts in the Federation of Bosnia and Herzegovina:

1. Decree on the manner of granting approvals for special crafts (Official Gazette of FB&H, 47/09),
2. Decree on related and special crafts (Official Gazette of FB&H, 66/09),
3. Decree on the protection of traditional and antique crafts (Official Gazette of FB&H, 66/09),
4. Decree amending the Decree on the protection of traditional and antique crafts (Official Gazette of FB&H, 38/10),
5. Decree amending the Decree on related and special crafts (Official Gazette of FB&H, 62/10).

Regulations related to crafts in the Federation of Bosnia and Herzegovina:

1. Regulation on procedures in implementation of the small enterprise development program (Official Gazette of FB&H, 18/09),
2. Regulation on the contents and form of the diploma of Master Craftsman title (Official Gazette of FB&H, 41/09),
3. Regulation on the contents and form of craft license, contents and form of approval for practicing special crafts and contents and form of approval for practicing related activities (Official Gazette of FB&H, 41/09),
4. Regulation on the form and manner of keeping Register of Approvals for practicing special crafts (Official Gazette of FB&H, 41/09),
5. Regulation on the election procedure in canton/county chambers of crafts and Chamber of Crafts of the Federation of B&H (Official Gazette of FB&H, 47/09)
6. Regulation on minimum technical and other conditions that must be satisfied for business premises (Official Gazette of FB&H, 47/09),
7. Regulation on taking master craftsman's exam (Official Gazette of FB&H, 54/09),
8. Regulation on activities that can be performed as home crafts (Official Gazette of FB&H, 61/09);
9. Regulation on activities that can be performed seasonally (Official Gazette of FB&H, number 61/09);
10. Regulation on activities that can be performed in residential premises (Official Gazette of FB&H, 61/09),
11. Regulation on activities that can be performed outside business and residential premises (Official Gazette of FB&H, 61/09),
12. Regulation on the form and manner of keeping the Crafts Register (Official Gazette of FB&H, 73/09),
13. Regulation on the amount of membership fee, its distribution between different forms of craftsmen's associations and the method of payment (Official Gazette of FB&H, 52/10).

In respect of the definition of craft itself, we will analyze the following segments of Articles 2 - 8 of the Law on Crafts and Related Activities (Official Gazette of FB&H, 35/09):

1. conditions for opening a craft,
2. home crafts,
3. seasonal practicing of activities,
4. related and special crafts,
5. related activities,
6. traditional and antique crafts.

Each of these segments was analyzed by authors in order to establish legal weaknesses that may affect development of crafts and the established conclusions were verified with craftsmen themselves through a field survey.

2.3. Opening a craft business

Legal regulations on opening crafts are defined in Articles 2 - 8 of the Law on Crafts and Related Activities (Official Gazette of FB&H, number 35/09). Conditions for opening a craft business can be summarized in the following group of general and special requirements.

The general conditions are:

1. to be a citizen of Bosnia and Herzegovina,
2. to be a person able to contract,
3. to comply with general and special health requirements, if prescribed by a special law,
4. not to be imposed a protective measure of ban on practicing the craft while the measure is effective, by a final court judgment, decision on misdemeanor or an administrative act.

5. to have no outstanding obligations to public revenues.

Special conditions are:

1. prescribed level of competence (professional qualification or passed master craftsman's exam) if related crafts are concerned,
2. approval for a specific craft in case of practicing special crafts, which is issued by the competent federal ministry or other state body (e.g. for performing mining operations or road transport of passengers or goods).

A physical person may perform a craft as an additional occupation if s/he fulfills the listed conditions and if s/he already has a permanent employment on any basis. A craft can be performed as a seasonal craft, specifically for a period not exceeding six months within one calendar year, and during that period the craftsman activates his/her insurance plan. Home craft is also considered as a craft, i.e. activities of production and completion of items predominantly through handwork and household services. Such a craft is performed independently or with the help of members of the common household. Member of the common household (spouse, children, parents, adopted persons and adopters, step-children) are allowed to help the craftsman in performing the craft. Two or more physical persons can perform a craft jointly if they satisfy general conditions from the Law and if at least one person also satisfies the special conditions. Mutual relations and responsibilities of these persons are arranged by a written contract that governs the obligatory relations in the partnership. Joint practicing of crafts ceases when the number of founders becomes reduced to one and in that case it is possible to make a re-registration into a self-employment in the craft. Pensioners may be engaged in a craft, but in case of handling a craft at the same time, their pension shall be suspended. A foreign citizen may practice a craft provided that s/he has a working permit, meets general and special requirements and the principle of reciprocity is applied. The process of opening and starting a craft business is shown in Figure 1.

Figure 1. The proces in setting up a craft

Step I	Step II	Step III	Step IV
FILLING UP THE APPLICATION AND FORMS RL-1 AND RL-3	OBTAINING THE IDENTIFICATION NUMBER	REGISTERING WITH THE PENSION AND DISABILITY INSURANCE FUND	REGISTERING IN THE REGISTER OF TAX PAYERS
SUBMITTING THE NECESSARY DOCUMENTS	DECISION ON THE REGISTRATION IN CRAFTS REGISTER	REGISTERING WITH THE HEALTH INSURANCE FUND	REGISTERING IN THE REGISTER OF VAT PAYERS (if necessary)
PAYMENT OF COSTS	CRAFT LICENSE	OPENING A TRANSFER ACCOUNT	DECISION ON MINIMUM TECHNICAL CONDITIONS
		PRODUCTION OF STAMP	

Source: Guidebook for opening a craft business: How to open a craft? Federal Ministry of Development, Entrepreneurship and Crafts, www.fmrpo.gov.ba, Mostar, 2008.

2.4. Technical conditions for opening a craft

Premises and equipment for a craft shall satisfy regulations on technical equipment, safety at work, safety and improvement of human environment, noise protection, health and sanitary conditions, and other regulations related to performing a specific economic activity.

The minimum height of working and ancillary premises is 2.40 m. The minimum height of ancillary premises lesser than 10 m² is 2.10 m. The minimum width of movement area between equipment shall not be less than 0.70 m. In working premises, at least 3 m² of free basement area with the volume of at least 10 m³ must be provided for each employee, or each work place. Business premises constructed as a two or more story building shall have a constructed staircase 1.00 m in width or wider. Business premises must have rooms for personal hygiene of employees, which are enclosed at least from one side by an anteroom fitted with a washbasin with hot and cold water.

These provisions do not apply to already constructed business premises in which a craft activity is practiced, premises with approval from competent municipal authorities, or to existing business premises which are located in zones where construction is prohibited or which are situated in structures declared as cultural and historical monuments.

All persons with adequate and prescribed education in the given profession satisfy the condition of competence. Persons not satisfying the special condition of competence can also perform a related craft, provided that they employ a worker who has the prescribed qualification level.

The municipal authority competent for the field of crafts in the territory where the craft will be based shall issue a decision approving the craft activity, or decision rejecting the request within 15 days. The competent authority shall make a decision within 30 days from the day of receiving the notice.

3. INVESTIGATION OF THE CRAFT BUSINESS FUNCTIONING PROBLEM

In order to verify the conducted theoretical analysis of regulations for crafts and related activities, we analyzed the survey of opinions of craftsmen and craftsmen's associations on problems they face during setting up and operation. In municipalities/towns, we also conducted a survey of opinions of employees directly dealing with craftsmen, namely in departments of economy, on problems of craftsmen from their viewpoint.

Opinions of craftsmen, craftsmen's associations and municipalities on problems identified by the analysis of regulations were tested by a field survey. Regulations were analyzed in the first step and the identified problems were investigated in the second step of the research. The survey was conducted using a questionnaire designed specifically for this investigation, which consisted of several different questions specifically created for craftsmen or entrepreneurs, and which were related to several questions about crafts, and several questions on which municipalities and craftsmen's associations were not asked for opinions.

Questions were of a closed style with answers offered by using a Likert scale from 1 to 5. The questionnaire presented certain statements, and answers were rated from 1 if does not agree at all up to the maximum of 5 if fully agrees with the statement. The survey was conducted in the entire territory of the Federation of Bosnia and Herzegovina and it covered 28 craftsmen, 13 municipalities/towns and 13 associations of craftsmen/entrepreneurs. The survey was carried out late in December 2013 and early in January 2014. Tables that represent survey results show only claims of agreement, while other claims are not included.

3.1. Problems related to opening a craft

The survey asked opinions of craftsmen on problems related to opening crafts, and in the questionnaire craftsmen were asked four questions identified by the analysis of laws. Associations of entrepreneurs and municipalities/towns were asked the same questions, accompanied with three additional questions presented in the following table from the serial number 5 to 7.

Table 1. Opinion survey results on craft opening related problems

Ser.no .	Problem description	Mainly agrees or fully agrees in %		
		Craftsme n	Association s	Municipalitie s
1.	obtaining education (certain professions do not exist in all counties and it is not possible to provide education and thereby start crafts related to that craft)	93%	85%	77%
2.	problem of obtaining education for antique crafts (occupations)	89%	92%	85%
3.	unequal education opportunities in counties/cantons	71%	85%	62%
4.	high basic conditions for required size of business premises	58%	46%	15%
5.	problem with obtaining approvals		46%	0%
6.	problem with obtaining electric power connection		15%	15%
7.	problem with obtaining the building permit		54%	23%

Source: processed by authors

Based on the obtained results, it was established that the most significant problem related to opening a craft is obtaining education (certain professions do not exist in all counties and it is not possible to conduct education and thereby start crafts related to that craft).

3.2. The problem of obtaining general and special conditions for practicing a craft

The questionnaire also asked five questions about presence of problems when acquiring general and special conditions to perform a craft.

Table 2. Opinion survey results on the problem of obtaining general and special conditions to practice a craft.

Ser.no .	Problem description	Mainly agrees or fully agrees in %		
		Craftsme n	Association s	Municipalitie s
1.	When defining health conditions, it is necessary to open possibilities for the greatest possible social inclusion for groups at risk....	75%	69%	54%
2.	There is a problem of education for some occupations - absence of adequate education,	93%	92%	77%
3.	There is a problem of additional education for some occupations,	71%	85%	62%
4.	There is problem when changing profession of the craft holder and it is necessary to provide clear and simple criteria for change of profession for craft holder or persons taking over crafts,	75%	69%	54%

5.	There is a problem because there is no unified register of occupations or unified education strategy - differences from county to county	86%	77%	77%
----	--	-----	-----	-----

Source: processed by authors

According to survey results, the most prominent problem is the issue of education for some occupations that are a requirement for performing certain tasks and registering a craft. Opinions of employees in municipalities on presence of these problems are considerably milder than opinions of entrepreneurs and their associations.

The conclusion is that specifications of additional or supplementary occupations need to be revised at the level of FB&H and brought into line with market demands.

4. CONCLUDING CONSIDERATIONS

Small and medium enterprises, especially crafts and related activities, are becoming one of the possibilities that can drive employment and economic growth and provide a faster way out of the crisis. The role of the state is to create an entrepreneurial ambient in which entrepreneurship is a desirable and profitable activity, in which entrepreneurs are esteemed and motivated to invest, employ and run businesses. However, Bosnia and Herzegovina has become an unstimulative and undesirable zone for entrepreneurship due to its complexity (two entities, Brcko District, 10 counties in the Federation of B&H) and different constitutional and legal solutions.

This investigation sought to analyze the regulatory framework in the Federation of Bosnia and Herzegovina, which regulates start, work and operations of crafts and related activities, and to identify problems and establish possible solutions for them. Analysis of statutory and other legal regulations identified numerous problems resulting from inadequate legal solutions, although some of them are also caused by the very complexity and competencies and authorities of the state. One of the biggest problems is the inconsistent legal framework in the entire territory of B&H and harmonization of the legal framework with international standards for crafts. This is best evident from problems in the stage of setting up a craft, fulfilling requirements for practicing the craft, education to satisfy the requirements for practicing the craft, taking examinations for certain professions and occupations and especially ancient and traditional crafts.

Based on the obtained results, it was established that the most significant problem related to opening crafts is obtaining education (certain professions do not exist in all counties and it is not possible to conduct education and thereby start crafts related to that craft). According to the survey results, the most significant problems in practicing ancient and traditional crafts are also education for such occupations, and the problem of inability to perform several activities by a single craft.

Field survey results have clearly emphasized what the problems of craftsmen are and which of them are more important and should be given priority in solving. At all levels, the state should pay attention to what craftsmen think and adjust legal regulations according to principles of harmonization both horizontally and vertically. With the regulatory framework, the state should create such an entrepreneurial environment that will enable and facilitate new businesses startups, current business operations, and ensure their survival and development.

REFERENCES

1. Buble, M., Klepić, Z. 2007, Menadžment malih poduzeća – osnove poduzetništva, Ekonomski fakultet Sveučilišta u Mostaru, Mostar,
2. Decree amending the Decree on related and special crafts (Official Gazette of FB&H, 62/10).
3. Decree amending the Decree on the protection of traditional and antique crafts (Official Gazette of FB&H, 38/10),
4. Decree on related and special crafts (Official Gazette of FB&H, 66/09),
5. Decree on the manner of granting approvals for special crafts (Official Gazette of FB&H, 47/09),
6. Decree on the protection of traditional and antique crafts (Official Gazette of FB&H, 66/09),
7. Global Entrepreneurship Monitor – 2013 Global Report 2014, Babson College, London Business School, London.
8. Guidebook for opening a craft business: How to open a craft? 2008, Federal Ministry of Development, Entrepreneurship and Crafts, www.fmrpo.gov.ba, Mostar,
9. Law on Accounting and Auditing in FB&H ("Official Gazette of FB&H", 83/09),
10. Law on Business Companies ("Official Gazette of the Federation of B&H", 23/99, 45/00, 2/02, 6/02, 29/03, 68/05, 91/07, 84/08, 88/08, 7/09, and 63/10),
11. Law on Crafts and Related Activities (Official Gazette of FB&H, 35/09),
12. Law on Encouraging the Development of Small Enterprises (Official Gazette of FB&H, 19/06, 25/09),
13. Regulation on activities that can be performed as home crafts (Official Gazette of FB&H, 61/09);
14. Regulation on activities that can be performed in residential premises (Official Gazette of FB&H, 61/09),
15. Regulation on activities that can be performed outside business and residential premises (Official Gazette of FB&H, 61/09),
16. Regulation on activities that can be performed seasonally (Official Gazette of FB&H, number 61/09);
17. Regulation on minimum technical and other conditions that must be satisfied for business premises (Official Gazette of FB&H, 47/09),
18. Regulation on procedures in implementation of the small enterprise development program (Official Gazette of FB&H, 18/09),
19. Regulation on taking master craftman's exam (Official Gazette of FB&H, 54/09),
20. Regulation on the amount of membership fee, its distribution between different forms of craftsmen's associations and the method of payment (Official Gazette of FB&H, 52/10)
21. Regulation on the contents and form of craft license, contents and form of approval for practicing special crafts and contents and form of approval for practicing related activities (Official Gazette of FB&H, 41/09),
22. Regulation on the contents and form of the diploma of Master Craftsman title (Official Gazette of FB&H, 41/09),
23. Regulation on the election procedure in canton/county chambers of crafts and Chamber of Crafts of the Federation of B&H (Official Gazette of FB&H, 47/09)
24. Regulation on the form and manner of keeping Register of Approvals for practicing special crafts (Official Gazette of FB&H, 41/09),

25. Regulation on the form and manner of keeping the Crafts Register (Official Gazette of FB&H, 73/09),
26. Škrtić, M. 2006, Poduzetništvo, Sinergija, Zagreb.
27. Verheul, I., Wennekers, S., Audretsch, D., Thurik R. 2002, An Eclectic Theory of Entrepreneurship: Policies, Institutions and Culture, u: Audretsch, D. (ed.): Entrepreneurship: Determinants and Policy in a European-US Comparisons, Kluwer Academic Publishers, Boston.