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SUPPORT PROGRAMME



**for Industrial Recovery
and Private Sector Development
in Bosnia and Herzegovina**



United Nations
Industrial Development
Organization



SUPPORT PROGRAMME

for Industrial Recovery and Private Sector Development in Bosnia and Herzegovina

Developed in the
framework of Preparatory Assistance Project
DP/BIH/96/005 and UC/BIH/96/051

Human Resource, Enterprise and Private Sector Development Division



**United Nations
Industrial Development
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INTRODUCTION

From 17 May to 5 June 1996 UNIDO carried out a preparatory mission to assess the current situation and needs of the industrial sector in the Federation of Bosnia and Herzegovina and to design a more long-term technical assistance programme in support of industrial recovery and private sector development. The scope of the mission was restricted to the territory of the Federation of Bosnia and Herzegovina.

The preparatory mission was carried out by four international experts and four national experts from the Sarajevo-based Institute of Organization and Economics (IOE).

The team followed the steps: initial assessment of the current situation; exploration of national strategies on industrial revival and private sector development; understanding the activities of the international donor community; identification of specific needs where UNIDO can effectively assist the Government; preparation and definition of a programme proposal.

Discussions were undertaken with various Ministries, but particularly the Ministry of Energy, Mines and Industry, the World Bank and donors. Visits were made to 24 manufacturing companies across the country including Tuzla, Mostar and Sarajevo.

This report and programme proposal has been generated as a result of the information gathered and analyses carried out during the preparatory mission. Part A describes the current situation of industry while Part B discusses the proposed technical assistance programme in response to the identified support requirements, the areas to be addressed and the recommended programme strategy. In Part C, detailed project documents for the five programme components are attached.

The UNIDO team wishes to thank the United Nations Development Programme in Sarajevo for having co-sponsored this preparatory activity. Our particular thanks go to the Ministry of Energy, Mines and Industry and the Institute of Organization and Economics for the excellent support which greatly facilitated the carrying out of the mission.

A. CONTEXT

SUMMARY

Current situation

The pre-war Republic of Bosnia and Herzegovina had a well developed industrial sector, particularly in engineering manufacture, wood, textiles, chemicals and agro-based industries. There is little evidence so far of rehabilitation effort reaching industry.

The country is making a rapid recovery in terms of the provision of electrical power and water. In Sarajevo there were short interruptions daily to water supply, but everywhere there is evidence of the rehabilitation taking place to gas and water pipelines and railways. Internal and external communications are poor. Most of the rehabilitation activity is due to the efforts of the donor agencies.

The effects of the war

Extremely variable. Some companies are virtually untouched, others completely destroyed by war damage or sabotage (e.g. UNIS car plant and the SOKO aero-industry complex). Some agro-processing has continued but there is shortage of produce and cattle herds have been eliminated.

Where firms are able to produce, output levels are at 10-15% of previous levels, only a few approaching 30%. This is being achieved mainly by companies applying labour added value to materials made available from outside the country.

Several large internationally experienced companies had their Yugoslavian headquarters in Bosnia and Herzegovina, including Energoinvest, UNIS and Union Invest. These companies had a range of geographically spread operations in engineering manufacturing but also aluminum smelting, steel and oil refineries. The effect of the Dayton Agreement has been to sever many linkages of raw material supplies, which are now in Serbian territory

(e.g. the aluminum smelter is in Bosnia and Herzegovina, and the indigenous bauxite supplies in Serbia).

Many food processing plants have been separated from their sources of produce supplies. Some continue to cooperate but others find the partition literally applied.

A number of senior managers left the country as a result of the war. Many enterprises now have inexperienced directors and skills shortages are likely to arise as development occurs.

Status of industry

A start was made in 1990 to privatize a few companies through the issue of shares to employees. As a wartime measure, these shares were taken back into the control of the Government. The vast majority of industry is therefore Government-owned, with only a few small companies, mainly in the service sector, in private ownership. The private sector currently consists of several thousand tradesmen and retailers, each employing less than five people.

Several new factories were built in the 1980s, but in most other plants the equipment is much older, in the order of 25-30 years old.

Of the larger conglomerates, such as Energoinvest, 10 or so have extensive overseas experience, particularly Northern Africa, the Middle East and Western Europe, built up over many years. For the remainder though, installed capacity was often geared to the needs of the former Yugoslavia. Demand now from the new Republics is either much reduced or the continuance of trade impractical. Many firms now face the task of developing new markets/products or down-sizing the scale of their operations. Considerable restructuring will be needed at enterprise and sub-sector level.

A few sectors, e.g. the textile and leather industries are better placed, having previously developed good trading relations with other EU countries, particularly Italy, which are continuing.

Whatever State individual enterprises now find themselves in, they share a major common constraint, which is a chronic shortage of working capital, and indeed a banking infrastructure to provide it.

Current activities

The Government has taken the decision to move to a privatized economy, and is committed to ensuring that this is carried out on a balanced regional basis. A privatization agency is being set up and further enabling legislation is in course of preparation. No guidelines for the method of privatizing the conglomerates have been formulated.

The Ministry of Energy, Mines and Industry called for recovery project proposals from all enterprises. About one third of these responded, which resulted in a list of 1300 projects from 700 enterprises. These include a number of aspects including

rebuilding, assistance in introducing new products, down to simply obtaining funding for essential raw materials.

The Ministry has now selected a list of 175 projects, across 8 industrial sub-sectors to be treated as priorities. The lack of a longer term development strategy is apparent.

The 175 projects were selected on the simple criteria that they:

- Employed as many people as possible;
- Provided employment as quickly as possible; and
- Required least investment.

The Ministry is now conscious of the need to base long term plans on building upon the technical engineering skills in the country and not just recreating the industrial sector which existed before.

Every company visited during the mission had a very clear plan of what was needed for its recovery, including the need to re-orientate towards new markets. Without exception, they all displayed a very strong determination to recover quickly.

Many development plans of working enterprises include the introduction of specific new products where the involvement of foreign partners is to be sought. With former contacts lost and very low capacity of institutional investment promotion, these enterprises are meeting little success.

Industry funding is coming into place through the efforts of the World Bank (WB), the European Bank for Reconstruction and Development (EBRD), the United States Agency for International Development (USAID) and others. So far such funds are aimed at small private sector enterprises. No provision has yet emerged which would help the larger State-owned enterprises (SOE) and particularly the conglomerates. These need special consideration in the context of their route to privatization and their significance as major employers.

In general, enterprise project proposals fall short of the requirements of, say, EBRD and WB, particularly in respect of cash flow forecast and market validations.

Outcome of the mission

The UNIDO team has clearly identified shortcomings in Bosnia and Herzegovina's ability to regenerate and develop their industrial economy. The manner in which these can be addressed has been discussed with MEMI and IOE and a method of approach agreed in principal. UNIDO proposes a comprehensive programme of assistance which would build Bosnia's capacity to:

- Formulate, monitor and implement a national industrial strategy;
- Prepare and evaluate enterprise project proposals;
- Undertake targeted investment promotion of priority projects;
- Restructure industry at sub-sector and enterprise level;
- Stimulate and monitor SME development.

Because of the dynamics and complexity of the Bosnian industrial situation, each of these functions, or components is intended to be implemented within the framework of a coordinated three-year programme. A complementary UNIDO project relating to the diagnostics and planning of enterprise restructuring is currently being implemented. Its outcome which is expected by September 1996, will provide essential input to the overall programme.

COUNTRY BACKGROUND

In the short time since the Dayton Peace Agreement on December 14, 1995, the Federation of Bosnia and Herzegovina has done remarkably well both in political and economic reconstruction. The political challenge remains to fully integrate the Federation with the Republic of Srpska as one Republic of Bosnia and Herzegovina.

Parallel to the efforts for peace, the Federation and the international community face the challenges of economic reconstruction. The first efforts of reconstruction are heavily concentrated on rebuilding the damaged infrastructure and on the social sectors of health, education and housing. The Government of the Federation and the international community have taken the first steps in developing a competitive private-sector led economy.

Little has yet been done for the regeneration of the industrial sector. As the Federation of Bosnia and Herzegovina (and eventually the Republic of Bosnia and Herzegovina) works to restore activity, the industrial sector must prepare for transition to market economy.

Before the war, the Republic of Bosnia and Herzegovina was a very well developed industrial State, leading the rest of the Republics of the former Yugoslavia and ranking among the leaders of the rest of Eastern Europe. The Government believes that the restructuring of the State-owned enterprises (SOEs) into competitive units will attract international partners and bring the needed capital, technology, markets and management know-how. The SOEs will benefit most from privatization through careful preparation.

Situation of the industrial sector

Before the war, the former Republic of Bosnia and Herzegovina counted about 1,000 industrial organizations employing nearly 450,000 people. They were active both in heavy and light manufacturing industries constituting altogether 43% of GDP in 1990. The most important heavy industries of the country were iron ore production and processing, coal, ferrous and non-ferrous metal production, forestry and wood-processing. Light industries included food processing, construction, the manufacture of textile products, leather and shoes. The industrial sectors developed around four main locations such as Sarajevo, Mostar, Zenica and Tuzla.

The Former Republic of Bosnia and Herzegovina had 10-15 very successful large industrial conglomerates contributing up to 35% of GDP. Many had joint ventures with international companies such as Volkswagen, Daimler-Benz and Olivetti. Many of the plants of these joint ventures are no longer operable, though there remains potential to rehabilitate at least some of the parts. These large enterprises were almost all export-oriented not only to the rest of the Republics in the Former Yugoslavia but also to many countries all over the world. More specifically, in 1989 the share of the export earnings from the four major industrial conglomerates such as Energoinvest, UNIS, Sipad, Hidrogradnja reached as high as 40% of total earnings of the former Yugoslavia. Much of the foreign exchange generated through exports before the war remain in the accounts of the Central Bank in Belgrade, Serbia.

Prior to the war, almost all the industrial enterprises were "socially-owned" and managed by workers' councils. In 1994, in an attempt to protect the assets of the enterprises, Government decided to pass a Social Property Law to transfer the ownership of these enterprises from workers and managers to the State. Presently, almost all the major industrial firms are in the form of SOEs while maintaining their corporate identity. These large conglomerates suffer not only directly from war damages but also from constraints on management of the last five years. Even prior to the war, many "society-owned" enterprises lacked financially sound management control. The workers' councils made decision on the day-to-day operations, enjoying profits but with insufficient accountability as to their losses.

Current situation of industrial sub-sectors

From the broad range of Bosnia and Herzegovina's industrial activity, the Ministry of Energy, Mines and Industry (MEMI) has designated, as priority, the subsectors:

- Agro-processing and food
- Wood
- Textiles and leather
- Pharmaceuticals

In all, 22 enterprises were visited during the survey undertaken in the framework of this preparatory analysis, chosen either with Ministry advice or for reasons of geographical location, making a cross section of the sub-sectors above.

Agro-processing and wood

Prior to the war, these sub-sectors were major contributors to the economy both in terms of rural employment and export earning. Damage sustained by productive facilities varies with their proximity with the incidence of war zones but, in general, plants in city confines suffered more than the rural areas. Apart from destruction of plants and buildings, many installations were stripped of machinery by emigrants moving to partitioned zones; there are many

abandoned villages and neglected fields. Notwithstanding, all the companies visited during the survey managed to survive through the hostilities, although at much reduced production levels. The rebuilding of potential is for the time being seriously handicapped by the scarcity of the agro-materials and cash for machinery refurbishment. Many companies have evaluated the cost of restoring production operations for priority consideration by MEMI. In turn the Ministry has selected 32 such projects from the food processing sub-sector and 20 from the wood industry, to receive early financial assistance at a projected cost of DEM 36 m. The Ministry of Agriculture is pursuing a similar course for the provision of produce, but their efforts are to some extent constrained by the mine clearance programme.

Livestock was completely destroyed during the war and reconstitution, already in hand, will take four to five years. Thus, dairy, animal feed and meat industries are heavily affected. Many processing units are separated from their supplies of fruits, vegetables or lumber as a result of partition. In these cases, some firms are cooperating across the new boundaries but equally, even with the Federation, there are unwelcome examples where partition is literally applied.

Bosnia and Herzegovina has rich agricultural resources, not least in forestry, grazing land, fruit and vegetables and vineyards, which are important national assets. There is need to establish clear, detailed strategies which would, for example:

- ❑ Restore self-sufficiency in food as in pre-war times
- ❑ Recover the potential of the integrated wood industry (lumber, sawmills, flat products, buildings and furniture) in support of the country's reconstruction and export trade.

Other manufacturing industries

Several new factories were built during the early 1980's with the introduction of new equipment at that time. Sarajevo Shoe Co. and the garment firm Slatka Sukovic in Mostar are good examples. In other plants much equipment is older, 25-30 years, with only modest new investment made in the 1980's. War damage and sabotage effects are extremely variable across the sub-sectors. Where firms are able to produce, typically output levels are at 10-15% of prewar levels and, in a few cases, approaching at best 30%. Some indicators of Bosnia and Herzegovina's pre-war performance can be seen in table 1:

Table 1. Pre-war performance of Bosnia and Herzegovina

	<i>Employment</i>	<i>1990 Output (tons)</i>	<i>Capacity (tons)</i>
<i>Textiles</i>	76 000		
of which:			
Cotton fabric		13 000	20 000
Knitted fabric		7 000	8 000
Garments		2 800 000 m ²	n/a

	<i>Employment</i>	<i>1990 Output (tons)</i>	<i>Capacity (tons)</i>
<i>Leather products</i>	28 000		
of which:			
shoes		710 000 pairs	rising
<i>Chemicals</i>	19 000		
of which:			
Ammonium nitrate		84 000	100 000
Ammonium sulphate		13 000	13 000
Soap and detergent		52 000	70 000
<i>Machine Building</i>	80 000		
of which:			
Iron castings		63 000	100 000
<i>Metals</i>			
Aluminum	5 100	89 000	100 000
Steel (raw)	26 000	1 500 000	2 000 000

As a result of the Dayton agreement, many important installations, such as Energoinvest's oil refinery, remain in Serbian territory. Similarly the indigenous supply of bauxite is at least temporarily suspended for the same reason. Hence, serious dislocation of linkages has occurred. Many including, UNIS car plant and Soko's aero-industry enterprise, have been either destroyed or paralyzed. Efforts are being made to restart the cement plant in Zenica. MEMI has initiated a steel scrap collection scheme with the objective of restarting the plant and producing much needed reinforcing bar for building repair and construction activities.

The larger enterprises, including Energoinvest, Hidrogranja, Unioninvest, have extensive experience operating in world markets, particularly in Northern Africa and the Middle East, built up over many years. Often though, installed capacity was geared to the needs of the former Yugoslavia. Demand from the new Republics is either much reduced or, the continuance of trading considered impractical. Many firms therefore face the task of developing new markets or to downsize the scale of operations. Typically, DITA company in Tuzla, part of SODASO, has capacity of 50,000 tons p.a. of detergent. Domestic demand is estimated at some 4,000 tons p.a. Some sectors are better placed, for example the textile and leather industries, always having good business relations with EU countries, particularly Italy.

As in the agro-processing sub-sector, the MEMI have selected some 123 projects as priority for the regeneration of industry. From inspection of typical project documents, these range in nature from requests for working capital, building repair, machinery replacement to the introduction of new products and equipment. In summary:

	<i>Projects</i>	<i>DEM</i>
Electrical and metal working	35	36.1 m
Ferrous and non-ferrous metals	11	2.7 m
Chemicals and pharmaceuticals	12	19.8 m
Textiles, leather	28	9.0 m
Building materials	30	7.3 m
Paper and printing	6	1.6 m

The Ministry recognizes, that having applied short-term contingency criteria in this selection, the future shape of Bosnia and Herzegovina's industry needs now to be taken into account.

In the meantime, UNIDO has started a detailed review of 12 enterprises selected by MEMI. This mission is essentially diagnostic in nature and will provide valuable detail as to Bosnia and Herzegovina enterprises' needs and scope for restructuring to meet much changed market conditions. In particular, the mission will provide the background against which the steps towards the Government's aim of early privatization can be formulated to best advantage.

Constraints and opportunities

The main constraints faced in all industrial sub-sectors can be summed up as cash shortage, lack of markets, lack of contacts with suppliers, and physical damage to equipment and machinery. The extent of war damage and commercial viability is extremely variable. Each enterprise needs to be examined in detail.

The major opportunity is the reorientation of production towards new markets and products. The necessity to upgrade technology will follow naturally. Many firms will need help in attracting the funding to realize their objectives, and indeed for their survival in the immediate term.

As to their funding needs, four distinct categories may be differentiated:

- Reconstruction of buildings
- Restoring production equipment to working condition
- Working capital in respect of wages and materials
- New production equipment, for upgrading activities or for introduction of new products.

Situation of the private sector

Composition of the private sector

Before the war, there were several private enterprises in the country but mostly small scale with less than 60 employees. According to statistical data of 1989, 2,444 people were employed in industrial enterprises with 29 or less employees, and 6,330 people were employed in enterprises with employees between 30 and 60 employees. This suggests that this group constituted only 2% of the entire workforce registered. However, there were also several thousand micro-businesses often operating with employees less than 5 people. During the war, several new private enterprises have emerged especially in the sectors of catering, hotels and trading services.

No exact figures were available on the number of private enterprises, the number of employees per enterprise, ownership structure and their regional balance. The Chamber of Economy of the Federation of Bosnia and Herzegovina, established in 1962, has lost its database during the war including the profile of its members. Estimates suggest there are presently around 6,000 private enterprises in Bosnia and Herzegovina. Most of them employ less than 15 people and belong to the category of the small and medium enterprises in the private sector. Only a small portion are active in manufacturing, while the majority operate in service sectors.

While the heritage of SME's within the economy is very slight, experience in other former socialist countries shows that this sector rapidly begins to make significant contributions in employment and wealth-earning. Further, the findings of the survey suggest that, as the Government's privatization policy proceeds, a significant number of spin-offs can be expected from the major SOE's. The stimulation of the SME sector should therefore form part of any assistance programme.

Current business environment

Enterprises suffer from major constraints such as access to credit, information about credit sources, limited business services about new markets, technology, management practices and training in business skills.

There are presently 8-10 State-owned and 25 private banks. The State-owned banks were all formerly owned and controlled by the socially owned enterprises. Thus, the enterprises were then both owners and debtors of these banks. Now many of these State-owned banks face serious financial difficulties with respect to bad debts, frozen deposits in Belgrade, foreign debt and lack of hard currency. They are in no position to supply credit to the emerging private sector. The available credit offered by a group of newly emerging banks is mostly in short-term (three months) at yearly interest rates as high as 40%. Several donors including the WB, USAID and EBRD are developing credit lines targeted for small and medium sized enterprises in the private sector.

Business services for the private sector are limited. The Chamber of Economy conducts business training and publishes the monthly *Herald* gathering and elaborating on information about internal and external markets as well the new laws likely to have an impact on business practices. The foreign relations department of the Chamber of Economy has also limited resources to connect its members with international markets and investors.

Besides access to credit and sources of credit, the new Bosnian entrepreneurs lack the experience to write proposals, fill out application forms for bank credit, provide collateral and put together business plans. Many enterprises lack information as to the source and availability of credit lines recently introduced by the international donor community. Again, the international donor community is committed to develop several institutional schemes

to assist the private enterprises in acquiring the appropriate business skills.

ACTIONS BY GOVERNMENT

The Government of Bosnia and Herzegovina wishes to revitalize, where practical, the operations of State-owned and private enterprises which had been either damaged or shut-down during the war. The MEMI has made every effort to gather data and information to determine the financial needs of the industrial sector. At the same time, Government has been preparing the necessary laws to create an enabling environment for private sector development. The Ministry of Finance has also prepared the essential macro-economic reforms. Both tax reforms and price liberalization are intended to create a competitive business environment for the private sector.

Efforts to revitalize industry

Reconstruction of infrastructure

The Federation of Bosnia and Herzegovina recognizes that the reconstruction of infrastructure is a prerequisite for the revival of industrial sector. The day-to-day operations of both State-owned enterprises as well as the emerging private sector are still adversely affected either by the unavailability or poor quality of the telecommunications, energy and transport services. Equally, good progress is being made with the restoration of water and railway systems.

Selection of priority sectors for industrial revitalization and promotional strategies

The MEMI has already begun a process of compiling recovery project data on the financing needs of both State-owned and private enterprises. It intends to channel working capital in the form of commodities (raw materials and intermediates, spare parts, equipment, etc.) or funding through humanitarian aid, donations, commercial loans and joint ventures. As of May 1996, 1,297 projects have been prepared by approximately 700 enterprises, 90% of which are State-owned. They were prepared either by enterprise managers internally or with the assistance of outside consulting services.

The Ministry has selected 175 priority projects among the 1,297 presented. The selection criteria were:

- The ability to generate employment,
- Within the shortest period of time
- At minimum cost.

This initial selection represents a short-term emergency measure. The Ministry believes that longer-term considerations should now be applied which would take into account the nature and direction of future industrial development. In short, there is an

urgent need to introduce a national strategy or framework within which priority and alternative policy decisions should be taken.

During the survey several project documents were reviewed. While these were found to contain much relevant data, presentations generally fall below the requirements of say EBRD, particularly in respect of projected cash flows and market validation. With the international banks and donors now establishing their operations, there is a clear need to improve capability in project preparation and evaluation throughout enterprises, including indigenous banks, and Government.

Information about the priority projects is presently available in a booklet, called "Programme for Production Recovery" and on diskette. In collaboration with the Foreign Relations Department of the Chamber of Economy attempts are being made to promote these projects to international investors.

The 1,297 projects have come from only about one-third of enterprises in Bosnia and Herzegovina because not all opted to submit projects to Government. Some enterprises have chosen to prepare projects and to seek joint venture partners on their own. There is presently a private initiative, the Center for Export and Investment Promotion, owned jointly by three major State-owned enterprises with a remit for industrial investment promotion, just beginning operations.

Several firms visited during the survey have already identified specific new products they wish to introduce. In that these firms are already operational, albeit at low levels of production, early contact with overseas potential partners would be extremely beneficial. The establishment of a comprehensive investment promotion facility will take some time and before this, ways to introduce targeted promotion need to be explored.

Privatization strategy

The Government of Bosnia and Herzegovina had already started its privatization programme in 1991. Approximately 8-10% of the "social" capital had already been transferred to employees of the companies. The privatization programme was halted because of the war. Recently, a team of experts drafted a law for the creation of an Agency for Privatization attached to the Prime Minister's office and independent Cantonal Privatization Agencies. Each Cantonal Agency is expected to deal with the privatization of companies present in its own borders. The privatization of enterprises with plants in more than one Canton will be handled by the main Agency for Privatization.

Besides the law for setting up the privatization agencies, four other laws have been drafted and submitted to Parliament on 22 May, 1996. These include the law on privatization, law on restitution, law on privatization of housing and the law for settling the past claims and arrears. The draft law on privatization is based on two modes. The first will enable mass privatization through the voucher system (as in the Czech Republic and Slovenia) and spontaneous privatization for all trading and business services. The

second mode will concentrate on case by case privatization. The draft laws are expected to be passed no later than end of June 1996.

Implementation of the privatization programme will only commence when institutional arrangements are in place for the Agency for Privatization as well as the Cantonal Agencies. By the end of August 1996, there should be a fully operating Agency for Privatization. The intention is to start the first wave of privatization in January 1997. Since not all of the Cantonal governments are yet functional, this process could take a minimum of six months beyond 1996.

Therefore, any UNIDO programme should aim to assist both the MEMI and the State-owned enterprises in the transition while, in the process, developing guidelines for privatization.

Private sector development

Macro-economic reforms

The Republic Ministry of Finance with its limited number of professional staff has been working hard on macro-economic reforms. These reforms include customs policy, monetary policy, banking reform, as well as setting up a shared tax and revenue administration between the Federal Government, Cantons and municipalities. Even though the entities managed to agree on a unified customs policy, the custom tariffs still vary.

The currency system is not yet unified. At the moment, there are four different currencies utilized in the Republic of Bosnia and Herzegovina. The Federation of Bosnia and Herzegovina uses both DEM, Bosnian dinar, and Croatia kuna. The Republic of Srpska, on the other hand, uses Srpska dinar jointly with DEM. The present payment system imposes an additional problem on the business transactions.

The Ministry of Finance has also developed a unified tax administration within the Bosnian and Croatian components of the Federation. These new laws and reforms are not yet well understood by private businesses.

Legal reforms

The MEMI has already passed the Company Law in 1994 and has recently prepared a draft "Law on Craft, Artisans, Personal Services". The "Law From the Field of Foreign Trade" of 1995 sets the terms and conditions for foreign trade, foreign direct investments, and mechanisms for setting up Free Trade Zones (FTZs). There are already four FTZs in the country (Sarajevo, Mostar, Visoko and Travnik) and both the Ministry of Foreign Trade as well as the regional departments are eager to attract foreign investors.

Despite favourable policies for foreign direct investments such as up to 100% foreign ownership (with the exception of up to 49% in strategic sectors), exemptions from corporate income taxes, and full repatriation of profits, the Government has not so far attracted any substantial investments. The lack of an effective investment

promotion agency has made it difficult for the Government and enterprises to establish international networks with potential business partners. Equally, investors will be hesitant until a new perception of stability emerges for the region.

ON-GOING DONOR ASSISTANCE

In October 1995, the Government determined its overall financial needs for reconstruction and rehabilitation for the next three years as US\$ 24,5 billion. However, the external financing requirements for the priority reconstruction programme for the next three years is US\$ 5.1 billion constituting only one-fifth of what the Federation Government of Bosnia and Herzegovina actually needs.

The international donor community already pledged this amount during the first donor meeting in December 1995. Three-fourths of the pledged funds is designated for the Federation of Bosnia and Herzegovina while one-fourth is for the reconstruction in Republic Srpska. During the first year of the programme, the Federation of Bosnia and Herzegovina will receive US\$ 1.8 billion from the international community. Only 6.7% of this will be channeled to industry.

So far, most of the international assistance to industry is in the form of financial and institutional support to small and medium enterprises in the private sector with loans, credit lines and training. The State-owned industries are not able to take advantage of these schemes. Their needs are far beyond the credit limits offered by the donors. In any case, most donors require that the applicants are private companies or with a maximum holding of 25% State-ownership.

Donor programmes for industry re-start

The international donor community has so far paid less than adequate attention to industrial revitalization. This is due partly to the fear of reviving industrial plants which may not be viable in new markets. While the Federation of Bosnia and Herzegovina has opted for private sector-led growth with the whole-hearted support of the donor community, the donors have recently realized that there is both a financial and intellectual vacuum regarding the State-owned industrial sector and especially the 10-15 large State-owned conglomerates. Most of the donor-assisted credit schemes are designed for the small and medium enterprises in the private sector while the large conglomerates can not find the working capital which they desperately need for restart their plants.

The WB is now preparing a Political Risk Guarantee Facility to help viable enterprises attract foreign private working capital finance. This facility will operate by providing the financing foreign company working with political risk coverage. The scheme recognizes that plants which have been restarted and have been proved to be profitable will be easier to privatize. The Kreditanstalt for

Wiederaufbau (KfW) in Germany and the bilateral development aid agency of Netherlands are trying to build similar schemes.

Donor programmes for private sector development

The international donor community have well advanced plans to assist the private sector development by channeling credit to the SMEs and to the emerging micro-businesses. The WB, the EBRD and the USAID are now among the major players. They are bringing credit facilities to the private sector and have also undertaken to help with the development of financial and institutional mechanisms.

Financial support to private sector

The WB was the first to develop lines of credit for credit-worthy SMEs for working capital and small repairs to restore production. This "Emergency Recovery Project" had initial funds of US\$ 30 million, later reduced to US\$ 18 million. These loans, having a credit ceiling of 300,000 DEM, are in some cases too large for the SMEs in the private sector and would not be sufficient for the State-owned enterprises even if allowed. Recently, the WB decided to allow exceptions and grant loans to medium-sized State-owned enterprises as long as their operations have linkages with the private sector, particularly where creating additional employment, as in agriculture.

The USAID is about to become the largest donor to the private sector with a credit scheme of US\$ 300 million for the next three years. It will provide fast-disbursing loans to commercial and industrial enterprises which can be reactivated quickly and generate sustainable employment. Loans are to be used to buy spare parts or new machinery, for the repair of damaged plant and equipment and for operating capital. These loans have a credit ceiling of 1 million DEM (US\$ 666,000) and will be administered through yet to be licensed commercial banks. Interest rate of LIBOR plus 4% are envisaged. The USAID anticipates US\$ 20 million of this scheme to be implemented before September 1996. It is questionable whether there would be sufficient demand from private enterprises alone in the short-term before privatization takes off during 1997.

At the same time, several multilateral (EBRD) and bilateral donors (GTZ and Government of Netherlands) plan to provide venture capital by setting up equity funds. The equity fund established by the EBRD for Bosnia and Herzegovina is in two tranches for the amounts of respectively 30 million ECU and 37.5 million ECU. The fund is planned to be operational in July 1996 and will require that the investee companies have a maximum of 25% State share holding or a committed plan to achieve this. Borrowing limits are between 300,000 and 1 million DEM and will carry an interest rate of LIBOR plus 1%. SOEs will not be able to take advantage of this scheme.

As WB and EBRD operations become established and privatization proceeds, the International Finance Corporation (IFC) of

the WB can become an important player in developing the larger private sector projects and particularly those of major conglomerates in transition.

Institutional support to private sector

Commercial private banks in Bosnia and Herzegovina do not yet possess the skills to evaluate and process loan applications. The international donor community is therefore providing technical assistance in the creating and training of financial intermediaries.

The WB has created Project Coordination Units (PCUs) to review the loan applications. The USAID plans to assist the Bosnian commercial banks with bank training and has allocated US\$ 5 million over two years for this purpose.

There is an almost bewildering list of donor offers for institution building, regional and sub-sector development and many of these involve support for SME's in the private sector (see annex).

The donor programmes will help to improve the SME situation, whether offered on a fully commercial basis or as part of local initiatives to support entrepreneurial activity. However, it will take time to build up good quality networks and support and they will need to be continually renewed. The way to ensure that this is provided for would be to assist Bosnia and Herzegovina to develop its own expertise on identifying and meeting small business needs. Such expertise would also help Bosnia and Herzegovina to play a more active role in assessing and influencing future donor proposals and ensuring that they are mutually complementary and reinforcing. In addition, the Government itself will need to be able to call on such expertise as it develops detailed policies and programmes on SME support. Such expertise would need to be created in an independent institution or centre dedicated to SME growth. There are no donor proposals as yet to help Bosnia and Herzegovina to create such indigenous expertise and it is therefore proposed that UNIDO should assist in the initial operation of a small business centre.

Programmes for micro-businesses

Besides assisting the SMEs, there are several donor projects directed specifically to the most vulnerable groups in making the transition from reliance on humanitarian aid to active employment. One WB project aims at:

- ❑ Creating a fund to finance and promote income-generating sub-projects proposed by communities, NGOs and local institutions
- ❑ Establishing local economic development associations in several Cantons such as Bihac, Mostar, Sarajevo and Zenica
- ❑ Training and technical assistance to strengthen regional local development initiatives.

The EU, USAID and UNDP are working on similar schemes. These initiatives seek to meet the immediate needs of generating employment and, simultaneously, creating decentralized economic development.

B. PROGRAMME JUSTIFICATION

THE PROBLEMS TO BE ADDRESSED

For post-war reconstruction, the revitalization of industry is a top priority. This is fully recognized in Bosnia and Herzegovina where industrial revival is seen as an important driving force toward overall recovery. Under emergency plan conditions, the humanitarian resources of food, clothing, pharmaceuticals and building materials can be provided from within the country thereby inducing the resuming of some industrial activity. The job-creation potential, particularly in the State-owned industry sector is hoped to lead to quick re-employment thereby contributing to social stability and the sustainability of peace. At the same time, industry is expected to create the wealth needed to spur overall economic recovery.

The challenge of the industrial post-war reconstruction programme is threefold: to repair the war damage, to restructure enterprises to meet the challenges of market economy and to steer and promote future sustainable development.

The Government of Bosnia is already making valiant efforts to cope with the demands of industrial and social recovery, implementing measures to liberalize the economy, developing its own very new organization and at the same time trying to coordinate the myriad of offers of donor assistance. However, the reconstruction process of Bosnian industry is impaired by the lack of capacity that is inherent in any transitional reform process. This lack of capacity is reflected on the level of the Government, the support institutions and industry itself. The recent UNIDO exploratory mission established that there is, in summary, a lack of:

Strategic vision with respect to the future development of the industrial sector. This concerns the resuming of industrial activity as well as more long term planning as to the future structure and course of industry.

Capacity to prepare investment project proposals up to the standards required by donors and international financing institutions.

Capacity to promote investment project proposals vis-à-vis foreign investors.

Appropriate experience for enterprise restructuring.

Strategy and cohesive institutional support for the small-scale industries sector.

Because of the rapid changes occurring, a support programme for industry and the private sector would need to address these shortcomings in an integrated manner. In concert with MEMI, the mission team and UNIDO staff have drawn up a cohesive programme which will be focusing on the following five strategic functions:

- Industrial Strategy Formulation
- Project Development and Appraisal
- Targeted Investment Promotion
- Pilot Enterprise Restructuring
- SME Support

The need for an industrial strategy

While the Government has acted with commendable speed to identify and select priority enterprise regeneration projects, this selection has been based on strictly short term criteria. No attempt has yet been made to draw together any form of "blue print" for future development. MEMI are well aware that this lack of vision as to the likely shape and nature of Bosnia and Herzegovina's industry, will increasingly impair their ability to introduce practical policies which would encourage growth and prosperity.

MEMI are facing some powerful constraints which can be summarized as:

- Uncertainties as to their role in the transition period and in the future, free economy
- Complexity of the Bosnia recovery situation with the move to privatization and attendant reforms in law and fiscal policies
- Lack of experience in formulating, monitoring and implementing industrial strategy in a market economy.

That these constraints are overcome as quickly as is practical is of paramount importance to Bosnia and Herzegovina's rapid recovery and succeeding development. What is needed is a framework or strategy which will encourage policy makers and the enterprises to act in cohesion so as to ensure that national policies are compatible to and supportive of business plans made by enterprises. Bosnia and Herzegovina will need assistance to build their capacity to introduce this national industrial strategy.

THE UNIDO RESPONSE

Component 1: Capacity Building for the Formulation, Monitoring and Updating of a National Industrial Strategy

UNIDO proposes to strengthen the capacity of Ministry of Energy, Mines to formulate and monitor a strategy for the regeneration and development of Bosnian Industry. An interim strategy will be developed that will project broad objectives for the industrial sector together with practical goals for individual sub-sectors and supporting infrastructure. Particular attention will be given to the implementation of the strategy. Hence such questions as to the future structure of industry, ownership models, the organization of enterprises and particular the role of the SME will be addressed. In summary, the industrial strategy will yield clear policy guidelines such that the potential benefits of privatization, re-orientation of enterprises and the encouragement of SME's can be geared to the achievement of national objectives in the most effective manner.

The need for project preparation and appraisal

Bosnian authorities are facing serious problems in carrying out the process of appraisal, prioritization and fund steering to projects identified under the emergency programme. Projects are of variable quality, but generally fall short of, for example, EBRD's standards. The Government therefore realizes an urgent need for establishing a capacity in the financial appraisal of the projects to facilitate their eventual privatization and promotion vis-à-vis donors and foreign investors.

THE UNIDO RESPONSE

Component 2/3: Capacity Building for Industrial Project Preparation, Appraisal and Investment Promotion

The component proposes to strengthen the capacity of the Institute of Organization of Economics (IOE) to become a focal point for the preparation/appraisal of investment project proposals. IOE staff will receive formal and on-the-job training through actual case applications following UNIDO methodology and computer applications. The suggested UNIDO assistance will be implemented over a period of approximately 24 months. It will concentrate on evolving a cadre of personnel in the IOE who will be well trained and coached in project preparation and appraisal so as to become a centre of excellence in this field. Formal and on-the job training will be based on UNIDO methodologies and computer application tools. The Reconstruction Cabinet fully supports this proposal to build capacity in conjunction with the IOE.

The need for targeted investment promotion

Bosnia's redevelopment will be heavily dependent on capital inflows. It is crucial that emergency, high-impact and fully appraised project proposals be properly promoted in the framework of a

targeted investment promotion programme. The Government is planning to set up a Foreign Trade and Investment Promotion Agency in the Republican Ministry of Foreign Trade (MFT). The initial start will be supported by the Dutch Government.

Before the establishment of this comprehensive investment promotion agency can become fully effective, there is a need for "targeted" efforts, in the short-term, to assist in the preparation of project profiles attractive to potential partners, select potential partners and initiate contact and exploratory discussions.

THE UNIDO RESPONSE

Component 2/3: Capacity Building for Industrial Project Preparation, Appraisal and Investment Promotion

While the focus of the Dutch Assistance is on setting up a Foreign Trade and Investment Promotion Agency on an institutional basis, UNIDO offers complementary assistance in strengthening its capacity in effective investment promotion techniques. The staff of the Agency will be assisted and trained in the promotion of high-impact investment proposals through very targeted identification and introduction of joint venture partners. The immediate aim is to proactively approach potential foreign investors so as to generate quick response. The Agency would also be linked into UNIDO's World Investment Network Services (WINS) and some of its staff would participate in the UNIDO Delegate Programme.

The need for enterprise restructuring

The preparatory mission confirmed that Bosnian enterprises will need assistance in restructuring to meet new market conditions. The UNIDO mission concerned with the detailed diagnosis and planning for restructuring which is now mobilizing, will highlight specific aspects of the enterprises which will need attention. Likely in need of attention will include:

Quality

Whereas many of the larger enterprises have good experience in working to international standard, there are, equally, many whose activity was confined to the former Yugoslavia, former Soviet Union and Comecon countries. Introduction of international standards may well come with incoming joint venture partners, but in other cases technical assistance may be needed.

Most firms visited have broad knowledge of quality assurance systems, such as ISO 9000. Few have direct experience, so that the setting up of a centre which would assist firms towards accreditation may become necessary.

Management Development

As a result of population migrations following partition, many directors and managers are newly appointed. Much of

management is therefore both inexperienced in their posts and have little or no background in business operations in a market economy. It is likely therefore that a comprehensive training regime will be needed at all levels, using the devices of seminars, in-house workshops, distance-learning schemes and formal, institution-based tuition.

THE UNIDO RESPONSE

Component 4: Pilot Enterprise Restructuring

The subsequent "hands-on" restructuring following the current diagnosis mission foresees that selected strategic enterprises receive direct and specific advice on the range of changes needed to re-orientate operations to market conditions. Advice would relate to the fundamentals of:

- Financial and cost restructuring, including asset valuations, and setting up revised balance sheets.
- Organization structure.
- Market development and product planning.
- Application of new technologies.
- New plant specification, appraisal and justification.
- Materials procurement techniques.
- Personnel policies and training.

Enterprises to be given attention will be selected initially on the basis of their relative importance to the national industrial strategy, and, secondly on the basis of their significance to other enterprises with whom they have working supply or procurement linkages.

The initial advisory work would be undertaken by a team of international consultants, specialized by industry sub-sector and discipline to cover the range of functions involved, including general management, financial, marketing, technical and production. In this process, 2 to 3 clusters or grouping of enterprises would be restructured as 'models'. The main steps would be:

- Appraisal of current status and operations.
- Formulation and agreement of development and restructuring plans.
- Implementation and monitoring of effectiveness.

Implementation, while in the hands of enterprise managements, will be carried out over a logical timespan during which time, perhaps 18-24 months, the international experts would be made available for short visits to review progress and help improve the effectiveness of the developing businesses.

In parallel with the creation of these models, actions will be taken to ensure local capacity building to promulgate restructuring work. This needs to be in two parts, i.e. capacity building:

- To promote the benefits of restructuring and to encourage this activity (as a function of MEMI) and
- For actual hands-on restructuring advisory services, which could be provided by organizations such as the Institute of Organization and Economics.

The need for a national SME development expertise

There is an almost bewildering list of donor offers for institution building, regional development and many of these involve support for SME's in the private sector. These donor programmes will help to improve the SME situation, whether offered on a fully commercial basis or as part of local initiatives to support entrepreneurial activity. However, it will take time to build up good quality networks and support and they will need to be continually renewed.

THE UNIDO RESPONSE

Component 5: Small Business Development Centre

UNIDO proposes to assist Bosnia and Herzegovina in developing its own expertise for identifying and meeting SME business needs. Such expertise would also help Bosnia and Herzegovina to play a more active role in assessing and influencing future donor proposals and ensuring that they are mutually complementary and reinforcing. In addition, the Government itself will need to be able to call on such expertise as it develops detailed policies and programmes on SME support.

Such expertise would need to be created in an institution or centre with the key roles of (1) monitoring the development of SME's, identifying their needs and constraints, and ensuring that these are communicated to Government at all levels (2) developing policy proposals for SME support by Government and donors, and (3) training and supporting the providers of small business services of all kinds. There are no donor proposals as yet to help Bosnia and Herzegovina to create such indigenous expertise and it is therefore proposed that UNIDO should fill this gap as its commitment to SME support in Bosnia and Herzegovina.

PROGRAMME STRATEGY

In the unique situation of Bosnia and Herzegovina, there is a need for coordination of the proposed intervention components so that both

- ❑ Maximum impact can be achieved by each component by ensuring valuable interchange of experience and data from related by parallel components
- ❑ The timeliness of intervention components matches the fast moving institutional developments and progress towards privatization.

The following sections outline a three year programme which has been discussed and agreed in principle with senior Ministry officials. The programme sets out to integrate both immediate actions needs with those capacity building activities which will underpin Bosnia's industrial recovery and more importantly, the direction of growth.

The programme, based on the five components, is illustrated therefore in a matrix showing activities by

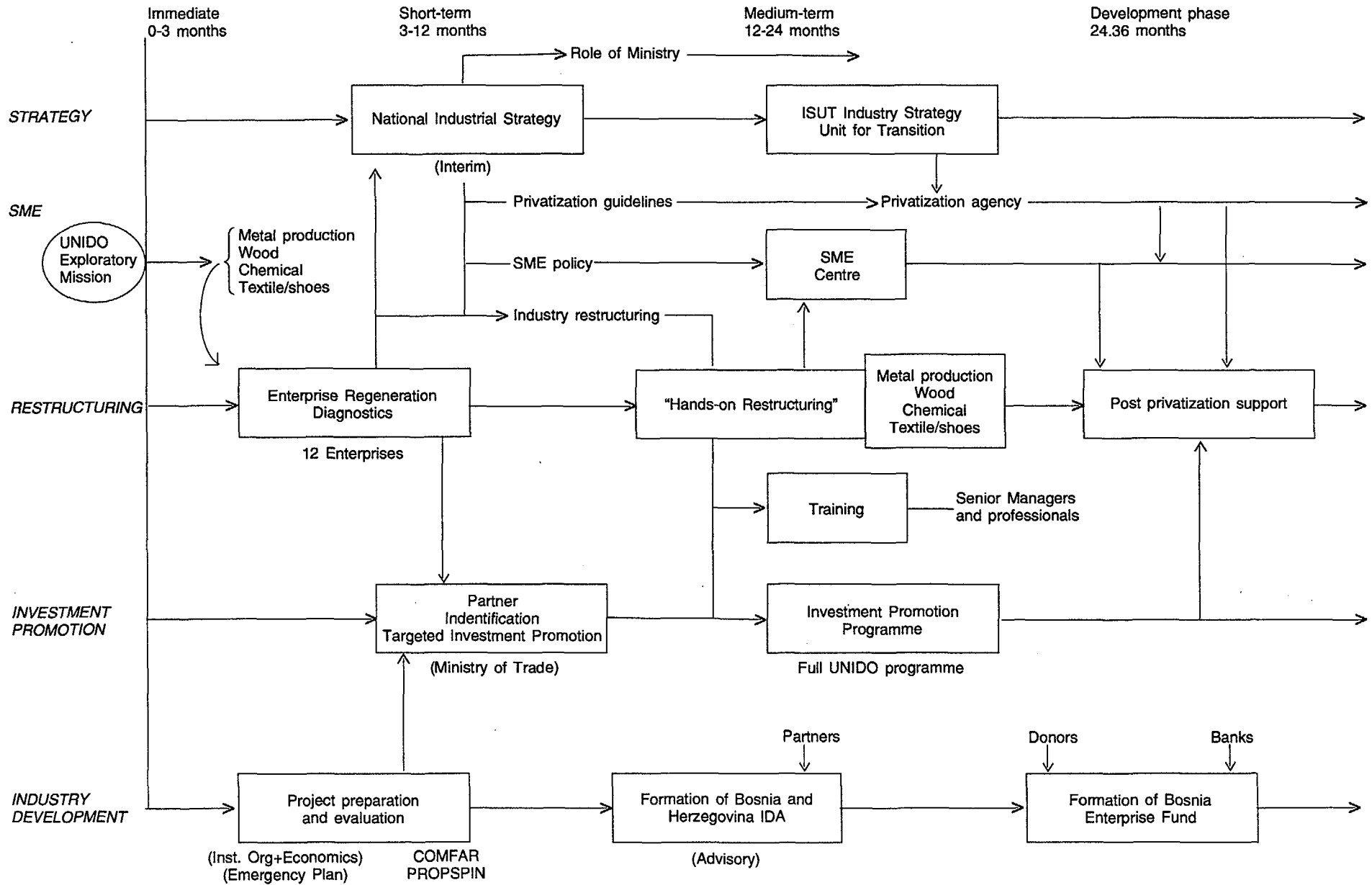
- Time scale: Immediate: 0-3 months
 Short term: 3-12 months
 Medium term: 12-24 months
 Long-term: 24-36 months
- Strategic function: Strategy formulation, project development and appraisal, investment promotion, enterprise restructuring and SME support

Each function or component is shown leading through to the development phase in the period 24-36 months.

Immediate Actions (0-3 months, still operating under emergency plan conditions)

- *Formulating of interim industrial strategy:* The Ministry is faced with the assessment of a large number of projects (1,300 of which 175 are priority). What is needed quickly is a framework or strategy against which projects can be judged and given priority, in accordance with broader long term objectives for Bosnian industry, thus, ensuring better quality decision making. This phase would be based on currently available knowledge and, be structured to generate early guidelines for steps towards privatization, industry restructuring and SME development.
- *Project preparation and evaluation:* The UNIDO Mission were able to examine sample project documents at the Ministry. These were of variable quality, but generally were below standards, by the absence of, for example, cash flow projections and market validations. With the WB and EBRD funding arrangement coming into place, there is need to build capacity to undertake project evaluation and prepare project documents for enterprises; at the same time, providing training for Ministry and enterprises' personnel in those areas.
- *Targeted investment promotion:* Before the establishment of a comprehensive investment promotion agency can become effective, there is a need for "targeted" efforts, in the short-term, to assist in the preparation of project profiles attractive to potential partners, select potential partners and initiate contact and exploratory discussions.
- *Pilot enterprise restructuring:* The work here will address the following sub-sector: metal production, wood, chemical, textile/shoes. Detailed diagnostic studies of 12 selected enterprises already have been initiated by the current UNIDO project, noted above. This will provide valuable inputs to each of the follow-up component phases in the subsectors, as well as in the formulation of strategy for the sub-sectors within the National Industrial Strategy.

Figure 1. Programme strategy



Short and medium term activities (3-24 months)

- ❑ The more comprehensive industrial strategy will be developed in this phase on the basis of the creation of ongoing statistical information and enterprise data, and with further research and evaluation of industrial development options. The strategy will be subject to regular monitoring and implementation policies matched to dynamic circumstances.
- ❑ Restructuring “hands on”: Guidelines for restructuring at both industry and enterprise levels will emerge from the industrial strategy, together with the experience of the earlier diagnostic phase. This component would provide direct restructuring assistance to enterprises and preparation for privatization.

Complementary UNIDO projects which will be coordinated within this programme already being developed include the following:

Rehabilitation of the wood industry

Revitalization of Sarajevo through the recycling of construction and demolition materials

Technical assistance to Bosnalijek Pharmaceutical and Chemical Industry Ltd, Sarajevo

Establishment of a Medical Equipment Repair and Maintenance Centre in Sarajevo

Rehabilitation of the leather-based industry

Rehabilitation of the cereal processing industry and assistance to the most affected food industries.

These projects will be subject to the guidance and policies promulgated by the Industrial Strategy.

- ❑ *Investment promotion:* UNIDO supporting the initiative of other donors in strengthening the Foreign Trade and Investment Promotion Agency.
- ❑ *Support to SMEs:* Policy guidelines for SMEs will have emerged from the industrial strategy. The planned project envisages to build up the capacity to monitor and analyse emergence and development of SMEs as a basis for policy advice on strategies and programmes to meet their needs, as well as to train and advise SME service providers of all kinds.

Development phase (24-36 months)

- ❑ UNIDO possibly providing post-privatization support to key enterprises
- ❑ Possible further development of the IOE Project Centre into an Industrial Development Agency offering investment and loan facilities for the further stimulation of economic growth.

END OF PROGRAMME SITUATION

By the end of the programme, the counterpart institutions will be fully competent to

- Formulate, monitor, update and implement a national industrial strategy (MEMI)
- Prepare and evaluate project development proposals in compliance with donor's and international banks' standards (IOE)
- Undertake investment promotion of sector, sub-sector and enterprise level business development projects (MFT)

With policy guidance from MEMI's industrial strategy, privatization of enterprises, together with their careful restructuring will be substantially and successfully carried out.

Further, with clear objectives for the direction of development, the prospects for substantial growth rate of the economy will be attractive. Within this thriving market economy a fast growing SME sector will be playing an increasingly important role, adding significantly to both employment prospects and industrial efficiency. The specialist SME centre will have a central role in ensuring that optimum conditions prevail to secure SME contribution to further growth and the strategic objectives.

OBJECTIVES, OUTPUTS AND ACTIVITIES

Development objective

To contribute towards sustainable economic development and employment for postwar recovery of Bosnia and Herzegovina through the regeneration of industrial activity and the longer-term industrial development in the context of the emerging free market economy (see figure 2).

Figure 2

The problem: The industrial reconstruction process is impaired by lack of capacity

Root cause: Lack of capacity inherent in the transition to an independent market economy

Lack of industrial strategy	Ineffective project preparation	Poor project promotion ability	Inappropriate experience for restructuring	Lack of capacity for SME promotion
The UNIDO response to the problem				
Component 1	Component 2	Component 3	Component 4	Component 5
<i>Objective:</i> To build capacity for formulating industrial strategy within MEMI	<i>Objective:</i> To build capacity for preparation of industrial projects with IOE	<i>Objective:</i> To build capacity for the promotion of projects with MFT	<i>Objective:</i> To build capacity for promoting and hands-on restructuring with MEMI	<i>Objective:</i> To support initial operation of Small Business Development Centre for SME development/promotion
<i>Outputs:</i>	<i>Outputs:</i>	<i>Outputs:</i>	<i>Outputs:</i>	<i>Outputs:</i>
<ol style="list-style-type: none"> 1. Provide nucleus of resources 2. An interim strategy 3. Comprehensive long-term strategy 	<ol style="list-style-type: none"> 1. Set up focal point 2. Staff training 3. Establish network links to government agency 4. 50 priority projects validated 	<ol style="list-style-type: none"> 1. Set up focal point 2. Staff training 3. Strengthen government agency 4. Targeted promotion of 50 projects 	<ol style="list-style-type: none"> 1. Diagnostics and plans for 12 enterprises (current project) 2. Restructure 2/3 clusters of enterprises as 'models' 3. Develop nucleus of resources locally 4. Promote benefits of restructuring 	<ol style="list-style-type: none"> 1. Centre set up and staff trained. 2. Sector information processed and publicised 3. SME information network

Note: Components 2 and 3 are combined as a single proposal.

INPUTS REQUIRED

Detailed objectives, activities and budgets for programme components 1 to 5 are included in part C of this document. Please note that budgets are prepared for the first 24 months period. The nature and costs of intervention for months 24-36 will be better assessed as assistance needs are better defined.

Table 2. Required Inputs

<i>Component</i>	<i>Function</i>	<i>Counterpart</i>	<i>Budget (millions of US dollars)</i>	<i>Duration</i>
1	Industrial Strategy	MEMI	1.195	24 months
2/3	Project Preparation/ Investment promotion	IOE MFT	1.050	18 months 4 months
4	Pilot Enterprise Restructuring (hand-on phase yet to be planned)	MEMI	2.500	18 months
5	Small Business development centre	MEMI	0.780	24 months
Total Programme			5,525	24 months

COUNTERPART SUPPORT CAPACITY

The findings of the exploratory mission suggest that while satisfactory counterparts have been identified sufficient for the early stages of the programme, this initial capacity will need to be strengthened. It is envisaged that specific attention will need to be given to identifying additional personnel within the cross-section of industrial organizations.

The intention is to seek out mid-career industrial professionals, managers, engineers, accountants, and economists, who would benefit from the training experience of acting as counterparts to the international experts.

INSTITUTIONAL ARRANGEMENTS

The programme has been drawn up and agreed in principle with MEMI who are fully supportive and welcome particularly the coordinated programme approach. Preliminary discussions have also been held with the Ministry of Foreign Trade (MFT) relating to the development of investment promotion capacity, and with the IOE concerning capacity building for project preparation. The preliminary institutional arrangements are therefore already in place. These are summarized for each component in the respective component document.

SPECIAL CONSIDERATIONS AND COORDINATION

To secure the level of coordination stressed earlier, all components will be subject to the supervision of a Resident Programme Manager. He/she will also maintain liaison with the respective UNIDO Divisions and branches. As this manager will be closely involved with the formulation of industrial strategy the budget for this coordinating role is included in component 1.

Because of the complexity of the country's situation as regards industrial development, there are particularly strong needs for coordination and consultation at three levels, between:

- MEMI, MFT and other Ministries having direct links with industrial strategy (e.g. Agriculture, Finance)
- MEMI, MFT and the UNIDO Resident Programme Manager (PM)
- UNIDO PM and the component team leaders

In addition, normal liaison links between UNIDO backstopping officers and field personnel will pertain.

The proposal is to carry out the work programme under the general auspices of a steering group made up of representatives from MEMI (chair), MFT and other Ministries as appropriate, UNIDO PM and leading backstopping officers. Representatives of the Cabinet for Reconstruction, the privatization agency and other relevant organizations can be co-opted on an "as needed" basis.

The programme steering group would meet at three monthly intervals on pre-set dates throughout the project to review progress and give policy guidance. Interim meetings would be called to review specific topics when necessary. Summary notes of proceedings would be prepared and circulated.

For day-to-day operations, the UNIDO PM will monitor the programme through short, fortnightly progress review meetings with the component team leaders (or nominees), according to their presence in the field. Again, summary notes of proceedings would be produced which will embrace:

- General progress/status of each component
- Problems encountered
- Actions taken or planned

Ministry representatives will be invited to attend these meetings on an open basis. The summary minutes of meetings will be used to advise the backstopping officer and official counterpart of progress and topics which may need special attention.

REASONS FOR ASSISTANCE FROM UNIDO

UNIDO has very considerable experience in providing an integrated technical assistance programme urgently needed for the regeneration of Bosnia and Herzegovina's industry. Work is undertaken in

many countries around the world, but the most recent relevant experience has been gained in the emerging republics in Eastern Europe and Central Asia, and in the Far East. These references include:

- ❑ Creating institutional mechanisms for formulating and monitoring industrial strategy and development of procedures for privatization
- ❑ Working at sector, sub-sector and enterprise level to restructure operations to meet the demands of new market economies
- ❑ Introducing training systems in the field of project preparation and evaluation
- ❑ Setting up and training investment promotion agencies
- ❑ Forming specialized units to stimulate SME's

In several instances these assignments have been or are being carried out in post-war situation, as in Bosnia and Herzegovina, where extensive reconstruction is also to be addressed.

The MEMI, MFT and IOE recognize fully, that they are unable themselves to field the type of short-term experienced assistance needed in the current situation across the range of disciplines. In this respect, UNIDO's track record is unique.

The newly formed Government organization, the demands of the recovery programme, the move to privatization, new enabling legislation, are all factors combining to present a challenging complexity. The Government is anxious to learn from UNIDO's integrated, practical approach to industrial regeneration and development.

RISKS

While the entire international donor community supports both the Federation Government and the Republic Government both financially and politically, the destiny of Bosnia and Herzegovina seems not yet resolved. As such, the project will be subject to unpredictable political developments in Bosnia and Herzegovina which could jeopardize project implementation. However, the implementation of the proposed programme should not be affected by the outcome of the elections scheduled for September 1996. There seems to be consensus that the same Federation Government will be re-elected and the staff of the Ministry of Energy, Mines and Industry will remain.

C. COMPONENT DOCUMENTS

COMPONENT 1: CAPACITY BUILDING FOR THE FORMULATION, MONITORING AND UPDATING OF A NATIONAL INDUSTRIAL STRATEGY IN BOSNIA AND HERZEGOVINA

The project seeks to strengthen the capacity of Ministry of Energy, Mines and Industry to formulate and monitor a comprehensive strategy for the regeneration and development of Bosnian Industry. The strategy will project broad objectives for the industrial sector together with practical goals for individual sub-sectors and supporting infrastructure. Particular attention will be given to alternative methods of progressing towards the objectives, that is, ways of implementing the strategy. Hence such questions as the future structure of industry, ownership models, the organization of enterprises and particular the role of the SME will be addressed. In summary, the industrial strategy will yield clear policy guidelines such that the potential benefits of privatization, re-orientation of enterprises and the promotion of SME's can be geared to the achievement of national objectives in the most effective manner.

CONTEXT AND DESCRIPTION OF THE SUB-SECTOR

Under the post-war reconstruction programme, the Government of Bosnia and Herzegovina is treating the revitalisation of productive sector as top priority. The Ministry of Energy, Mines and Industry (MEMI) has identified some 1,200 recovery and investment project proposals in key sub-sectors of industry. As a first step, reflecting the country's State of emergency, a list of 175 projects has been selected for first attention using the simple criteria of regenerating employment as quickly as possibly, at least cost.

Having taken these initial steps, MEMI fully recognises that increasingly their future decisions must further their aim of building on the country's technical skills and resources. Industry faces

not only radically changed markets but also the challenge of an economy newly committed to privatization. Against this background, a new framework for decision taking is urgently needed. An industrial strategy, against which projects can be judged in relation to the broader, long-term objective of Bosnian Industry would meet this need. In assessing alternative ways in which these objectives can be achieved the strategy will generate early guidelines as to the structure of industry, its ownership, size of enterprises, material supply options and the skills needed for successful development.

During discussions held with the recent UNIDO preparatory mission for private sector development, the authorities have shown keen interest in building capacity to formulate industrial strategy. In essence, the project would be implemented over a period of 24 months, through the setting up of a small organization within MEMI, as the Industrial Strategy Unit for Transition (ISUT). Assistance would be structured in three phases with the objectives of:

- ❑ Marshalling resources for the unit, defining function roles, establishing industry based task forces linked to a national "steering" group
- ❑ Formulating an "interim" industry strategy within a short timescale, based on currently available knowledge encompassing i.a. guidelines for:
 - Enterprise restructuring
 - Privatization
 - Stimulation of the SME sector
- ❑ Formulating a comprehensive industry strategy based on a systematic data flow to enable monitoring and up-dating of policies.

MEMI is a small but competent organization which is already starting to operate in a cohesive manner. Of a planned establishment of 40, so far only 11 posts are filled, but UNIDO has noted the application and level of practical knowledge of key personnel, particularly the industry sub-sector specialists. The proposed UNIDO assistance will concentrate on evolving a cadre of personnel, operating within the structure needed to provide development guidance to Bosnian industry.

To all those concerned with recovery, the urgent need to restore Bosnia's income generating activity is only possible by restructuring and reorienting its existing industrial sector as a whole, both State-owned and private enterprises. Bosnia and Herzegovina cannot rely alone on the growth of its private sector whose absorptive capacity and its ability to generate the urgently needed employment has been so far very limited. This limitation can be explained by only 10% of the World Bank credit scheme US\$ 1.6 million of US\$ 18 million already approved and allocated during the first half of 1996. On the other hand, there exists ample opportunity to create immediate employment within the

State-owned sector in the short-run. The industrial strategy will help the already successful and/or potentially successful enterprises increase their value-added while establishing linkages with the rest of the economy.

PROGRAMME FOR INDUSTRIAL RECOVERY AND PRIVATE SECTOR DEVELOPMENT IN THE FEDERATION OF BOSNIA AND HERZEGOVINA

Component 1

<i>Title:</i>	Capacity building for the formulation, monitoring and updating of a national industrial strategy in the Federation of Bosnia and Herzegovina
<i>Total budget:</i>	US\$ 1,195,000
<i>Estimated starting date:</i>	1 month after approval of funds
<i>Planned duration:</i>	24 months
<i>Project site:</i>	Sarajevo, Bosnia and Herzegovina
<i>National counterparts:</i>	Federal Ministry of Energy, Mining and Industry
<i>Executing agency:</i>	UNIDO
<i>Estimated starting date:</i>	Second half of 1996

PROJECT JUSTIFICATION

Problem to be addressed

While the Government has acted with commendable speed to identify and select priority enterprise regeneration projects, this selection has been based on strictly short term criteria. No attempt has yet been made to draw together any form of "blue print" for future development. MEMI are well aware that this lack of vision as to the likely shape and nature of Bosnia industry, will increasingly impair their ability to introduce the practical policies which would encourage growth and prosperity.

MEMI are facing some powerful constraints which can be summarized as:

- Uncertainties as to its role in the transition period and in the future economy
- Complexity of the Bosnia recovery situation with the move to privatization and attendant reforms in law and fiscal policies
- Lack of experience in formulating, monitoring and implementing industrial strategy in a market economy.

That these constraints are overcome as quickly as is practical is of greatest importance to Bosnia's rapid recovery and succeeding development. What is needed is a framework or strategy which will

encourage policy makers and enterprises to act in cohesion so as to ensure that national policies are compatible to and supportive of business plans made by those enterprises. Bosnia will need help to build capacity to introduce this national industrial strategy.

Scope of an industrial strategy

An effective comprehensive strategy will have four main elements which are:

Industrial objectives

The setting of economic targets 5, 10, and 20 years ahead, supported by sub-sector objectives in terms of output, products and services, markets and funding mechanisms, referenced to region or canton.

Methods of achieving objectives

Addressing the best way in which industry should be structured, the need for new supply linkages and business opportunity, market and investment promotion, development of supporting infrastructure and review of alternative methods and policy options.

Implementation

The strategy will highlight the need for specific new policies to be adopted, define the roles of supporting organizations, including ministries and educational institutions, and provide guidelines as to

Industry restructuring, including the development of SME's;

Application of privatization measures

Monitoring, reviewing and adjusting

As Bosnia's position develops, within the fluctuations of the global economy, monitoring progress and the effectiveness of policies must be on-going. The strategy is dynamic and therefore subject to review and adjustment to meet changing circumstances

Role of Government

In a market economy, the introduction of an industrial strategy in no way implies that Government would be empowered to "direct" development as was the case in many former command economies. Government's job is to encourage and stimulate through the provision of an enabling business environment and the application of fiscal and legal devices to the furtherance of practical aims mutually evolved with industry and the private sector.

Bosnia's redevelopment will be heavily dependent on capital inflows. To attract foreign investors, experience elsewhere shows that "areas of comparative advantage" must be created accordingly. This calls for direction by Government in an attempt to allocate scarce resources in an efficient manner, taking into account both sub-sector and regional interests. Without an industrial strategy, such careful directed interventions would not be possible. Once

MEMI develops its capacity to formulate its own industrial strategy, it will be in a position to assist and direct (i) technological upgrading of products and processes within industry (ii) entry into progressively more complex new activities, (iii) increasing local inputs and linkages and (iv) mastering complex technological capabilities within the technologies in use locally.

End of project situation

At the end of the project, MEMI will be fully capable of formulating, monitoring, reviewing and up-dating a comprehensive strategy for the regeneration and development of Bosnian Industry. The strategy will project broad objectives for the industrial sector together with practical goals for individual sub-sectors and supporting infrastructure. Particular attention will be given to alternative methods of progressing towards the objectives, that is, ways of implementing the strategy. Hence questions as to the future structure of industry, ownership models, the organization of enterprises and particular the role of the SME will be addressed. In summary, the industrial strategy will yield specific policy guidelines for the reorientation and transformation of the State-owned enterprise sector, acceleration of privatization and private sector growth, promotion of manufactures which allow domestic producers to move up the technology and skill "ladders", and in particular, the promotion of small scale industries. Restructuring of State-owned industries will help prepare them for case-by-case privatization already planned by the Privatization Expert Team subsequently to follow the mass and spontaneous privatization to take place as early as next year. At the same time, this project will have supported the principle of shared growth and, therefore, explored alternative ways of building cross-ethnic alliances among and within enterprises.

Target beneficiaries

The target beneficiaries of this project are the decision makers in MEMI, together with all operational staff whose strategy formulation capacity will be strengthened in the course of the project. Ultimate beneficiaries of the project will be the current and future industrial enterprises, entrepreneurs and managers. The results of the implementation of the strategy will, in turn, benefit employees and the Bosnian economy at large. The sub-sectoral findings of the preliminary mission concluded that State-owned enterprises are already trying hard to find new suppliers, products, technologies and markets, not only to resume but also reorient and expand operations. If they receive the institutional and economic support they need, they have all the ability to adapt to new realities.

Project strategy/coordination arrangements

The project strategy will follow the three main steps outlined above which are summarized as:

- ❑ Preparation and creation of an operational unit within MEMI (ISUT)
- ❑ Formulation of an interim industrial strategy and
- ❑ Development of a comprehensive industrial strategy with statistics and other data flow support.

Activities of the project will be initiated and guided by the unit to be set up, ISUT, which will be staffed by a small group of industrialists and economists recruited locally. Strategy formulation will fall under the auspices of a Strategy Steering Group (SSG). This, from experience, should comprise some 15 members, chaired by MEMI with senior representatives of key industrial sectors and the Institute of Statistics. Representatives would be coopted from the Privatization Agency, Cabinet for Reconstruction and other ministries as needed at each stage of the work. The SSG industrial members will be responsible for setting up eight sub-sector task forces covering the groupings of enterprises as categorized by MEMI. These task forces will be drawn from industry but will receive guidance as to their duties from ISUT and UNIDO consultants and will build on the industry background experience from sub-sector specialists of MEMI.

Reasons for assistance from UNIDO/UNDP

UNIDO has very considerable experience in providing the type of assistance urgently needed for the regeneration of Bosnia industry. Work is undertaken in many countries around the world, but the most recent relevant experience has been gained in the emerging republics in Eastern Europe and Central Asia, and in the far East. These references include:

- ❑ Creating institutional mechanisms for formulating and monitoring industrial strategy and development procedures for privatization.
- ❑ Working at sector, sub-sector and enterprise level to re-structure operations to meet the demands of new market economies.
- ❑ Introducing training systems in the field of project preparation and evaluation.
- ❑ Setting up and training investment promotion agencies.
- ❑ Forming specialized units to stimulate SME's.

In several instances these assignments have or are being carried out in post-war situations, as in Bosnia, where extensive reconstruction is also to be addressed.

MEMI recognizes that they could not themselves field the type of short-term experienced assistance needed in the current situation across the range of disciplines. In this respect, UNIDO's track record is unique.

The newly formed Government organization, the demands of the recovery programme, the move to privatization, enabling legislation, are all factors combining to present a challenging complexity. The Government is anxious to learn from UNIDO's integrated, practical approach to industrial regeneration and development.

Counterpart support capacity

The findings of the exploratory mission suggest that while satisfactory counterparts have been identified as sufficient for the early stages of the programme, this initial capacity will need to be strengthened. It is envisaged that specific attention will need to be given to identifying additional personnel within the cross-section of industrial organizations. This can be done during the course of the early component activities, particularly that of the restructuring diagnostic/planning project which is now mobilizing.

The intention is to seek out mid-career industrial professionals, managers, engineers, accountants, and economists, who would benefit from the training experience of acting as counterparts to the international experts.

DEVELOPMENT OBJECTIVE

To contribute towards sustainable economic development and employment for postwar recovery of Bosnia-Herzegovina through the regeneration of industrial activity and the longer-term industrial development in the context of the emerging free market economy.

IMMEDIATE OBJECTIVES, OUTPUTS AND ACTIVITIES

Figure 3

The Problem: Lack of direction in the regeneration and development of industry

UNIDO Response to the Problem: To build a local capacity for the formulation, monitoring and updating of a strategy for the development of industry

<i>Immediate objective 1</i>	<i>Immediate objective 2</i>	<i>Immediate objective 3</i>
Resources set up in MEMI Industrial Strategy Unit for Transition (ISUT)	MEMI enabled to formulate an interim industrial strategy	MEMI enabled to formulate, monitor and implement industrial strategy
<i>Output 1.1 Set up</i> Define role of ISUT Recruit, set-up logistics	<i>Output 2.1 Interim strategy</i> Sub-sector task forces Data analysis Specialist support	<i>Output 3.1 Information systems</i> Institute of statistics role Data acquisition MEMI/ISUT databank
<i>Output 1.2 Industry liaison group</i> Determine contributors Task force structures Define inputs	<i>Output 2.2 Interim strategy implementation</i> Consultations Evolve policy guidelines on privatization, restructuring and SME role and support Interim strategy dissemination	<i>Output 3.2 Policy and implementation</i> Strategy review procedures Economic research/analysis Industrial strategy dissemination

Project objective: To build a local capacity for the formulation, monitoring and up-dating of a strategy for the future development of Bosnian industry (see figure 3).

Immediate objective 1: To provide the nucleus of resources needed to undertake industrial strategy formulation

Output 1.1: Industrial Strategy unit set up within MEMI

<i>Activities</i>	<i>Duration in months</i>	<i>Completed by</i>
In conjunction with MEMI, definition of functional roles and objectives of the unit, taking into account other Ministries (e.g. Agriculture) and organizations involved with industrial recovery programmes and development	1	CTA/ national counterpart
Selection of core professional and support staff, procurement of office equipment and putting in place other logistic support needed to start activities of ISUT	1	CTA/ national counterpart

Output 1.2: Industry Steering Group and sub-sector task forces set up with defined roles

<i>Activities</i>	<i>Duration in months</i>	<i>Completed by</i>
Determination of the network of cooperating institutions, (including Institute of Statistics), enterprises, chambers of Economy and sub-sector groupings which could make essential contributions to strategy formulation	1	CTA/ national counterpart
Structuring of a representative steering group and subsidiary subsector task forces to ensure effective coverage of the full range of industrial activity	1	CTA/ national counterpart
Definition of data input required from task forces on their sub-sectors in terms of national qualitative and quantitative objectives, staff products, markets, growth rates, funding need and methods of achieving objectives	1	CTA/Econ.

Immediate objective 2: To assist MEMI in the production of an interim industrial strategy

Output 2.1: An interim industrial strategy

<i>Activities</i>	<i>Duration in months</i>	<i>Completed by</i>
Training the ISUT team to counsel and guide the sub-sector task forces in devising development programmes and methods of their implementation,	3	CTA/Econ. Statistician Nat. staff

<i>Activities</i>	<i>Duration in months</i>	<i>Completed by</i>
including assisting the Institute of Statistics in setting up supporting data supply		
Advising task forces, the steering group and ISUT team on collating and analysing the inputs from sub-sectors into practical development plans.	3	CTA/Econ. Statistician Nat. staff
Provide industry specialist advice, needed, from local (e.g. IOE) sources or overseas to advise on specific strategic development issues within the international context, e.g. promotion of productivity through absorption of foreign technology, encouragement of export strategies etc.	24	Int./Local industry experts as needed
Delineate strategic guidelines for Restructuring Privatization SME support	3.5	CTA/Econ UNIDO experts
Advise on the form and content of the interim strategy document		

Output 2.2: Guidelines and a concrete workplan for the implementation of the interim strategy

<i>Activities</i>	<i>Duration in months</i>	<i>Completed by</i>
Train and counsel ISUT team in consultation mechanisms with parallel ministries, the Cabinet for Reconstruction, privatization agency	4.6	CTA/Local staff
Evolve with these organizations national policy guidelines for the development of SMEs, enterprise restructuring and privatization, as they relate to the achievement of industrial objectives	6	CTA/Econ./ local staff
Advise MEMI/ISUT on publication and dissemination of the interim industrial strategy	6	Economist

Immediate Objective 3: To develop capacity for long-term strategy formulation, monitoring and updating

Output 3.1.: Information Systems established to facilitate the strategy formulation and monitoring

<i>Activities</i>	<i>Duration in months</i>	<i>Completed by</i>
Train Institute of Statistics in the timely acquisition, collation and presentation of key economic indicators	6	Stat./Econ.

<i>Activities</i>	<i>Duration in months</i>	<i>Completed by</i>
Assist ISUT team in the design and implementation of data capture systems relating to operations and progress at enterprise level	8	CTA/Econ. Stat.
Guide MEMI/ISUT in the creation of an industry database in terms content and flexibility for analysis	9	Stat.

Output 3.2: MEMI/ISUT enabled to provide policy options for the implementation of industrial strategy

<i>Activities</i>	<i>Duration in months</i>	<i>Completed by</i>
Train ISUT in methods and periodicity of formal review of the industrial strategy	18	CTA/Econ.
Assist in setting up mechanisms for undertaking specific economic research and analysis in development or problematic topics relevant to achieving growth objectives	6	Econ.
Undertake guidance in the evaluation criteria and methods of assessing alternative policy applications, impacting on employment, environment and commercial considerations	24	CTA/Econ.
Advise MEMI/ISUT on the dissemination of documents, economic reports and policy proposals to facilitate and encourage practical implementation of the industrial strategy	6	CT/Econ.
To expose ISUT staff to overseas practices in the field of industrial policy formulation through study tours (three groups of 3)	24	Local staff

RISKS

While the entire international donor community supports both the Federation Government and the Republic Government both financially and politically, the destiny of Bosnia and Herzegovina seems not yet resolved. As such, the project will be subject to unpredictable political developments in Bosnia and Herzegovina which could jeopardize project implementation. However, the implementation of the proposed programme should not be affected by the outcome of the elections scheduled for September 1996. There seems to be consensus that the same Federation Government will be re-elected and the staff of the Ministry of Energy, Mines and Industry will remain.

PROJECT REVIEWS, REPORTING AND EVALUATION

The project will be subject to tripartite review (joint review by the Ministry of Energy, Mines and Industry, UNIDO and UNDP) at least once every 12 months, the first such meeting to be held within the first 12 months of the start of full implementation. The CA/programme coordinator shall submit to the UNDP field office at least three months before each tripartite review a Project Performance Evaluation Report (PPER). Additional PPERs may be requested, if necessary, during the project.

A project terminal report will be prepared for consideration at the terminal tripartite review meeting. It shall be prepared in draft sufficiently in advance to allow review and technical clearance by UNIDO at least four months prior to the terminal tripartite review.

LEGAL CONTEXT

This project document shall be the instrument referred to as such in Article I of the Standard Basic Assistance Agreement between the Government of Bosnia-Herzegovina and the United Nations Development Programme, signed by the Parties on 7 December 1995.

Annex. Staffing and budgeting components

Government inputs

MEMI will place at the disposal of the international and national experts all necessary information needed to carry out the work. The international experts will have continuous access and support from the industry specialists in the Ministry. The Ministry will provide working space and secretarial support for the project team.

UNIDO inputs

			US\$
11-00	International Consultants		
11-01	(CA/ Progr.Coordinator ¹)		
	Industrialist	24 w/m	360,000
11-51	Economist	2 w/m plus	
		2 w/m split	60,000
11-52	Statistician	2 w/m plus	
		2 w/m split	60,000
/x	Industry Sector Experts	0.75x6 plus	
		10x .75	180,000
/x	UNIDO staff inputs (industrial policy, SME and sector specialists)	6 w/m	84,000

¹The team leader would also be charged with coordinating UNIDO's overall industry recovery and private sector development programme in Bosnia and Herzegovina to ensure that other components of the programme interface in a coherent and effective manner.

		US\$
15-00	Local travel by experts	25,000
16-00	UNIDO staff travel	30,000
17-00	National Experts	
	Industry Sector Specialists	10 w/m 25,000
	3 Engineers/Economists	3 x 24 w/m 180,000
	2 Junior Engineers/Economists	2 x 24 w/m 96,000
32-00	Study Tours (e.g. VDMA—Germany)	25,000
42-00	Equipment	
	3 PCs, printers, data bank software, fax photocopier, telecom line etc.	20,000
51-00	Miscellaneous	50,000
	Total	1,195,000

COMPONENT 2 AND 3: CAPACITY BUILDING FOR INDUSTRIAL PROJECT PREPARATION, APPRAISAL AND INVESTMENT PROMOTION

The project seeks to strengthen the capacity of the Institute of Organization of Economics (IOE) to become a focal point for the preparation/appraisal of investment project proposals. IOE staff will receive formal and on-the-job training through actual case applications following UNIDO methodology and computer applications. Viable, high-impact investment proposals will subsequently be promoted in a targeted manner by the newly created Foreign Trade and Investment Promotion Agency so as to ensure the inflow of foreign investments. These are urgently required to carry forward the post-war reconstruction and private sector development process in Bosnia-Herzegovina.

PROJECT JUSTIFICATION

Problem to be addressed

Under the post-war reconstruction programme of the Government of Bosnia and Herzegovina, the revitalisation of the productive sectors has top priority. Towards this end, the Government adopted the programme for production recovery comprising some 1,200 investment project proposals in the key sector of industry, 90% of which are still State-owned. Not all of these proposals may prove viable in the context of a free market economy. Therefore, Bosnia authorities are facing serious problems in carrying out the process of appraisal, prioritization and fund allocation of all these projects.

The Government of Bosnia and Herzegovina realises an urgent need of establishing a capacity in the financial appraisal of the

projects to facilitate their eventual privatization and promotion vis-à-vis donors and foreign investors.

The Reconstruction Cabinet has therefore recommended that a focal appraisal capacity be built in the Institute of Organization and Economics to contribute towards investment decision making at the Governmental and industry level.

Already prior to the war, the IOE was a self-supporting consulting institute providing services to companies, Government and agencies on project preparation and appraisal, privatization and business management. It combined the expertise of some 13 professionals associated as teaching staff at the University of Sarajevo, R&D departments, private industry etc. Due to the war, the operations of the IOE have practically come to a standstill and the Institute has lost all of its technical equipment. There is, however, a keen interest in reviving the institute and turning it into a professional and dynamic body in support of the post-war recovery programme. This requires that its human resource be properly trained and coached in financial appraisal methodologies. It also requires that the institute be properly equipped in terms of modern office facilities.

It appears crucial that the appraised project proposals be properly promoted in the framework of a targeted investment promotion programme. The Government is planning to set up a Foreign Trade and Investment Promotion Agency in the Central Ministry of Foreign Trade with support from the Dutch Government. The Agency is expected to be created by mid-1996 and operated by 7 officials and a Dutch expert financed for 1 year. While the focus of the Dutch Assistance is on setting up the agency from an institutional point of view, UNIDO offers complementary assistance in strengthening the capacity of the Agency in effective investment promotion techniques.

The suggested UNIDO assistance will be implemented over a period of approximately 24 months. It will concentrate on evolving a cadre of personnel in the IOE who will be well trained and coached in project preparation and appraisal so as to become a centre of excellence in this field. Formal and on-the job training will be based on UNIDO methodologies and computer application tool.*

The staff of the Investment Promotion Agency will be assisted and trained in the promotion of high-impact investment proposals through very targeted identification and interesting of joint venture partners. The aim is to proactively approach potential foreign investors so as to generate a quick impact. The Agency would also be linked into UNIDO's World Investment Network

*UNIDO has developed a methodology for preparing industrial feasibility analysis which is augmented by the UNIDO Computer Model for Feasibility Analysis and Reporting (COMFAR). The model is in line with WB and EBRD standards. A less sophisticated application software is PROPSPIN (Project Screening and Pre-appraisal Information system) which facilitates the formulation and screening of investment projects.

Services (WINS) and some of its staff participate in the UNIDO Delegate Programme.*

The project will seek to establish an institutional linkage between the IOE and the Agency within the wider network of the State-owned and private business community, financial institutions and governmental agencies in order to seek and obtain their support in the process of project identification, preparation, appraisal and promotion/implementation.

PROGRAMME FOR INDUSTRIAL RECOVERY AND PRIVATE SECTOR DEVELOPMENT IN THE FEDERATION OF BOSNIA AND HERZEGOVINA

Component 2 and 3

<i>Title:</i>	Capacity Building for Industrial Project Preparation, Appraisal and Investment Promotion
<i>Total budget:</i>	US\$ 1,050,000
<i>Estimated starting date:</i>	1 month after approval of funds
<i>Planned duration:</i>	24 months
<i>Project Site:</i>	Sarajevo
<i>National counterparts:</i>	Federal Ministry of Energy, Mines and Industry of the Federation of Bosnia and Herzegovina Ministry of Foreign Trade of the Republic of Bosnia and Herzegovina
<i>Target beneficiary:</i>	Institute of Organization and Economics Future Agency for Foreign Trade and Investment Promotion, Ministry of Foreign Trade of the Republic of Bosnia and Herzegovina
<i>Executing agency:</i>	United Nations Industrial Development Organization

DEVELOPMENT OBJECTIVE

To contribute towards sustainable economic development and employment for postwar recovery of Bosnia-Herzegovina through the creation of conditions that will facilitate the attraction and flow of foreign capital which is urgently needed to carry forward the reconstruction and restructuring process.

*WINS consists of 13 Investment Promotion Service/offices (IPS) in Athens, Beijing, Hong Kong, Istanbul, Milan, Moscow, Paris, Seoul, Tokyo, Vienna, Warsaw, Washington and Zurich, as well as investment promotion Agencies and informal focal points in several UNIDO member countries. The principal function of the IPS office is to identify investors in their respective countries as potential cooperation partners for investments profiled in the recipient countries. Their staff are in close contact with the business communities, development agencies and financial institutions and have established databanks with details on companies interested in industrial partnerships.

IMMEDIATE OBJECTIVES, OUTPUTS AND ACTIVITIES:

Immediate Objective: To build and strengthen local capacities for the preparation/ evaluation as well as for the promotion of industrial investment projects

Output 1: IOE being set up as focal point in Bosnia-Herzegovina for dissemination of modern methods of investment project preparation and appraisal

Activities

Determination of the network of Bosnia institutions/enterprises being or to be involved in investment projects identification, preparation and appraisal;

Determination of the main functions to be performed by the network of cooperating institutions (focal points), taking into account the national set of existing institutions involved in industrial recovery and investment;

Selection (recruitment/placement) of the core professional staff and support staff and procurement of necessary office equipment and other logistical support necessary to start the activities of the IOE as the Bosnia focal point for capacities building in investment project cycle.

Setting up within IOE of an advisory group capable to provide investment related services to government institutions, donors and enterprises.

Identification of specific needs for training and design of the training programmes offered by IOE to Bosnia institutions and enterprises involved in investment activities.

Output 2: IOE staff trained in project preparation and appraisal techniques

Activities

Training of the professional staff through formal short seminars on financial appraisal methodology and computer techniques (see attached training outline)

On-the-job training on life cases through coaching by international experts.

Preparation of complete investment studies and appraisal reports.

Practical training of the selected staff of IOE as trainers together with study tour to the leading financing institutions involved in financing of investment projects in Bosnia

Based on training needs analysis previously carried out to conduct specific workshops for national and cantonal organizations to fully develop IOE's training capacity

Output 3: Capacity of Investment Promotion Agency in the Ministry of Foreign Trade strengthened

Activities

Conduct training seminar for Agency staff in investment promotion techniques, mediation assistance and fundamentals of technology transfer agreements, project financing, use of UNIDO appraisal tools etc.

Integrate Agency into UNIDO investment promotion network
 Place one or two Bosnia investment promotion officers to selected IPS offices to promote projects among the respective business communities
 Preparation of investment guides and other investment promotion material
 Launching of promotional campaign of investment opportunities through IPS network and delegates

Output 4: 50 investment projects in the industrial sector being prepared, appraised and promoted

Activities

Identification of high-impact projects under post-war emergency programme
 Screening of formulated investment project based on UNIDO's project methodological tools and software in order to review viability of the proposed project
 Targeted promotion of selected investment projects through proactive identification and interesting of potential foreign investors
 Assist in preparation of feasibility studies and in securing financing for negotiated projects.

END OF PROJECT SITUATION

It is expected that at the end of the project IOE will be fully capable to carry out the work of a focal point in investment appraisal. At the same time, a linkage will have been established with the Investment Promotion Agency in the Ministry of Foreign Trade who will be integrated in UNIDO's investment promotion network and trained in all aspects of investment promotion so that effective matchmaking between local and foreign investors can take place, based on assessed, viable project proposals. Thanks to this programme component, and later to the activities carried out by IOE and the Investment Promotion Agency, conditions will be created in the country that will facilitate the attraction and flow of foreign capital which is urgently needed to carry forward the reconstruction and restructuring process in Bosnia and Herzegovina.

Annex: Staffing and budgetary components

<i>UNIDO Inputs</i>		<i>US\$</i>
<i>BL 11: Short-term international consultants:</i>		
Financial analyst	10 w/m	160,000
Industry specialist	10 w/m	160,000
UNIDO staff inputs	6 w/m	84,000
<i>BL 13: Administrative support</i>		
One secretary at the IOE	24 w/m	24,000
<i>BL 15: Local Travel by experts</i>		25,000
<i>BL 16: UNIDO staff travel</i>		30,000

		US\$
<i>BL 17: National experts:</i>		
Industry specialist	10 w/m	25,000
5 IOE staff of which:		
3 business/financial analysts (US\$ 2,500 p.m)	3x 24 w/m	180,000
2 junior analysts (US\$ 2000 p.m)	2x 24 w/m	96,000
2 national investment promotion officials sponsored under delegate programme	24 w/m	100,000
<i>BL 41: Expendables</i>		
Gasoline, paper, diskettes and recurrent cost of Internet connection		25,000
Training materials		10,000
<i>BL 42: Equipment</i>		
(vehicle, 5 PCs with printers, COMFAR and other software, FAX, Photocopiers, telephone line installation)		60,000
<i>BL 32: Group training, study tours</i>		50,000
<i>BL 51: Miscellaneous</i>		20,000
Total	204 w/m	1,049,000

COMPONENT 4: PILOT ENTERPRISE RESTRUCTURING

In July 1996 UNIDO prepared a "Support Programme for Industrial Recovery and Private Sector Development in the Federation of Bosnia and Herzegovina". This was developed in the framework of Preparatory Assistance Project DP/BIH/96/001 and UC/BIH/96/051.

One of its five components is "Pilot Enterprise Restructuring". This component is a follow-on to the previous diagnostic project carried out by UNIDO (DP/BIH/94/001) Assessment of restructuring needs of industrial enterprises in Bosnia and Herzegovina). This component is now proposed as the implementation of a "hands-on" restructuring project.

This project would provide selected strategic enterprises with direct and specific advice on the range of changes needed to re-orient operations to market conditions. Advice would relate to the fundamentals of:

- Financial and cost restructuring, including asset valuations and setting up revised balance sheets;
- Organization structure;
- Market development and product planning;
- Application of new technologies;
- New plant specification, appraisal and justification;

- ❑ Materials procurement techniques;
 - ❑ Operations management and productivity improvement;
 - ❑ Computer and management information systems;
 - ❑ Human resource development policies and training.
- In this process three clusters of enterprises would be re-structured as "models".

The pre-war Republic of Bosnia and Herzegovina had a well developed industrial sector covering a wide range of sub-sectors. The effects of the war were extremely variable. In terms of physical damage, some companies were virtually untouched and others completely destroyed. All companies, however, have many problems directly or indirectly related to the war. These include:

- ❑ Damaged or ageing equipment, some technologically obsolete, and shortage of spare parts.
- ❑ Roof and glass damage resulting in problems of protection from rain, snow and cold.
- ❑ Shortage of management and skilled workers, especially R&D staff, senior and financial managers, sales staff and technologists.
- ❑ Loss of markets; (the previous home market of the former Yugoslavia, which must now be treated as export); the need to regain or find new export customers in Europe and world wide, in a competitive situation (previously most export marketing was done by central marketing companies at prices often below cost, to earn foreign exchange). Most companies have lost their contacts and most lack the skills of selling in a free market.
- ❑ Due to lack of sales there is a general shortage (sometimes potentially fatal) of working capital.
- ❑ Communications and transport are poorly provided, although there is a steady improvement in infrastructure, mainly funded by donors and aid agencies.
- ❑ Lack of outside contacts for four years has meant that many companies have fallen behind in terms of technology and product development.
- ❑ Loss of raw material sources from suppliers in former Yugoslavia (now Serbia, Croatia, Slovenia, etc.) or from foreign countries.

Pre-war a start had been made in privatization through the selling of shares to employees and others. The war prevented progress in this direction and the whole problem of privatization legislation and implementation will have to be dealt with by the new Government. Until this is done there seems little chance of major investment or donor aid to medium or large scale industry.

Another aspect which causes problems in the context of industrial restructuring is that managers and workers are often

unaware of the motivation and approaches of a free market economy. This shows up most strongly in two areas:

- ❑ There is very little understanding of marketing theory or techniques, in many companies, particularly with regard to exporting. There is therefore very little sales forecasting.
- ❑ There is a serious shortage of financial and investment information. Approaches to accounting are based on the old central planning methods so that profit and loss accounts, cash flow records and balance sheets do not usually show a true picture.

PROGRAMME FOR INDUSTRIAL RECOVERY AND PRIVATE SECTOR DEVELOPMENT IN THE FEDERATION OF BOSNIA AND HERZEGOVINA

Component 4

<i>Title:</i>	Pilot Enterprise Restructuring in the Federation of Bosnia and Herzegovina
<i>Total budget:</i>	US\$ 2,500,000
<i>Estimated starting date:</i>	Early 1997
<i>Planned duration:</i>	24 months
<i>Project site:</i>	Sarajevo and industrial centres in the territory of the Federation
<i>National counterparts:</i>	Federal Ministry of Energy, Mines and Industry of the Federation of Bosnia and Herzegovina
<i>Executing agency:</i>	United Nations Industrial Development Organization

PROJECT JUSTIFICATION

Problem to be addressed

The Government of Bosnia and Herzegovina has taken the decision to move to a privatized economy, and is committed to ensuring that this is carried out on a balanced regional basis. It wishes to revitalize, where practical the operations of State owned and private enterprise which had been either damaged or shut down during the war.

Within the context, described above, the other components of this project relate to the broader strategic and institutional issues. There is, however, little national know-how in the practical approaches to industrial restructuring particularly at the level of individual enterprises.

The diagnostic project, mentioned above, examined the present situation and the restructuring needs of 12 companies from various sub-sectors. In order to build up the required

capability to tackle the restructuring and project development for the 175 industrial projects selected by the Ministry of Energy, Mines and Industry this component will tackle the “hands-on” restructuring of three groups or clusters of companies (Primary Problem).

These companies will be selected in agreement with the Ministry (and with the acceptance of the companies themselves), from the 12 studied in the diagnostic stage.

The results of this component will provide models for a successful approach to restructuring (Secondary Problem), through tackling the specific problems of each enterprise.

It is the intention to be able to extend similar assistance to the rest of the 175 selected projects and eventually to the full list of 1,297 projects within 700 companies. These companies, which submitted their projects to the Ministry, account for only one third of the national total of industrial enterprises.

Whatever national industrial strategy is adopted to meet this huge problem, it will need to include the development of national consultants and trainers (Associated Problem). These will include the staffs of appropriate institutions as well as private consultants. To make a start of this task, this project component will include a number of national consultant/trainers working as counterparts to the international experts. The project will therefore work with the Institute of Organization and Economics, (IOE), (which has experience of working with UNIDO on previous projects) and with selected private consultants.

The project will provide institutional strengthening to the IOE and training and development in the approaches and techniques of the project component, as required, to the national consultants involved.

End of project situation

It is expected at the end of the project component that:

- ❑ The restructuring and development programmes of the selected enterprises will have been planned and implemented;
- ❑ As part of the project an ongoing system for future developments and new projects will have been established;
- ❑ The managers, technologists, service staff and workers in the selected enterprises, will have received appropriate training and development within an established human resource development function;
- ❑ The methodology and outputs of the restructuring and development programmes will have been described in the form of a general model suitable for use as a guide for extension of the approach to other enterprises and for use in development programmes for institutions, consultants and trainers;

- ❑ The Institute of Organization and Economics will have been strengthened in its capability and capacity to advise managers of enterprises in restructuring and development programmes.
- ❑ The staff of the IOE and private consultants, (national-consultants) will have improved their knowledge, skills and techniques in the fields of restructuring and development. Other components of this project will also contribute to this end.

Target beneficiaries

The direct beneficiaries will be the selected enterprises. Other beneficiaries will include:

- ❑ The Ministry of Energy, Mines and Industry; the model will contribute to the industrial reconstruction strategic plan;
- ❑ The people of Bosnia and Herzegovina; the development of the economy, employment and trade;
- ❑ The Institute of Organization and Economics; institutional strengthening and staff development;
- ❑ Consultants and trainers; training and development for new skills and increased work opportunities.

Project strategy

Industrial restructuring is a process that has technological, managerial, marketing, financial, economic, environmental, training, design and engineering aspects. It refers to the total techno-economic restructuring of an enterprise or group of enterprises.

In restructuring an enterprise it takes into account its economic and financial assets, the need to strengthen and develop the management structure and capability, the upgrading of labour-force skills, the development of its technology profile, the improvement of its product range and market niche, the strengthening of its home and export marketing capability.

The UNIDO integrated approach to restructuring top-down/ bottom-up has been developed over a number of years. It has been applied in a number of developing countries and in some of the former centrally-planned economies in countries of central and eastern Europe. On the basis of this approach, industrial rehabilitation is a comprehensive integrated programme of activities to secure the optimal use of existing and new resources and capacities for future development.

Phases of the project component.

The approach proposed for this project component consists of the following five phases:

Phase 1. (Expected duration—1.5 work/months)

There will be a brief re-assessment of the general economic and policy framework within which the industrial sector must operate.

Discussions with the Ministry of Energy, Mines and Industry will be held, to cover a number of issues.

The appointment of the national coordinator from the Ministry.

Agreement on the selection of the three clusters of enterprises.

The methodology, format and timing of the appointment of national consultants.

The project will establish its office accommodation and facilities.

A detailed project work plan will be developed, agreed and published.

Phase 2. (Expected duration—2.5 work/months)

Provide training for national consultants (and interpreters) in a number of fields.

A detailed review of the enterprises reconstruction plans.

An updating of reconstruction programmes.

Submission of the projects to donors.

Phase 3. (Expected duration—3 work/months)

Direct inputs to the enterprises:

Detailed industrial engineering analysis of enterprise operations.

Initial market research surveys of selected home and export markets.

Detailed financial and cost analysis.

Development of strategic and business plans.

The establishment of management services (and appropriate staff training through task oriented programmes).

A re-formulation of the restructuring projects.

Further submissions of the projects for funding.

Phase 4. (Expected duration—15 work/months)

The main implementation phase of the project:

Detailed market research.

Detailed sales and marketing programmes.

Organization and implementation of the physical components of the projects.

R&D and product development programmes.

Trade fairs, sales and marketing visits, etc.

Training of staff.

Phase 5. (Expected duration—2 work/months)

A comprehensive evaluation and validation of the project.

Development of a broad and generalized model for industrial restructuring in Bosnia and Herzegovina.

REASONS FOR ASSISTANCE FROM UNDP/UNIDO

UNDP was requested to assist the Government to provide and finance a programme for the restoration of essential services, for reconstruction, rehabilitation and restructuring.

UNIDO has a rich experience in providing technical assistance in rehabilitation and industrial reconstruction to various developing countries over the years. UNIDO has been providing technical assistance at various levels, from industrial policy guidance on the overall restructuring programme, to assistance in strengthening the capabilities of human resources and agencies that oversee restructuring, and in conducting diagnostics and implementing business plans for enterprise restructuring. UNIDO has already undertaken several restructuring programmes in developing countries and in former centrally-planned economies in Europe.

Country support capacity.

The findings of the exploratory mission and the diagnostic project suggest that while the Ministry, the Institute of Organization and Economics along with various related institutions and individuals were able to provide sufficient support for these preliminary stages, that further project work will require institutional building and capacity development. As with the individual enterprises and industry as a whole, Ministries and institutions have suffered considerable damage and loss of resources and capability.

It is therefore unlikely that much support capacity can be expected, initially, from local sources. The project will have to assist organizations and individuals to develop such capacity during its lifetime so that they can continue its activities after the end of the project.

The main support which can be provided is assistance with the identification of contacts and advice on local conditions and their likely effects on project activities.

DEVELOPMENT OBJECTIVE

To contribute towards sustainable economic development and employment for postwar recovery of Bosnia and Herzegovina through providing direct "hands on" reconstruction assistance to three clusters of industry (including the attraction of foreign capital) while developing local capacity for such activities and providing a "model" and contributing to the national strategic approach to industrial reconstruction.

IMMEDIATE OBJECTIVES, OUTPUTS AND ACTIVITIES

Immediate objective

The immediate objective of the project component is to provide direct and specific advice on the range of changes needed to restructure and reorientate operation, of three selected clusters of industries, to market conditions; and thus while assisting the management of these industries to restructure, develop local Ministry, institutional, consultancy and training capabilities, and to develop and provide a broad and generalised model for industrial restructuring in Bosnia and Herzegovina.

The key aspects of the immediate objective of the project component are to build capacity for promoting and "hands-on" restructuring with the Ministry of Energy, Mines and Industry, the Institute of Organization and Economics, consultants and trainers, and with three selected industrial clusters.

Outputs

- Restructure three clusters of enterprise as "models".
- Develop a nucleus of local resources.
- Promote the benefits of restructuring.

Activities for phase 1

There will be a brief re-assessment of the general economic and policy framework within which the industrial sector must operate. This will take particular note of any new aspects resulting from Government or other changes subsequent to the September 1996 elections. Progress in legislation, especially that on privatization; etc.

Due to the fluid and rapidly changing situation in Bosnia and Herzegovina it will be necessary for the project to continually monitor the above mentioned and other key factors, probably throughout the life of the project.

In parallel with this re-assessment discussions with the Ministry of Energy, Mines and Industry will be held, to cover a number of issues including;

The appointment of the national coordinator from the Ministry. As it will be essential that this coordinator will be a very senior officer of the Ministry, it is not expected that this officer would be available to the project on a full time basis. It is therefore proposed that a full time deputy coordinator will also be appointed. The Ministry will also designate, on a part time basis, three officers with experience of the industrial sub-sectors covered in the project, to ensure that lessons learned during the project and the outputs from the model are integrated into the Ministry's strategic planning.

Agreement on the selection of the three clusters or enterprises, (defining the individual enterprises within the clusters), from

the twelve enterprises studied during the diagnostic project. As part of the work in reaching this agreement discussions will be held with the enterprises to obtain their commitment, (in written form), to full cooperation in the project.

Agreement on the methodology, format and timing of the appointment of national consultants. It is proposed that each national consultant will be appointed as a direct counterpart to one of the international experts. In addition, as tried experimentally during the diagnostic project, a key project manager from each enterprise should be included as a national (enterprise) consultant, on a part time basis.

During phase 1. the project will establish its office accommodation and facilities, (including equipment and supplies); the project office will be located in Sarajevo; it will be necessary to have one or two sub-offices depending on the location of the selected clusters; transport should be purchased and local project staff recruited during this phase.

A detailed project work plan will also be developed, agreed and published during this phase.

Activities for phase 2

A major problem identified during the diagnostic project is the shortage of national consultants experienced in industrial reconstruction; and an even greater shortage of those with a working knowledge of business English. This situation is becoming increasingly more difficult as various international agencies and aid programmes increase the scope and range of their activities and as part of this reduce the most effective of the local consultants and interpreters.

It will therefore be essential to provide training for national consultants (and interpreters) in a number of fields, particularly: written and spoken business English; this will be in two stages based on a detailed assessment of individual needs; (1) an intensive continuous programme (2) a part time programme, with the level of inputs related to assessment of needs and progress achieved.

Approaches and techniques required by the project will, consist of a number of seminars/workshops covering the main project fields as listed in the "Brief Project Description" (where appropriate staff of the enterprises, project related organisations and the Ministry could join these seminars); for national consultants the seminars will be supplemented by on the job training as required by the project activities.

The project will also include the following:

A detailed review of the enterprises' reconstruction plans and an analysis of progress achieved since the diagnostic study, including for example, results of inputs from the USAID programme.

An updating of reconstruction programmes; and as part of the practical training the upgrading of all financial and economic information.

Submission on the projects to donors, aid/loan programmes, possible joint venture partners, commercial banking and other financial institutions.

Activities for phase 3

The main direct inputs to the enterprises will include:

Detailed industrial engineering analysis of enterprise operations resulting in well defined product and process specifications, defined and implemented work methods and accurate standard costings for all products.

Initial market research surveys of selected home and export markets.

Development of strategic and business plans including sales forecasts, organizational development and financial projections.

The establishment of management services (and appropriate staff training through task oriented programmes) of human resource development, marketing, industrial engineering, costing and financial capabilities to meet the restructuring needs of each enterprise.

A re-formulation of the restructuring projects based on the above analysis, surveys and staff development.

Further submission of the projects to donors, aid/loan programmes, possible joint venture partners, commercial banking and other financial institutions.

Activities for phase 4

This will be the main implementation phase of the project and will include:

Detailed market research to meet the requirements of the strategic and business plans produced in phase 2.

Formulation and implementation of detailed sales and marketing programmes.

Industrial engineering analysis and programme implementation.

Financial and cost management analysis and programme Implementation.

Organization and implementation of the physical, plant equipment, layout, maintenance, refurbishment and materials sourcing components of the projects.

Development and implementation of operations management, R&D, product development and quality management programmes.

Planning and attendance at appropriate trade fairs, sales and marketing visits and other promotional activities.

Training of staff at all levels (including foreign programmes and study tours) and implementation of projects and plans.

Activities for phase 5

The key aspects of this phase will consist of:

A comprehensive evaluation and validation of the project; within the enterprises, with the institute of Organisation and Economics, the Ministry and the normal UNDP/UNIDO process.

Development of a broad and generalized model for industrial restructuring in Bosnia and Herzegovina, its agreement with the Ministry, its publication and the production of plans for its replication in other sub-sectors and enterprises.

Annex. Staffing and budgetary components

Government Inputs

The Ministry will provide a National Project Coordinator and a Deputy.

The Ministry and the IOE will facilitate all necessary local contacts and regulate the agreement of the participating enterprises to cooperate fully with the project component.

UNIDO Inputs

UNIDO will undertake the restructuring project component with international and national experts with appropriate expertise. A draft of staffing and other budget components are outlined in the appendix attached.

			US\$
<i>11-00 International consultants</i>			
11-01	Senior Advisor (Team Leader)	12 w/m	180
11-02/03/04	(3) Senior Restructuring Consultants	(3x12)	432
	1 per cluster/sub-sector experts		
11-05	Senior HRD Consultant	(4 w/m)	56
11-06	Senior Marketing Consultant	(6 w/m)	84
11-07	Senior Industrial Engineering Consultant	(6)	84
11-08	Senior Financial Consultant	(6 w/m)	84
11-09	Senior Strategic Management Consultant	(4 w/m)	56
11-10/11	(2) Marketing Experts	(2x4 w/m)	96
11-12/13	(2) Industrial Engineering Experts	(2x4 w/m)	96
			59

			US\$
11-14/15	(2) Financial Experts	(2x4 w/m)	96
11-16/17/18	(3) Sector Technical Experts	(3x2 w/m)	72
11-19/20/21	(3) R&D/Quality Experts	(3x4 w/m)	144
11-22/23/24	(2) HRD experts	(2x4 w/m)	96
11-99	International Experts		1,576
15-00	Local Travel		30
16-00	UNIDO staff & other pers.		50
17-00	National Experts		
17-01	Team Leader	(24 w/m)	36
17-02 to 09	(8) Senior National Experts	(8x18 w/m)	180
17-10 to 23	(14) National Experts	(14x12 w/m)	168
17-99	National Experts		384
19-99	Personnel		2,040
32-00	Study Tour and Trade Exhibitions		220
33-00	Inservice Training		60
43-00	Equipment		130
51-00	Miscellaneous		50
	TOTAL:		2,500

COMPONENT 5: SMALL BUSINESS DEVELOPMENT CENTRE

The objective of the project is to create a distinct institutional support capacity for the development of public policies and programmes for small and medium enterprise promotion in the Federation of Bosnia and Herzegovina (Bosnia and Herzegovina). This capacity would be created in the Small Business Development Centre (SBDC), with the key roles of (1) monitoring the development of SMEs, identifying their needs and constraints, and ensuring that these are communicated to government at all levels, (2) developing policy proposals for SME support by government and donors, and (3) training and supporting the providers of small business services of all kinds. The project aims at assisting the initial start-up activities until the SBDC is capable of independently servicing SME supporters and policy makers. Through its network and promotional activities, the Centre will also have an important role in developing and maintaining the information flow from the SME community to the Government, and from the Government and support institutions, to the SME community.

CONTEXT AND DESCRIPTION OF THE SUB-SECTOR

According to the Ministry of Energy, Mines and Industry, there were 6,000 private enterprises in the productive sector in the years before the war. However the majority of the 450,000 employees in

manufacturing and mining (comprising about half non-agricultural employment) were employed by large and medium sized enterprises in the State sector. These were "socially owned", i.e. controlled by workers under the self-management system. They are likely to become a significant source of private sector SMEs as a result of privatization.

The extent and nature of the contribution of State enterprises to the private sector will depend on the privatization process itself, particularly on the extent to which reconstruction (following war damage) and restructuring can be carried through before enterprises are sold. It seems clear however that firms generated from the former State enterprises will employ far smaller numbers than were employed in the enterprises before the war. Thus large numbers of managers and operatives alike will need to find work outside their former enterprises and the firms which emerge from them.

The private business sector is of long-standing in Bosnia and Herzegovina, as in the rest of ex-Yugoslavia. Even before the economic reforms introduced from the late 1980s, private businesses employing up to 5 workers could be set up in certain sectors, including crafts, personal services, and restaurants. The Association of Craft Guilds claims to have some 30,000 active members in Bosnia and Herzegovina.

Business activity of all kinds appears to have accelerated from the end of 1995, particularly from spring 1996. The reconstruction activity is also creating many opportunities which are beginning to be exploited by Bosnian entrepreneurs. In broad terms the emerging private sector is likely to consist of (i) SMEs arising from restructuring and disaggregation of State enterprises, in association with privatization; (ii) new companies in the production sector, often founded by former managers in State enterprises; (iii) private firms, restarted after the war, including trading companies of all kinds.

In pre-war Bosnia and Herzegovina, as in ex-Yugoslavia generally, business services were weak or non-existent for small private businesses, which had to rely on their client relationships and contacts made in the course of doing business. The banks had no tradition in investment appraisal, small firms rarely used commercial accountants, and legal services were relatively undeveloped for small companies, as were other services such as eState agencies and business consultancy.

In the immediate post-war period enterprises of all kinds are operating at enormous disadvantages due to political instability in the Federation, the destruction of the economy and its infrastructure, the sabotaging or theft of equipment, the destruction of former markets, the large-scale displacement of people, and the departure of many professionals. There are also other constraints such as multiple levels of regulation due to complicated government structures; in adequate access to finance, and lack of information about sources of finance; lack of all kinds of information needed by business; brain drain of qualified people; lack of business training for would-be entrepreneurs.

The main business membership organization is the Chamber of the Economy and its regional and cantonal associations. This is a public law institution, with compulsory membership, dominated by the State enterprises and with weak sectoral associations. As its members are privatised and it receives technical assistance from Western chambers, it should in time develop appropriate services for its SME members but this seems unlikely in the short term. In the craft sector there is the Association of Craft Guilds and its local associations but their main function at present seems to be representational. Under the proposed new law on crafts the Association will be transformed into a public law Chamber of Crafts, with registration functions. In time this should enhance its capacity to provide advisory and information services, particularly if it can receive early technical assistance.

There are no government arrangements to foster additional networks of support for start-up firms or young small firms. However the proposals for a national support network suggest awareness of and interest in such schemes.

Commercial services do seem likely to grow rapidly in the next few years. Accountancy standards were said to have been reformed and private accountancy practices are expected to grow and commercial consultancies are emerging. The Chamber and some of the largest State enterprises have sponsored initiatives such as an export promotion centre to develop new markets and promote investment alliances. Most of the donor-assisted credit schemes are designed for the small and medium enterprises in the private sector.

PROGRAMME FOR INDUSTRIAL RECOVERY AND PRIVATE SECTOR DEVELOPMENT IN THE FEDERATION OF BOSNIA AND HERZEGOVINA

Component 5

<i>Title:</i>	Small Business Development Centre
<i>Total budget:</i>	US\$ 780,000
<i>Estimated starting date:</i>	October 1996
<i>Planned duration:</i>	24 months
<i>Project site:</i>	Sarajevo, Bosnia-Herzegovina
<i>National counterparts:</i>	Federal Ministry of Energy, Mines and Industry of the Federation of Bosnia and Herzegovina
<i>Executing agency:</i>	United Nations Industrial Development Organization

Host country strategy

While the Federation of Bosnia and Herzegovina has opted for private sector-led growth with the whole-hearted support of the

donor community. The main concerns of the Ministry of Energy, Mines and Industry, so far, have been:

- ❑ Reconstruction projects considered likely to lead to employment; over 1,000 projects having been prepared;
- ❑ Revision of laws taken over from ex-Yugoslavia, and preparation of legislation on privatization.

The Ministry have not yet been able to consider longer-term strategies likely to help regenerate industrial activity in a sustainable manner or stimulate SME activity. The Ministry itself is severely weakened since it has lost many staff. The Ministry has however prepared proposals for its future organization structure. The latest chart provides for six operational divisions covering groups of industrial sectors and one for private sector promotion which includes a section on small businesses.

Other federal ministries with a direct impact on business seem likely to include the Trade, Transport and Agriculture Ministries. In addition to the federal ministries, legislatures and other institutions at canton and municipal levels will have an important direct effect on business activity and its regulation. The various structures are still emerging and the final outcome is far from clear.

Prior or ongoing assistance

The international donor community have well advanced plans to assist the private sector development by channelling credit to the SMEs and to the emerging micro-businesses. The WB, the EBRD and the USAID are now among the major donors bringing credit facilities to the private sector SMEs and have also undertaken to help with the development of financial and institutional mechanisms.

A number of current or proposed projects should have a significant impact in stimulating SME development. In general the projects fall into four groups:

- ❑ Advice to top levels of government on privatization, government management of the economy, and the transition to a full market system;
- ❑ Loan finance for SMEs and associated technical assistance both to reform and develop bank competence and to provide business advice and training to applicant and other SMEs;
- ❑ Provision of finance and outreach services for micro-enterprises, including those of vulnerable groups and communities;
- ❑ Potential support for local initiatives for economic development bodies able to analyse local economic potential and provide business information, advice and training to entrepreneurs.

The WB was the first to develop lines of credit for SMEs for working capital and small repairs to restore production. This "Emergency Recovery Project" had initial funds of US\$ 30 million, later reduced to US\$ 18 million. These loans, having a credit ceiling of 300,000 DEM, are in some cases too large for the SMEs in the private sector. Recently the WB scheme Project Coordinating Unit (PCU) decided to allow exceptions and grant loans to medium-sized State-owned enterprises as long as their operations have linkages with the private sector, particularly where creating additional employment, as in agriculture.

The USAID is about to become the largest donor to the private sector with a credit scheme of US\$ 300 million for the next three years. It will provide fast-disbursing loans to commercial and industrial enterprises which can be reactivated quickly and generate sustainable employment. Loans are to be used to buy spare parts or new machinery, for the repair of damaged plant and equipment and for operating capital. These loans have credit ceiling of 1 million DEM (US\$ 666,000). The USAID anticipates US\$ 20 million of this scheme to be implemented before September 1996. It is questionable whether there would be sufficient demand from private enterprises alone in the short-term before privatization takes off during 1997.

At the same time, several multilateral (EBRD) and bilateral donors (GTZ and Government of Netherlands) plan to provide venture capital by setting up equity funds. The equity fund established by the EBRD for Bosnia and Herzegovina is in two tranches for the amounts of respectively 30 million ECU and 37.5 million ECU.

The Soros Foundation has financed the Management and Information Technologies (MIT) Centre as an independent training centre in the University Economic Faculty building. It commenced courses in 1995.

The ILO has prepared proposals to support the new Employment and Training Foundations to provide, among other things, training for potential self-employment for demobilized soldiers and others, and improve job-placement services. Other proposals have also been made including the creation of local economic development agencies and separate local enterprise centres.

Proposals for a network of local economic development agencies (LEDAs) covering the main economic areas and/or cantons with capacity to provide information and advice to small businesses have arisen locally and from a variety of official and donor sources (eg UNDP, ILO, EU) The most advanced proposal has been made by a French association of EU local economic development agencies (EALER). It envisages a network of eight agencies, each consisting of a small number of professional staff and managed centrally.

A model umbrella for many such proposals has been provided by the Tuzla Agency for Local Development Initiatives (TALDI). This is an informal group set up during the war on the initiative of local activists from all sections of the community, with a wide

and inspiring mission covering education, culture and social issues as well as business development. It is now receiving assistance from various donors.

Local enterprise programmes include those of the EU Administration Small Enterprise Programme in Mostar. These have been successful in regenerating some business activity in shattered communities, although with some difficulties associated with the disbursement of small enterprise funds, and have included significant financial help for small businesses and associated business training.

As to EC/PHARE programme, for 1996 there is a small budget of some 10m ECU for which proposals are made for projects to improve bank procedures and credit appraisal competence; contributions to the World Bank Local Initiatives Fund; support for a local economic development agency network; among others.

In summary, there is an almost bewildering list of donor offers for institution building, regional development and many of these involve support for SME's in the private sector.

PROJECT JUSTIFICATION

Problems to be addressed

While it is already clear that the number of SMEs will increase rapidly in Bosnia and Herzegovina, new firms, whatever their source, will need access to a wide range of information, advice and training, if they are to survive and grow. The donor programmes will help to improve individual competencies in these areas, whether offered on a fully commercial basis or as part of local initiatives to support entrepreneurial activity. However it will take time to build up good quality networks and they will need to be continually renewed. The way to ensure that this is provided for, would be to assist Bosnia and Herzegovina to develop its own expertise/national capacity to identify and meet SMEs needs. Such expertise would also help Bosnia and Herzegovina to play a more active role in assessing and influencing future donor proposals and ensuring that they are mutually complementary and reinforcing. In addition the government itself will need to be able to call on such expertise as it develops policies and programmes on SME support.

The expertise would need to be created in an institution independent of government. This will be particularly important in Bosnia and Herzegovina since the very complexity of government will impose burdens on business activity which will need to be identified and analysed independently. As summarized above, a number of donors have initiated major programmes of assistance to the SME sector, supporting local development initiatives, providing finance and outreach services. Many projects are planned to address the financial and technical needs of SMEs at the local and enterprise level. However, there is no donor proposals as yet to help create indigenous expertise/capacity, to monitor and identify the needs of SMEs and develop policies, programmes and incentive

measures. The UNIDO project proposal therefore addresses this gap and aims at developing that capacity by assisting the initial operation of an independent SBDC.

Some of the tasks envisaged for the Small Business Development Centre are:

- ❑ Analysing SME concerns and developing policy options;
- ❑ Monitoring the impact of regulations and policies on SMEs. Work with Government to develop policy and legislation to improve the environment in which small companies can prosper and grow;
- ❑ Compiling and interpreting statistics on SMEs according to size, industry and geographic distribution;
- ❑ Publishing technical and economic reports, advocacy publications, to support SME service providers;
- ❑ Communicating with local communities to help identify problems and needs of SMEs;
- ❑ Developing/communicating regularly with representative bodies of the business communities and ministries to discuss social, legal, economic, trade, industrial and other matters related to SME development;
- ❑ Developing databanks of all relevant business information nationwide, as well as carrying out basic and applied research, stimulating academic researchers and/or institutions to carry out research in SME-related fields;
- ❑ Working with training institutions in and outside the country, as well as (through sub-contracting) to develop programmes for specific needs, stimulating the development and training of local consulting capacity;
- ❑ Establishing contacts with international donors and tuning their assistance to contribute to a coherent development of the SME sector in the country;
- ❑ Developing and maintaining good contacts with SME related institutions, such as banks, universities, industrial estate planners, and the like, and inform the SME community about the services available.

The above is an indicative list of tasks to be carried out by the Centre and has to be completed and/or adjusted taking into consideration tasks to be carried out by other institution in the country, such as the Chamber of Commerce, the planned Foreign Investment and Trade Promotion Agency, and others. Funds to operate are expected to come from both the Government and the private sector and as long as the private sector will not be in the position to pay its contribution, bi-lateral and/or multilateral assistance might temporarily bridge that gap. The project should however identify possibilities of charging the clients for the sub-contracts or other services. The agency should remain as lean as possible and grow if additional demand from customers is forthcoming.

Expected end of project situation

At the end of the project Bosnia and Herzegovina would have a national Centre of excellence on all aspects of SME support, able to provide statistics, information and analysis needed for Government, donors and local support programmes and guide and train providers of information, advice, training and other services for SMEs. The Centre would be expected to become self-financing by the end of the two year period and to have developed options for its future constitution, i.e. as a continuing independent institution or as part of some other organization such as a university or other public institutions. Further support to the Centre might be considered in the light of development over the period, and the State of economic and business development.

Target beneficiaries

The direct beneficiaries of the project would be the Ministry of Energy, Mining and Industry, local economic development agencies, consultancies or other SME supporters trained by the Centre.

The ultimate beneficiaries will be the small and medium enterprises (existing and potential SMEs) as they will benefit from improved policy and well coordinated programmes and support services addressing their technical, management, financial and information needs.

Project strategy and implementation arrangements

There is no institution in Bosnia and Herzegovina with experience or credibility in the support needs of small private businesses. Support for a particular institution as a focus for the Centre is therefore not foreseen. The Centre would thus be independent and its staff would be the direct beneficiaries of the project. The Centre could, however, be physically located in an existing institution with related functions as "host" (e.g. the Institute for Organisation and Economics).

Broad objectives, outputs, and activities of the project are proposed below. It is assumed that UNIDO will manage the project with the assistance of a senior expert, a team of international and national specialist consultants and associated training institutions. The project team will cooperate closely with related institutions and donor programmes, with the overall objective to set-up the Centre and ensure that it develops policies and activities to fulfil its roles, in the light of specific development in Bosnia and Herzegovina.

It is proposed that UNIDO project should provide core funding and training support initially for two years. However, the Centre should become self-financing by the end of the project through public funding as well as charging private sector clients for the services.

DEVELOPMENT OBJECTIVE

To promote and support a dynamic and efficient SME sector that contributes increasingly to economic recovery and growth, and employment and income generation.

IMMEDIATE OBJECTIVE, OUTPUTS AND ACTIVITIES

Immediate objective

The project objective is to assist the initial operation of the Small Business Development Centre and create national capacity, at the central level, to support development and promotion of SMEs. The main tasks of the Centre will be to:

- Analyse SME sector information and make recommendations to the Government, on necessary changes in policies and incentives measures.
- Facilitate communication between various ministries, related institutions and SME support projects at the cantonal and local levels;
- Organize training and promotional programmes for SME service providers;
- Establish a sustainable information network for SMEs and the large number of emerging SME supporters.

Output 1. Establish small business development centre with core staff.

<i>Activities</i>	<i>Duration in months</i>
Define main functions and objectives of the SBDC (in consultation with all stakeholders ¹)	3
Recruit/appoint Executive Manager	3
Select host institution	3
Complete legal actions to formally establish the Centre	6
Renovate building, furnish office, install equipment	6
Finalize of the Business Plan for the first year	7
Develop the structure, operational and administrative procedures for the Centre	Continuous activity

¹Stakeholders and clients are government agencies, regulatory agencies, academic institutions, local government agencies, small businesses and related associations, etc.

Output 2. Trained staff performing functions related to the main programmes/projects

<i>Activities</i>	<i>Duration in months</i>
Establish selection criteria for recruitment of staff	4
Recruit staff (lean organization at the initial phase)	6
Prepare a training strategy and coherent training programme for the staff	6
On-the-job training of staff	Continuous activity
Develop documentation centre on small business	Continuous activity
Organize international training for Centre manager and senior staff, i.e study-tours to similar centres in Europe	12
Advise the Executive Director on the ongoing programmes and projects	Continuous activity
Develop criteria and design training programmes for SME supporters	10
Design a sustainable process of data collection and analysis to serve as a basis for recommendations on policies and measures to promote SMEs	12
Evaluate alternative approaches for compiling information through business partners/consultants	
Set the framework, prepare the TOR and commission the relevant consultant (or institution)	
Train staff to analyse information/data and make credible recommendations	
Develop an active programme to guide Centre clients in the development of projects consistent with the SME promotion strategy (Liaise with major donors and—develop understanding of priorities and interests of major donors, including, World Bank, EBRD, USAID, PHARE to take advantage of opportunities to assist in developing programmes for SME support).	Continuous activity

Output 3. Promotional materials to create awareness and understanding of basic principles of the SME development strategy, and of available support services in Bosnia and Herzegovina (financial, technical, managerial, information services). Materials to be produced will also be designed to raise the awareness of SME opportunities for prospective entrepreneurs.

<i>Activities</i>	<i>Duration in months</i>
Develop a promotion programme strategy, including target audience(s) and programme goal(s)	3

	<i>Duration in months</i>
Design promotional material to meet programme strategy goals	5
Implementation of the Promotional Programme	Continuous
Assessment of the Promotional Programme	12

RISKS

The project will be subject to unpredictable political developments in Bosnia and Herzegovina which could jeopardize implementation of activities. However, the implementation of the proposed project should not be affected by the elections scheduled for September 1996.

PROJECT REVIEWS, REPORTING, AND EVALUATION

The project will be subject to regular review (joint review by representatives of the Government, donor and UNIDO). The first such meeting will be six months from the start of the project. The Senior Advisor (11-01), in consultation with the Executive Director of the Centre, shall prepare and submit to the office before each tripartite review a Project Performance Evaluation Report (PPER). A Project Terminal Report will be prepared for consideration at the terminal tripartite review meeting.

LEGAL CONTEXT

This project document shall be the instrument referred to as such in Article I of the Standard Basic Assistance Agreement between the Government of the Republic of Bosnia and Herzegovina and the United Nations Development Programme, signed by the Parties on 7 December 1995.

Annex 1. Staffing and budgeting components

Government inputs

MEMI will place at the disposal of the international and national experts all necessary information needed to carry out the work. The international experts will have access and support from the Institution of Organisation and Economics as well as related personnel from the Ministry of Energy, Mines and Industry. The Ministry will provide working space and secretarial support for the project team.

UNIDO inputs

		<i>US\$</i>
11-00	<i>International Consultant</i>	w/m
11-01	Senior Advisor (SME Policies and Incentive Systems)	12 w/m (plus 6 w/m split)
		270,000

			US\$
11-40	Specialist Consultants Adviser for statistical analysis, sectoral specialists, financial/ fiscal experts, incl. UNIDO staff	6 w/m	90,000
15-00	Local travel by experts		20,000
16-00	UNIDO staff travel		24,000
17-00	National Experts		
17-01	National expert in SME policy development	24 w/m	90,000
17-02	Economics/Legal Adviser	24 w/m	90,000
17-03	Economist/Researcher Analyst	24 w/m	48,000
17-04	Industrial Economist/ Industrial Engineer	24 w/m	48,000
32-00	Study Tours		
33-00	and In-country training		30,000
42-00	Equipment 3 PCs, printers, data bank software, fax, photocopier, telecom line, etc.		50,000
51-00	Miscellaneous		20,000
Total			780,000.00

Annex 2. People interviewed

Discussions were held by the author in Sarajevo and Mostow with the following officials and representatives over the period 20 May to 2 June 1996.

Ministry of Energy, Mines and Industry

(Alipasina 41, Sarajevo. Tel. 440 032. Fax 642 064/444 715)

Enes Gotovusa (a senior official in the ministry)

I. Krisanovitch, Assistant Minister

Selen Balic, SME section

Fuad Cerkez, legal expert on team drafting law on entrepreneurs

Institution of Organisation and Economics

(Skenderija 13, 71000 Sarajevo. Tel./Fax 664 720)

Emir Kurtovic, Director

Professor Anton Milos

Dzermaludin Abdagic, Manager of Small Business Section

Univeristy of Sarajevo

(Economics faculty, Trg Ostobodenja 1, Sarajevo. Tel. 664 460, 651 298, 652 264, Fax 652 264)

Professor Boris Tihi, Dean of Economic Faculty

Professor Anto Domazet, Economics Faculty

Chamber of Economy, Bosnia and Herzegovina

(71000 Sarajevo, Mis Irbina 13/1. Tel. 663 370, Fax 663 634, email: pk_bih@zamir-sa.ztn.apc.org)

Tatjana Zac, Secretary General, Trade Chamber
Saliha Osmanagic, Foreign Relations Department

Association of Craft Guilds, Bosnia and Herzegovina

(Mis Irbina 13, Tel. 664 059, Fax 442 620)

Kemal Bakalovic, President

Enterprises

MD of Hass (eggs production, cheese and coffee packaging). 71000 Sarajevo, Kotromaniceva 62, Tel. 663 867, Fax 470 017)

Haris Hadzialic, EKIS (Sarajevo, Tel. 666 867(h), Tel./Fax 650 247(o))

Jean Baptiste Dupont, EALER-BH (European Association of Local Economic Development in Bosnia and Herzegovina). (Sarajevo, Tel./Fax 650 247).

International donor representatives

Keith Sargent, Advisor to PM. (Tel. 656 319, Fax 664 891)

Victor Massena, Office of High Representative (Tel. 447 275 x561, Fax 447 420)

Tom Bultereys, and John Gray, European Commission Office
(Publishing House "Svetlost", Sarajevo, M. Kantardzica 3, Tel. 666 046)

Claudio Domenis, Sarah Forster, World Bank Resident Mission

(M. Tita 25, III Sarajevo, Tel. 444 293, 668 167/083, Fax 440 108)

Kathryn Funk, Maria Nowak World Bank (local initiatives)

Antonio Cruciani and Alain Retiere, UNOPS

(Kulina Bana 4, Sarajevo. Tel. 667 733)

Anthony Twigger, ILO Coordinator

(trg Oktobra b.b., 71000 Sarajevo. Tel. 447 275 x525, Fax 447 420)

Frank Gillespie, US AID

(Alipasina 43, Sarajevo. Tel. 659 743/969, 445 700, Fax 659 722)

Munerera Mahinic and Kevin Gurgan, British Embassy

(Tina Ujevica 8, Sarajevo. Tel./Fax 47 13 24; 66 40 85, 65 50 94)

Abdulkerim O. Karamanoglu, TICA

(Mis Irbina 13, Sarajevo, Tel./Fax 655 289)

Marin Trojanow, GTZ

(Pehlivanusa 3a, 71000 Sarajevo. Tel./Fax 668 433/434)

Mostar

Marcel Boogaerts, Herman Egbernk, Renata Jovic, EU Administration
(Hotel 'Ero', Kolodvorska b.b., 88000 Mostar. Tel. 88-311 024, Fax 88-317 614)

Mirsad Kajtaz, Nedim Efica, Economic Dept., East Mostar Municipality

Zdravko Vojvodic, Economic Dept., West Mostar Municipality

TALDI

(75000 Tuzla, Veljka Vlahovic 67. Tel. 75 239 152, Fax 75 821 049,
email: TALDI@ZAMIR-TZ.ZTN.APC.ORG)

Mevlide Kunosic Vlajic (attended meeting in Sarajevo)