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COVID-19 Needs Assessment

Needs of micro, small, and medium enterprises in Bosnia and Herzegovina
to overcome the Crisis

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March 2021

IMPRESSUM

COVID-19 Needs Assessment - Needs of micro, small, and medium enterprises in Bosnia and Herzegovina to overcome the Crisis

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Mitigating COVID-19 crisis impacts on MSMEs in Metal, Mechanical, Wood Industry and Tourism Sector in Bosnia and Herzegovina

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List of Abbreviations

BiH	Bosnia and Herzegovina
DoA	Description of Action
FBiH	Federation of Bosnia and Herzegovina
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GVC	Global value chain
ICT	Information and Communications Technology
IIP	Index of Industrial Production
ILO	International Labour Organisation
MSME	Micro, Small and Medium sized Enterprises
NGO	Non-governmental organization
OSH	Occupational Safety and Health
RS	Republic of Srpska
UNDP	United Nations Development Programme

EXECUTIVE SUMMARY

According to business surveys performed back in March 2020, the COVID-19 crisis has affected 90% of micro- and small enterprises in the metal, wood, textile and agriprocessing sectors, while some services, such as tourism, transport and hospitality were facing most severe reduction in business operations and employment. FDI inflows into the country have almost stopped during the COVID-19 pandemic.¹

Short-term effects on wood, metal and tourism sectors include:

- Supply chain disruptions
- Export decline
- Turnover and liquidity issues
- Production decline (wood and metal) / Lack of tourist arrivals (tourism)
- Business closure and job losses

In the longer-term, returning to business as usual is likely to require significant adjustments, with cost implications, including securing safe work environments. For the tourism sector, COVID-19 pandemic will change the way the people travel as well as the tourist's expectations towards more individual, personal/tailored experience.

Key needs of MSMEs in the targeted sector include:

- Adequate occupational safety and health (OSH)
- Access to finance
- Product and Process Innovation management / Adapting business model and service offering
- Support to Access to new markets and partnership / Pivoting operations to cater to new markets
- Supply-chain management (in wood and metal sector)
- Risk assessment and management implementation (in wood and metal sector)

SUPPLY CHAIN MANAGEMENT



Ongoing Governmental support measures rely on tax measures and subsidizing wages and operational costs. International support measures are more diversified from OSH support to long-term financing and adapting technology, product and process innovations and the economic regulatory environment.

Overall, innovating products and production process in wood and metal sector through a better understanding of the market and supply chain is another key response to overcome the crisis. As an immediate priority, the Action should result in increased capacities of MSMEs for ensuring business continuity and improvements in operations for development of new products and services and access to new markets. The recovery of supply chains will result in increased vertical integration, automation, digitalisation, and efficient use of resources. Ultimately, the assisted companies should become more resilient by adapting more sustainable business models, diversifying product portfolios and markets while maintaining the current workforce and gradually creating new jobs.



Looking at the Tourism Sector, a key response to the crisis lies in restoring travellers' confidence and ensuring COVID-safe environment. In parallel to this MSMEs should be supported to adapt and building more resilient, sustainable tourism. This can happen only if MSMEs focus on development of the touristic offers and innovative marketing (not only promotional) efforts in specific destinations addressing the challenges faced during COVID-19 so that it adds value to the whole value chain by strongly cooperating through DMOs and/or partnerships.

1. METHODOLOGY

The assessment is conducted by GIZ office in BiH in March 2021 within EU4Business Recovery project.

The **aim** of this assessment is to identify the untapped potential for support within the wood, metal and tourism sectors (targeted sectors) in BiH affected by COVID-19 pandemic.

Research questions addressed in the assessment include:

1. What are the impacts of COVID-19 on targeted sectors in BiH?
2. What are the needs of MSMEs in targeted sectors?
3. Which support measures for the targeted sectors are currently ongoing in BiH?
4. What are the remaining, untapped needs of the MSMEs in targeted sectors?

Secondary data was used to determine the effects of COVID-19 on the targeted sectors and existing support measures (research questions 1 and 3). It included publicly available data and reports which are relevant, easy to interpret and present reliable and timely public data sources listed in the Endnotes at the end of the document.

Primary data was used to identify the initial and remaining needs of MSMEs (research questions 2 and 4) and it was additionally confirmed by secondary data. It included conducting semi-structured interviews with key stakeholders by GIZ experts:

- 7 individual meetings with key stakeholders from the tourism sector in August 2020
 - 1) Sarajevo Navigator Foundation/ Initiative (web platform) “Odmori u BiH”/Linden d.o.o.; 2) Association of Hoteliers in BiH/and Representative of Hoteli Sunce Neum; 3) Tourism Organisation Jahorina-East Sarajevo City (Partnership Project Sarajevo-Romanija Region – Outdoor; 4) Una Sana Tourism Cluster; 5) Hercegovina Tourism Cluster; 6) Faculty of Economics, University of Sarajevo; 7) Tourism Association of Hercegovina-Neretva Canton; 8) Tourism Association of Central Bosnia Canton; 9) Association of Entrepreneurs in Trade, Tourism and Hospitality, Republic of Srpska - HORECA
- 6 individual meetings with key stakeholders from export-oriented sectors in September 2020
 - 1) Foreign Trade Chamber of Bosnia and Herzegovina; 2) Chamber of Economy of the Federation of BiH; 3) Chamber of Commerce and Industry of the Republic Srpska; 4) Wood Cluster PD Prijedor; 5) Wood Cluster Herzegovina; 6) Foreign Investors Council

Among other research questions, interviews included obtaining stakeholders' feedback on the Action Document, on key issues for the Action's approach and activities as to be presented in the Description of Action. Overall, interviewed stakeholders agreed the scope of work and approach proposed for the Action matches their needs.

2. WOOD AND METAL SECTORS

The wood industry is one of the strongest industries in the country, with a large surplus in foreign trade. There are 1,328 enterprises² operating mainly in the furniture and wooden construction products sub-sectors.³ Companies in BiH invest great efforts in the development of this sector, often with their own designs or products created based on the designs of prominent international designers.

By strategically utilizing its resources, Bosnia and Herzegovina has been continuously strengthening its metal processing and electrical industry, which is arising as the most promising potential of this country. There are 1,149 enterprises⁴ in the metal and mechanical industry including basic metals, metal processing and manufacture of various metal products. The auto industry has experienced strong growth and high profitability. The defence industry is also a very important driving force of this sector, representing a combination of tradition and quality products.⁵

Majority of all the companies in both sectors are export driven and make large portions of total export worth.

2.1 Short-term effects and expected long-term development

Supply chain disruptions

Industries linked to the global value chains (GVC) are among the most affected. Manufacturing in the Western Balkans is suffering from both supply disruptions that slowed production and demand subdued by recessions in EU trading partners. Hardest hit has been, amongst others, the furniture sector, producers of electrical machinery and equipment, machinery and mechanical appliances, automobiles, which are the most integrated in trade with Europe through GVCs; some, like the automotive sector, have temporarily ground almost to a halt. However, given the relatively high import content of their goods exports, the negative effect on the external positions of BiH, is slightly smaller than in its neighbours.⁶

As in many other industries, disruptions in forest-related supply chains have resulted in a sharp decline in exports and imports throughout the world. Global demand for wood and wood products, including tropical timber, graphic paper and wood furniture, has fallen. As orders for both timber and processed products have been postponed or cancelled, forest-related industries have not been able to continue operating at full capacity. These challenges have been intensified by the impeded performance of badly affected sectors intricately linked to forests and forestry, such as transportation, forest-based recreation and tourism, and sectors that use wood as a raw material, including construction and automotive manufacturing.⁷

Export decline

According to official foreign trade statistics,⁸ in the period January-December 2020 total export of BiH was 8.5% lower than in the same period of 2019.

Export of *cork and wood manufactures* have decreased for the first time in four years with usual growth rates of up to 15%. The decrease can also be seen in *furniture (production) and parts thereof*. Although less pronounced the sector shows, again, decreased exports in comparison to 2019 after already facing contractions since 2018.⁹ However, there was a significant decline in export in the first months of the pandemic (March, April, May 2020) when export was only 2/3 of the export in the same months previous year.¹⁰

In total, wood sector (C16 and C31) made around 14% of export in 2020 (worth around BAM 1.5 million).

Export of *Manufactures of metal, Machinery and transport equipment, General industrial machinery and equipment* have decreased for the first time in three years with usual growth rates of up to 18%.¹¹ The export decline was most significant in the first months of the pandemic (March, April, May 2020) when export was only 2/3 of the export in the same months previous year.

Metal processing sector (C22-C30) export made around 43% of total export in 2020. Annual worth of metal processing sector in 2020 was around BAM 4.5 million which is only 90% of the export worth in 2019 (total worth was BAM 5 million).

Turnover and liquidity issues

In BiH, majority (70%) of the firms have had their normal business capacity utilization decline and turnover decrease as a result of COVID-19 related measures implemented in March and April 2020 – not only due to fewer orders but also due to cancellation of the existing ones.¹² In May 2020 companies across all sectors believed that their turnover will decrease in the 3-month period. Additionally, around 63% companies in BiH states liquidity as a main problem in terms of COVID-19 crisis, although, 40% states readiness to take a new loan or reprogram the existing one.¹³

Production decline

This stagnating production becomes most evident by looking at the Index of Industrial Production (IIP) – Figures 1 and 2.

In wood sector, a steep downturn from January 2020 to the worst decline in over a decade shows the severity of the situation¹⁴. Wood products excluding furniture contracted by 25% within four months followed by a steady recovery over the following months. However, without reaching the level of January 2020. Furniture production declined even by more than 50% from January 2020 to April 2020 showing the impact on the sector even in comparison to total manufacturing IIP in BiH. In contrast to several other sectors of the economy this sub sector was able to make a full recovery within a short period of time even exceeding January 2020 levels.



Figure 1 Index of Industrial Production (Wood) in Bosnia and Herzegovina from Nov '19 to Nov '20¹⁵

As for the metal sector, the decline of 11% in IIP in the machinery and equipment sector less severe compared to other fabricated metal products. However, the machinery and equipment sector was not able to fully recover and remained below the January 2020 level of 124.4 until the end of the observation period in November 2020. Other fabricated metal products except machinery face a more severe decline with a contraction of 27%. However, this sector was not only able to recover relatively fast but also to exceed its level from the beginning of 2020 by the end of the observation period in November 2020.

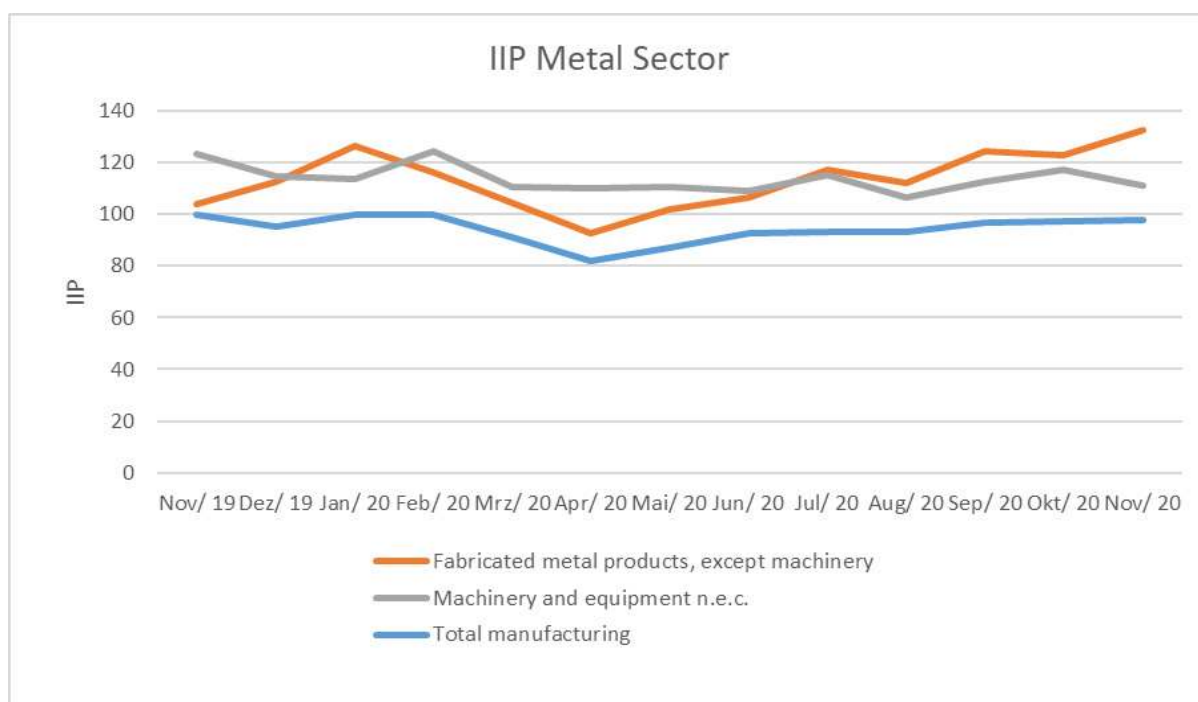


Figure 2 Index of Industrial Production (Metal) in Bosnia and Herzegovina from Nov '19 to Nov '20¹⁶

Business closure and job losses

The combination of this described downturn in production with reduced demand, shortages of raw materials, lack of working capital, freight rate increases and, in some cases, labour shortages, has forced many operations and enterprises to halt their activities, some permanently. In the wood sector, these include paper mills and manufacturers, sawmills, wood product manufacturers and logging companies.¹⁷ According to World Bank Regular Economic Review (Spring 2020) about 11% of businesses said they had to fire employees, and another 51.9% said they might have to do so soon.¹⁸

Employment statistics show there was a decrease in number of employees in BiH in Manufacturing (group C in Classification of Economic Activity) in 2020 compared to 2019 (around 2 percentage points).¹⁹ However, wood sector (in FBiH) experienced lowest employment levels in April 2020 since 2017 and has lost positive employment growth trend seen from 2017 onwards. Similarly, metal sector in FBiH experienced dramatic employment decline in April and May 2020 and by the end of 2020 still had not reached employment levels of 2019.²⁰ Data on employment fluctuation in targeted sectors was not available at the time of writing this document for Republic of Srpska, as the detailed Statistical Bulletin on Wages, Employment and Unemployment with 2020 data will be available in Q2 of 2021.

Long-term development

The period ahead remains challenging for companies in Bosnia and Herzegovina as they face the looming prospect of continued layoffs.

Multiple sources indicate that the recovery is likely to be uncertain and slow. For enterprises involved in global supply chains, disruptions to suppliers and consumers in other countries will continue to suppress demand for their goods. Returning to business as usual is likely to require significant adjustments, with cost implications, including securing safe work environments. In the absence of effective policies, these new requirements are likely to impose a severe constraint on enterprises.²¹

It is likely that the progress made over the years will slow down and, in some cases, will even slide back. Because of their limited resources to cushion the financial losses caused by the pandemic, medium, small and micro enterprises that dominate the economy of Bosnia and Herzegovina have been hit more severely compared to larger firms. The owners of small and large businesses alike are worried about the continued uncertainty.²²

2.2 Needs of the wood and metal sector

Generally, the needs of target sectors' MSMEs are in line with the needs of the (manufacturing) industry. Based on the primary sources (stakeholder interviews) and secondary sources²³ they include:

- **Adequate occupational safety and health (OSH)** - The metal and wood industry may be especially vulnerable given that the bulk of its workers are in on-site jobs that cannot be done remotely.
- **Access to finance** - Ensuring cash-flow liquidity and managing debt obligations in accommodating to external shocks. However, access to finance should not be limited only to liquidity issues but also include finance for new technology and innovation adoption.
- **Support to Access to new markets and partnership** – New opportunities are emerging from the crisis. Many EU corporations are considering moving their supply chains to the closer markets (from Asia to Europe), which can be a good chance to MSMEs in BIH to be recognized as new partners. To do so MSMEs need information about new markets (market analysis) and support to penetrate it.
- **Product and Process Innovation management** - Adoption of innovation and digitalisation. In the recovery period, businesses will have to adapt and innovate their business models to enable digitalization and online distribution channels. Additionally, they will need to innovate their products to increase their competitiveness.
- **Supplier management** - Respond and adapt to supply chain disruptions as they often have a more limited number of suppliers many in countries and regions affected by COVID-19. In target sectors, important issue is the fact that all trade fairs are cancelled or postponed, making it harder to find new partners and suppliers.
- **Risk assessment and management implementation** – Necessary to benchmark the enterprise and its vulnerability to COVID-19 and help in the identification of areas where its overall resilience to the COVID-19 crisis could improve - workers, supply chains, profit or reliance on third parties.

2.3 Ongoing support measures in the wood and metal sector

As this crisis has two interchangeable phases (epidemic and the recovery) due to the risk of several occurring waves, the rescue (short-term) and recovery (mid and long-term) measures are equally important.

Governmental support measures

- State level. *Exemption from payment of indirect taxes* on equipment and funds donated for the prevention, suppression and elimination of the epidemic. Joint Proposal was adopted to *facilitate the transport and trade* of basic goods with the Western Balkans. Decision on mandatory application of *preferential domestic treatment for one year*, starting from June 1 2020.²⁴

- The Council of Ministers, together with the entity governments, reached a loan arrangement with the International Monetary Fund (IMF) that provided BAM 330 million for urgent action to combat the economic consequences of the pandemic (61.5% for the Federation of BiH with its ten cantons, 37.5% to the Republika Srpska, and 1% to the Brcko District).
- FBiH decided to allocate the funds as presented below and they were used for *wage subsidies and operational costs reimbursement* with focus on export companies:²⁵
 - Federal Ministry of Energy, Mining and Industry, BAM 30 million for financial assistance to export companies.
 - Federal Ministry of Environment and Tourism, BAM 30 million for financial assistance to the tourism and hospitality sector.
 - Federal Ministry of Agriculture, Water Management and Forestry, BAM 10 million for financial assistance to the sector of agriculture and food industry.
 - Federal Ministry of Transport and Communications, BAM 20 million for financial assistance to the transport and communications sector.
- In FBiH, in May 2020, *The Law on Mitigation of Negative Economic Consequences* was adopted. This law provides for subsidizing contributions for compulsory insurance; suspension of calculation and payment of default interest on public revenues; abolition of the obligation to pay an advance on income tax; abolition of the obligation to pay an advance on personal income tax; termination of calculation of default interest on late payments in debtor-creditor relations; termination of forced collection; maintaining the stability of individual payments; delay in application of regulations; establishment of the Guarantee Fund.²⁶
- In RS, in April 2020, a *Decree-Law on Tax Measures for Mitigation of Economic* was adopted and amended in May 2020. It compiles earlier decisions on deferred filing and payment of tax liabilities; Postpones deadlines for payment of forestry fees, firefighting fees, and certain republic and local taxes; Defers the payment of the first instalment of real estate transfer tax; Reduces lump sum of annual personal income tax from BAM 600 to BAM 240; For business entities whose performance of business activities is prohibited, the payment taxes and contributions on net salaries for March, and payment of the minimum salary, taxes and contributions for April from the Solidarity Fund is secured²⁷
- The cantonal authorities are completely left to their own devices; 50% of the funds received by the Federation of BiH from the credit arrangement with the International Monetary Fund were provided for them. This behaviour of the state and entity authorities has led to very varied measures enacted by the cantons as aid economy. Due to non-transparency and timely adoption of measures, it is not possible to accurately identify all measures adopted at the cantonal level, but they represent a combination of measures from the adopted entity laws.²⁸

International support measures

In March 2020, *UNDP* presented its 'Prepare, Respond, Recover' integrated response to COVID-19. It focused on three immediate priorities, namely health systems support, multisector and socioeconomic impact assessment and response. In 2020, it delivered 9.1 million items of essential life-saving medical equipment and supplies, funded by 15 domestic and international partners.²⁹

World Bank's The Firm Recovery and Support Project (2021 – 2024) will support MSMEs affected by COVID-19 in BiH by loaning USD 65.30 million (BAM 106 million equivalent). It will help MSMEs recover through improved access to much-needed, longer-term financing and the provision of tailored programs, focused on adapting technology and digitization. Commercial banks have been cautious in intensifying their lending activity to enterprises at a time when demand by MSMEs for additional financing has increased. The project will also support the redesign of government programs aimed at helping firms adjust to the post COVID-19 world. It is expected that the project will directly support hundreds of businesses and as many as 10,000 jobs.³⁰

United States Agency for International Development – USAID's Workforce and Higher Access to Markets Activity (WHAM) (2017 – 2022) has the objective to support trade integration of BiH with the EU and regional markets, by accelerating sales, exports (to the EU and region) and employment in SME. Implemented by International Executive Service Corps.³¹

Other support measures identified in the country include:

- **Challenge to Change**, C2C (2016. – November 2021.) - The main goal of the project is to strengthen economic development in Bosnia and Herzegovina, and cooperation between Sweden and Bosnia and Herzegovina with focus on innovations.³²
- **EU4Business** (April 2018 – March 2022) project enables better use of companies, farmers and craftsmen potentials and achieve better competitiveness in domestic and foreign markets, through financial and technical assistance. Jointly implemented by GIZ, UNDP and ILO.³³

2.4 Remaining needs of the wood and metal sector

The key response to the crisis lies in competitive SMEs able to handle the pressures for improved productivity, competitiveness and safe working conditions. Despite the ongoing and planned support to MSMEs to mitigate the crisis effects, some of the needs still remain untapped. Below is the comparison of the initial MSMEs needs, the ongoing support and remaining needs. This section significantly relies on the findings from the interviews with the key stakeholders.³⁴ Direct support measures to MSMEs are needed to rescue jobs, facilitate quick recovery of business operations and increase resilience in a challenging market environment.

Table 1 Remaining needs of MSMEs in wood and metal sectors

Initial needs of MSMEs	Ongoing support	Remaining needs
Adequate occupational safety and health (OSH)	Sufficient in short term as a direct support in OSH supplies (UNDP and other donors)	OSH <u>supplies</u> are not seen as a priority by stakeholders. There is a need for a systematic approach to ensuring OSH in general
Access to finance	Liquidity initially restored by IMF loan and government measures. Some long-term financing will be provided by the World Bank.	Financial support still needed to implement other adaptations such as innovations and management.
Product and Process Innovation management	Some support is provided by EU4Business and C4C.	Significant financial and technical support is needed to plan and implement product and process innovation.
Supply-chain management	No direct ongoing support is identified.	Seen as priority by key stakeholders. Support need to improve supply-chain management.
Support to Access to new markets and partnership	Partially covered by, EU4Business and C4C.	Significant financial and technical support is needed to analyse and penetrate new markets.
Risk assessment and management implementation	No direct ongoing support is identified.	Support needed to build resilience.

Based on the identified remaining needs, EU4Business Recovery will focus on the main three areas of support. These were discussed and identified with the key stakeholders from the Export-Oriented Sectors and they include:

Adequate Occupational Health and Safety (OSH) long-term support

- Support could include developing sector-based guidance for occupational safety and health.
- It should be followed by technical and financial assistance to the selected Micro, Small and Medium Enterprises (MSMEs) to adopt occupational safety and health measures based on the sector-specific guidance.

Supply chain management (to contribute to the competitiveness)

- Support will include providing technical and financial support to conduct supply chain analysis and have concepts for improvement offered by business development experts.
- Corresponding adjustments to the supply chain will also be supported (technical and financial support)
- It will also include organisation of webinars on specific topics (e.g. supply chain management)

Access to New Markets (to support revenues)

- Technical assistance is needed to identify new markets, adjust their product portfolio to the needs and conditions of those markets in the COVID-19 crisis (increased online sales) and to digitalise their marketing efforts (e.g. e-commerce readiness).
- Financial support will be provided to finance related advisory services and investments (e.g. in software). Support will follow the requirements and needs of the MSMEs for utilization of their innovation potential.

Advisory services (Help desk)

- A Help Desk system will be established to provide information to MSMEs, entrepreneurs and start-ups on i) legal restrictions to business activities in the sectors concerned due to COVID-19 and ii) how to access (crisis-related) funding by public institutions, international donors and development banks



Furthermore, an analysis conducted in July 2021 for MSMEs operating in the wood and metal sector determined that the average decrease in turnover (in 2020 in relation to 2019) was 4.21%³⁵, leading to a change in approach with regards to the initial selection criteria indicated in the Description of the Action of the EU4BusinessRecovery project. The support will be provided to MSMEs with a decrease in turnover in 2021, without limitation as to how significant the decrease must be.

Overall, **innovating products and production process** through a better understanding of the market and supply chain is another key response to overcome the crisis. As an immediate priority, the Action should result in increased capacities of MSMEs for ensuring business continuity and improvements in operations for development of new products and services and access to new markets. The recovery of supply chains will result in increased vertical integration, automation, digitalisation and efficient use of resources. Ultimately, the assisted companies should become **more resilient** by adapting more sustainable business models, diversifying product portfolios and markets while maintaining the current workforce and gradually creating new jobs.

3. TOURISM SECTOR

Throughout the last three years, tourism was a major economic driver for the WB region with 2019 being one of the most successful years for these countries in tourism with a record level of tourist arrivals, record levels of spending and record levels of intraregional trade which led to a significant growth of GDP mainly due to the strong impact of tourism.³⁶

According to the UNWTO, BiH is defined as one of the three tourist destinations in the world with a total growth potential of the tourist market of 10.5% (for the period until 2020).³⁷ Tourism has seen a steady incline in contribution to GDP in BiH since 2012 with a peak contribution of over 10% in 2019.³⁸ This amounts to more than USD 2.2 Billion.

3.1 Short-term effects and expected long-term development

Sectors based on in-person services such as tourism, hospitality, trade, transportation have suffered the most severe damage. Tourism, which in recent years revealed potential to become a driver of the economy, has been particularly hard hit by the pandemic.

Lack of tourist arrivals

Collapse in demand started to show already in February 2020, when China imposed strict lock down measures in January. In March, most of countries in Europe imposed national lock downs as well. This meant that pre-season was cancelled.³⁹ Further on, due to travel restrictions and social distancing requirements, the summer tourism season has essentially been lost.⁴⁰

Even though region reduced number of COVID-19 cases to acceptable levels, the EU had very strict regime on travel from and to this region. Such decisions, established to protect public health, had negative impact on regional economies.⁴¹

The decline in the international tourism industry is projected to be between 45 to 70% in 2020.⁴² There were 458,505 tourists' arrivals in the period from January – November 2020 which represents a decrease by 70.3% as compared to the same period of 2019.⁴³

For example, in RS tourists realised 175,837 tourists' arrivals in the period from January- November 2020 which represents a decrease by 52.6% as compared to the same period of 2019.⁴⁴ The Magnitude of the situation becomes especially clear with a detailed look over the year 2020.

Tourist arrivals came almost to a complete halt in April. In contrast to the export of goods, loss in revenue cannot be easily caught up later in the tourist industry. A bed that is not rented out in April cannot be rented out twice during a later period. Throughout the course of the year the number of tourist arrivals stayed below expectation.

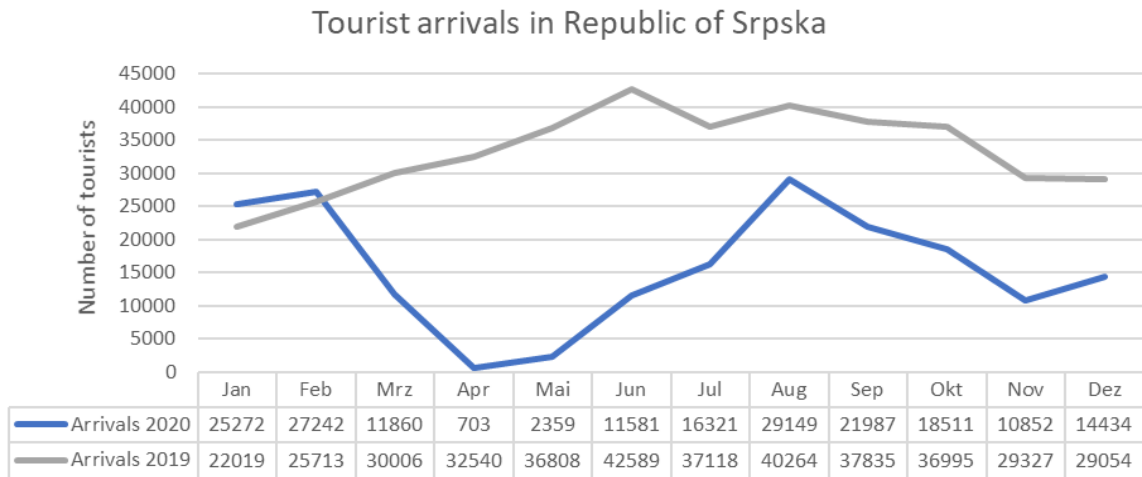


Figure 3 Number of tourist arrivals in RS 2020 compared to 2019⁴⁵

Lack of tourist nights

There were 1,155,033 overnight stays from January – November 2020 which is decrease by 63.7% as compared to the same period of 2019. The number of domestic tourist nights decreased by 20.8% and number of foreign tourist nights decreased by 80.1% as compared to the same period of 2019. Domestic tourist’s share of total number of overnight stays was 60.4% and foreign tourists share was 39.6%.⁴⁶

During the period from January- November 2020 in RS tourists had 550,596 overnight stays which is a decrease by 44.6% as compared to the same period of 2019.⁴⁷ In addition to fewer tourist arrivals during the period from January to April 2020 these tourists who still did arrive also stayed fewer nights cutting the revenue of the tourism sector even further. This trend becomes clearer by looking at the number of tourist nights in 2020 compared to the number of tourist nights in 2019.



Figure 4 Number of tourist nights in RS 2020 compared to 2019⁴⁸

Job losses

As a result of the pandemic thousands of workers in tourism, which last year accounted for 10.2% of the country’s economic output or an equivalent EUR 2 billion (USD 2.35 billion) and employed 50,000 people, have been laid off as a result of the crisis.⁴⁹ Thousands of jobs in the tourism industry are at stake, with income from tourism dropping by close to 80 per cent.⁵⁰

Long-term development

Tourism receipts worldwide are not expected to recover to 2019 levels until 2023. The October World Economic Outlook projected the global economy would contract by 4.4% in 2020. The shock in tourism-dependent economies will be far worse. Real GDP among those countries is predicted to shrink by 12- 21% depending on the region.⁵¹ Furthermore, the crisis will have a major impact on the employment rate, especially in tourism. Economic recovery in tourism is also more gradual, so that growth later in the year cannot compensate for the summer season losses.

COVID-19 pandemic will change the way the people travel as well as the tourist's expectations. One can expect a shift from mass tourism to a more individual, personal/ tailored experience. Developing sustainable tourism for Western Balkans countries will be a key to the post COVID-19 recovery. Only with coordinated activities both business and decision makers can enable quick recovery of national economies.⁵²

3.2 Needs of the tourism sector

Based on the primary sources (stakeholder interviews) and secondary sources⁵³ they include:

- **Adequate occupational safety and health (OSH) to restore traveller confidence** – Tourism sector needs special attention paid towards organising work in hospitality and procedures for in-person events to regain visitors trust and align with physical restriction measures.
- **Access to finance to maintain the capacity in the sector** - The MSME's need a support to pay the salaries and contributions in the low months in order to keep a good quality staff. For example, if you lose a good experienced chef, it is very difficult and expensive to find a new one, and this is the case with almost all long-term permanent staff employed in the sector.
- **Pivoting operations to cater to new markets** – Investments to make structural and physical changes for addressing visitors' expectations in the first phase of recovery, and in the long term in order to enter new markets such as e.g. domestic tourism market, student accommodation, alternative work spaces for teleworkers, and one of the main topics: green certification.
- **Adapting business model and service offering** - Continuous innovation and transformation is needed in the sector. Additionally, tourism businesses and destinations need to adapt their offerings through repricing and repackaging to meet the modified travel behaviours. This crisis may exert a significant and long-standing impact on consumer behaviour, thereby accelerating the transition to digitalization, placing greater emphasis on health and hygiene, and increasing the demand for contactless experiences and payment options. Diversification of the offer to overcome seasonality.

3.3 Ongoing support measures in the tourism sector

Governmental support measures

The economic consequences of the COVID-19 pandemic call for urgent policy responses to keep the economy afloat and enable people to retain their jobs and incomes. Measures undertaken so far are both macroeconomic and fiscal: emergency liquidity by central banks, broad-based tax relief, wage subsidies, unemployment benefits, the deferment of utility bills and rent payments, mortgage relief, loans and loan guarantees to businesses.⁵⁴

As stated in the previous section, the Council of Ministers, together with the entity governments, reached a loan arrangement with the International Monetary Fund (IMF) that provided BAM 330 million for urgent action to combat the economic consequences of the pandemic. FBiH decided to allocate the funds as presented below and they were used for *wage subsidies and operational costs reimbursement* with focus on export companies.⁵⁵ Federal Ministry of Environment and Tourism allocated BAM 30 million for financial assistance to the tourism and hospitality sector. Further support in FBiH is organized on cantonal level.

Tourism sector in Bihac area introduced a voucher for this summer season, however, this did not yield much success, according to interviewed stakeholders. Ministry of Tourism and Trade of RS also introduced touristic vouchers in 2020 and around 25.000 have been issued by the end of the year. The right to be awarded a tourist voucher in the value of BAM 100 is exercised by all adult citizens of RS, and one user can use the voucher to pay the cost of accommodation services for a minimum of two nights in a row.⁵⁶

The Ministry of Foreign Trade and Economic Relations (MOFTER) announced their Foreign Trade Policy and Foreign Investment with a focal point on water resources, tourism and environmental protection - integrating the tourism sector in BiH and connecting with destinations outside BiH; improving the level of environmental protection.



International support

United States Agency for International Development - Developing Sustainable Tourism in Bosnia and Herzegovina – Turizam - (2020 - August 2025) - supports the recovery of the tourism sector from the negative impacts of the pandemic by fostering collaboration among all levels of government, industry, and community stakeholders. To transform Bosnia and Herzegovina into a more competitive destination, the project is improving the economic regulatory environment, enhancing the quality and diversity of products and experiences, professionalizing human and institutional capacity, and creatively branding and promoting Bosnia and Herzegovina to high-yield visitors.⁵⁷

The European Investment Banks (EIB) ISP BIH LOAN FOR SMES AND PRIORITY PROJECTS IV consists of a loan to finance small and medium scale projects promoted by small and medium-sized enterprises (SMEs) and mid-caps in the sectors of industry, tourism, services and agriculture or by local authorities in the fields of environmental protection, energy efficiency, knowledge economy and infrastructure.⁵⁸

EU4Agri project focuses on raising investment in the agri-food sector and increasing the knowledge and skills level of agricultural producers and other participants in the value chains through the expanded provision of advisory services, as well as by improving economic opportunities in rural areas.⁵⁹ Indirect benefits for the tourism sector can be expected.

The EU Cross-border program Bosnia and Herzegovina – Montenegro CBC programme focuses the support around encouraging tourism and cultural and natural heritage next to other focal points.

3.4 Remaining needs of the tourism sector

This crisis is an opportunity to rethink the tourism sector and its contribution to the people and planet; an opportunity to build back better towards a more sustainable, inclusive and resilient tourism sector that ensure the benefits of tourism are enjoyed widely and fairly.⁶⁰

Under the umbrella of and embedded in macro-economic and fiscal-financial measures already declared by the government, direct support measures to MSMEs, entrepreneurs and farmers are needed to rescue jobs, facilitate quick recovery of business operations and increase resilience in a challenging market environment.

Table 2 Remaining needs of MSMEs in tourism sectors

Initial needs of MSMEs	Ongoing support	Remaining needs
Adequate occupational safety and health (OSH) to restore traveller confidence	Sufficient in short term as a direct support in OSH supplies (UNDP and other donors)	OSH <u>supplies</u> are not seen as a priority by stakeholders. There is a need for a systematic approach to ensuring OSH in tourism in general.
Access to finance to maintain the capacity in the sector	Liquidity initially restored by IMF loan and government measures. Some long-term financing will be provided by the WB and EIB.	Financial support still needed to overcome illiquidity and implement other adaptations of business model and offers.
Adapting business model and service offering	Some technical support will be provided by USAID's Turizam project.	Significant financial and technical support is needed to plan and implement innovation.
Pivoting operations to cater to new markets	Some technical support will be provided by USAID's Turizam project.	Significant financial and technical support is needed to analyse and adapt to new markets.

Based on the identified remaining needs, EU4Business Recovery will focus on the main three areas of support. These were discussed and identified with the key stakeholders from the Export-Oriented Sectors and they include:

Adequate Occupational Health and Safety (OSH) long-term support

- Support could include developing sector-based guidance for occupational safety and health (with focus on indoor activities and hospitality sector).
- It should be followed by technical and financial assistance to the selected Micro, Small and Medium Enterprises (MSMEs) to adopt occupational safety and health measures based on the sector-specific guidance.

Business operations resilience (through innovation and client base diversification)

- Support should focus on development of the touristic offers in specific destinations addressing the challenges faced during COVID-19 so that it adds value to the whole value chain.
- In order to ensure sustainable development and effective usage of fund resources, support should be focus on establishing/strengthening DMOs and/or partnerships (led by intermediary organisations, gathering tourism companies, operators, municipalities,...) as grant recipients with capacity for structural improvements and further sub-granting to final beneficiaries (hotels, restaurants, tour operators, etc. at local level.)
- Technical and financial support should be provided for innovative marketing efforts (product innovation, re-pricing, digitalisation and online placement and promotion) that help non-mass destinations (in rural, non-mass, outdoor areas) to gain more attention among potential customers

Advisory services (Help desk)

- A Help Desk system will be established to provide information to MSMEs, entrepreneurs and start-ups on i) legal restrictions to business activities in the sectors concerned due to COVID-19 and ii) how to access (crisis-related) funding by public institutions, international donors and development banks.

Looking at the Tourism Sector, a key response to the crisis lies in restoring travellers' confidence and ensuring COVID-safe environment. In parallel to this MSMEs should be supported to adapt and building more resilient, sustainable tourism. This can happen only if MSMEs focus on development of the touristic offers and innovative marketing (not only promotional) efforts in specific destinations addressing the challenges faced during COVID -19 so that it adds value to the whole value chain by strongly cooperating through DMOs and/or partnerships.

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