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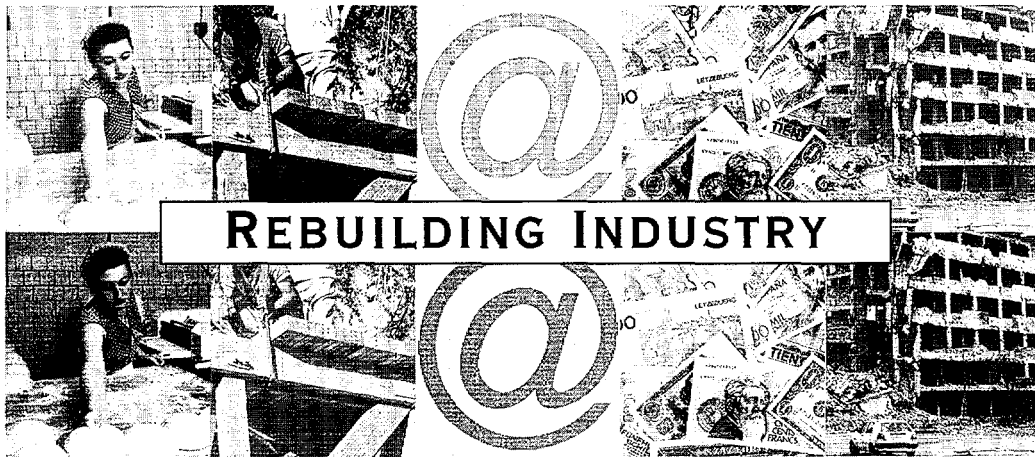
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Bosnia and Herzegovina



UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

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The United Nations Industrial Development Organization – UNIDO – is the specialised international agency with the remit to promote sustainable industrial development for the benefit of all. Its role is best explained in its mission statement:

“We are the specialist agency of the United Nations dedicated to promoting sustainable industrial development in countries with developing and transition economies.

We harness the joint forces of government and the private sector to foster competitive industrial production, develop international industrial partnerships and promote socially equitable and environmentally friendly industrial development.

We are the only worldwide organization dealing exclusively with industry from a development perspective. Our services are non-profit, neutral and specialised. Our staff are highly qualified with the widest range and depth of required industrial expertise. We act as a catalyst to help generate national economic wealth and raise industrial capacity through our roles as a worldwide forum for industrial development and as a provider of technical cooperation services.

Our ultimate goal is to create a better life for people by laying the industrial foundation for long-term prosperity and economic strength.”

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Bosnia and Herzegovina

REBUILDING INDUSTRY

UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION

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SARAJEVO AND THE BREAD OF LIFE

HOW UNIDO IS HELPING

ACTION PLANS:

MEDICAL EQUIPMENT MAINTENANCE AND REPAIR

CEREAL PROCESSING AND THE FOOD INDUSTRY

**RECYCLING OF CONSTRUCTION AND
DEMOLITION MATERIALS**

REHABILITATING THE WOOD INDUSTRY

REHABILITATION OF THE LEATHER INDUSTRY

**INDUSTRIAL RECOVERY AND
PRIVATE SECTOR DEVELOPMENT**

BOSNIA ON THE INTERNET

BETTER USE OF FOREIGN INVESTMENT

STRENGTHENING MANAGEMENT

SARAJEVO

AND THE BREAD OF LIFE

It was 1993, the middle of the war in Bosnia and Herzegovina. With the siege of Sarajevo at its height, malnutrition was emerging as a serious problem because people lacked essential vitamins and minerals in their restricted diets. The Government appealed to the international community for help. The United Nations Industrial Development Organization cooperated with other UN bodies to provide what turned out to be a life-saving solution. UNIDO's specific contribution was to cooperate with Sarajevo's Klas-Sarko municipal bakery to add the vitamins and minerals to the flour used to bake people's daily bread. UNIDO experts provided the technical help to improve output and add the necessary extra nutritional quality to the bakery's loaves.

The story, however, does not end there. If micronutrients could be added to bread, why not to other relatively cheap food that could be mass-produced quickly? UNICEF, the United Nations Children's and Emergency Fund, asked UNIDO to develop the concept further, this time by increasing the nutritional value of the bakery's biscuits, fortifying them with proteins, as well as vitamins and minerals. This, in turn, led to something much more, for UNIDO's experts brought with them a wider perspective as a result of years of experience in helping to improve standards of food processing in many different countries around the world.

With UNIDO's expertise evident, the bakery's managers, together with counterparts at the mill that supplied its flour and at an associated pasta manufacturer, asked UNIDO for more help, this time in repairing equipment. Spare parts had not been available for several years. The factories were operating with difficulty, losing significant production time each day. Because of knowledge of the food processing industry in general and contacts around the developed world, UNIDO was able to open negotiations to finance a programme of international cooperation and technical assistance. The Government of Japan has given \$400,000 partly to provide a

main. projects

Nine main projects have been drawn up by UNIDO in Bosnia and Herzegovina, each of which is described more fully in the Action Plan sections of this publication. Funding is being sought from the international community. In many cases, there are substantial partnership or financing opportunities for foreign investors, or these will follow as individual enterprises begin to benefit from some of the programmes involved. In addition, in the Action Plan sections, the relevant person to contact is identified.

The nine main projects are:

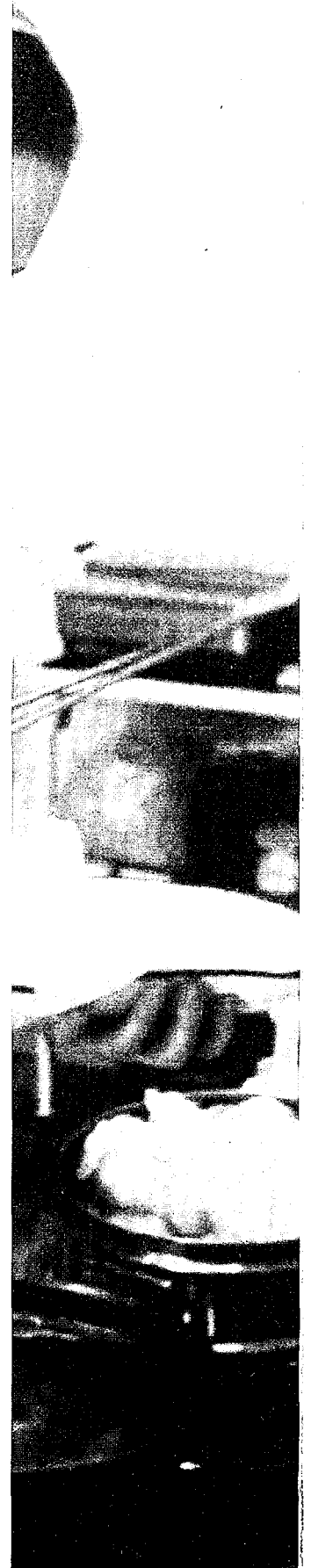
1. ESTABLISHMENT OF A MEDICAL EQUIPMENT REPAIR AND MAINTENANCE CENTRE IN BOSNIA AND HERZEGOVINA.
2. REHABILITATION OF THE CEREAL PROCESSING INDUSTRY AND GENERAL ASSISTANCE TO THE MOST AFFECTED FOOD INDUSTRY IN THE COUNTRY.
3. REVITALISATION OF SARAJEVO THROUGH RECYCLING OF CONSTRUCTION AND DEMOLITION MATERIALS.
4. REHABILITATION OF THE BOSNIA AND HERZEGOVINA WOOD INDUSTRY.
5. REHABILITATION OF THE LEATHER INDUSTRY.
6. AN INTEGRATED PROGRAMME FOR INDUSTRIAL RECOVERY AND PRIVATE SECTOR DEVELOPMENT. THE PROJECT COMPONENTS ARE INDUSTRIAL STRATEGY; PROJECT PREPARATION AND INVESTMENT PROMOTION; ENTERPRISE RESTRUCTURING; AND SME DEVELOPMENT.
7. SETTING AN INDEPENDENT BOSNET, OR BOSNIAN NETWORK, ON THE INTERNET.
8. EXPANDING THE CAPACITY OF THE ECONOMY TO ABSORB AND USE FOREIGN CAPITAL INFLOWS MORE EFFICIENTLY.
9. STRENGTHENING INDUSTRIAL MANAGEMENT CAPABILITIES IN INDUSTRIAL ENTERPRISES.

tunnel oven for continuous, streamlined production and partly to advise on the purchase and use of other equipment. These developments are expected to secure and improve the production of staple foods needed by Bosnia and Herzegovina as the country picks up the pieces following debilitating years of war.

WHY THIS MATTERS FOR TOMORROW

This single example of UNIDO at work is important because it illustrates exactly how immediate, humanitarian help can lead to into something more lasting than just short-term relief. Most international agencies and non-governmental organisations which operate in war, famine or other emergency zones are concerned with providing immediate assistance that is consumed quickly and is usually not designed to be either self-sustaining or renewable. But war causes destruction or prolonged damage to industry, commerce, and services, as well as to housing, factories, offices, other buildings and transport infrastructure. Emergency relief must be provided, but where industry is concerned this can also be turned into the first step in rebuilding output, jobs and the economy. Where industry and technical installations feed the local market with the essentials for survival, expert help brings the double blessing of emergency relief and improved security of supplies for the future. Prime examples are drinking water, staple foods, pharmaceuticals, medical supplies and materials for the self-help repair of damaged homes and other buildings.

There is an additional reason for this approach: the sooner local industry can be brought back into operation – reconstructed and restructured for greater efficiency if necessary – the earlier can humanitarian assistance from the international community be converted into financial support and investment in the industrial base. Any country which has suffered the scourge of war needs this investment as soon as possible to assure an early start to long term recovery once peace has been secured. Getting industry working again and supplies back in shops also helps foster a sense of socio-economic normality, so making an important contribution to restoring the normal standards of everyday life necessary to the development of a lasting peace. Industrial reconstruction is, therefore, not merely important but crucial.



action plan

MEDICAL EQUIPMENT MAINTENANCE AND REPAIR

Bosnia and Herzegovina possesses little functioning medical equipment and instruments because of the war, with acute shortages in all hospitals. Funds are scarce to buy new equipment and instruments, which are expensive anyway, and most hospital and health care staff do not know how to carry out even simple repairs on the existing stock. Coupled with a shortage of spare parts, this has meant some equipment has been idle since it broke down during the war, often deteriorating further through lack of use. The result of all these problems is that health services have been severely curtailed. Increasing the lifespan of equipment is therefore a priority.

OBJECTIVE: *To create a National Medical Equipment Repair and Maintenance Centre (MERM) at one of the leading hospitals in Sarajevo. This would develop skills and carry out equipment repair, maintenance, calibration, and certification of equipment and instruments, providing a reliable technical service to local hospitals and clinics. Further technical resources would be developed at hospitals elsewhere in the country as the Sarajevo MERM strengthened with experience to become a national centre of technical expertise, operating to international standards.*

COSTS AND DURATION: *The project will take two years and cost nearly \$1m. About half will be spent on equipment but the main input will involve the training of local technicians by international experts.*

SPONSOR: *The Government of Japan has agreed to support this project.*



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UNIDO has an important role to play because of its experience and expertise. It is the specialized agency of the United Nations charged with industrial development. It has accumulated a greater collective knowledge and experience of industrial development than any other international agency. Because of this, it can help industry to start up, develop or, in the case of Bosnia and Herzegovina, recover and rebuild for the future. If this help cannot be provided directly – and in many cases it can because UNIDO has experts in-house ready to respond to urgent needs – UNIDO can quickly find the people needed through its extensive network of worldwide consultants and contacts.

UNIDO is therefore an important component of post-war economic recovery – and one of the very few bodies which can provide both immediate and longer term help. An important consequence of both roles is that by being involved in the early stages, UNIDO is also helping to ensure that the proper foundations are laid for the successive stages of industrial reconstruction and restructuring to proceed soundly.

Improving the nutritional value of Sarajevo's bread and biscuits and getting bread, biscuits and pasta factories in better shape for the future has, therefore, gone far beyond addressing the immediate problems of malnutrition and erratic food production. This work has been of strategic significance. Applying the lessons throughout Bosnia and Herzegovina industry is UNIDO's paramount role in the post-war era.

There is also another side to this: because one of the aims of UNIDO's work in Bosnia and Herzegovina is to convert initial and immediate humanitarian aid into longer-term financial support and investment, it follows that a series of major investment opportunities have emerged and will continue to do so during the next few years. Bosnia and Herzegovina is not only reconstructing and rehabilitating its formerly state-run industry but privatizing it, too. There will be opportunities for foreign direct investment, joint ventures, licensing agreements, technology transfer and the provision of supporting financial services to enterprises.

action plan

CEREAL PROCESSING AND THE FOOD INDUSTRY

The food processing industry was severely affected by the war, with disruptions to supplies of produce and commodities for processing and consequent scarcity or erratic availability of food to eat. Wheat flour, cereal-based and bakery products have been particularly badly affected. UNIDO has already played a decisive role in food processing, helping to keep Sarajevo's main bakery in production since 1993 baking bread and biscuits enriched with vitamins, minerals and proteins to help keep mass malnutrition at bay (see "Sarajevo and the Bread of Life" at the beginning of this publication). The extent of the damage and disruption to the food industry is still not fully known, however, and another of UNIDO's contributions involves high priority technical cooperation. This is developing a full assessment of damage in order to work out what is needed for rehabilitation and restructuring, particularly for cereal processing and the worst affected parts of the rest of the food processing industry.

COSTS AND DURATION: *About \$1m is required for this three years project. A team of international and national experts are working together. Training national experts to build and manage a sustainable food processing industry in the medium and long term is a vital part of the Action Plan.*

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In addition, small and medium-sized enterprises – SMEs – will play an increasingly important role in the Bosnian and Herzegovinan economy. Special encouragement is also being given to their development. They will be key elements in an officially encouraged private sector, helping to form a stable mix of large, medium-sized and small businesses. Such a mixture is a characteristic of all successful economies. Much of UNIDO's work around the world is, therefore, concerned with helping SMEs and the institutions, fund-providers and agencies which support them.

UNIDO, therefore, with its substantial and successful record in promoting and facilitating international investment, the brokering of partnerships, training and the transfer of technology and the encouragement of SMEs, has put this expertise at the disposal of Bosnia and Herzegovina, potential investors and their financial backers.

THE SCALE OF THE PROBLEM

The effects of the war have been extremely variable. Some companies were virtually untouched by the conflict, but others – such as the UNIS car plant and the SOKO aero-industry complex – were completely destroyed. Some agro-processing kept going but there were widespread shortages of produce. Cattle herds were eliminated.

Before the war, about 450,000 people were employed in heavy and light manufacturing industry accounting for 43 per cent of gross domestic product. The most important heavy industries were iron ore production and processing, coal, ferrous and non-ferrous metal production, forestry and wood processing. Light industries included food processing, construction, textiles, leather and shoes. Industry was mainly located in Sarajevo, Mostar, Zenica and Tuzla.

The war saw output levels fall sharply: a few factories have managed to keep up to about 30 per cent of capacity, but most struggle on at between 10 and 15 per cent of pre-war levels. With most of the work dependent on imported raw materials, there is a drain and strain on foreign exchange.

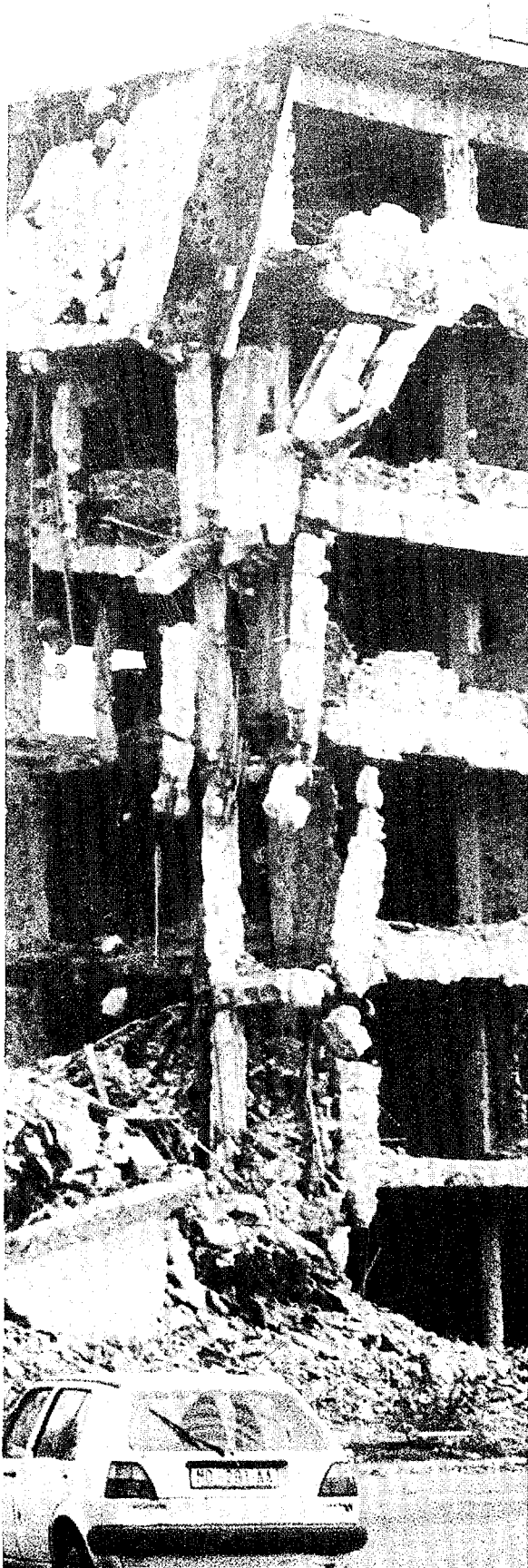


action plan

RECYCLING OF CONSTRUCTION AND DEMOLITION MATERIALS

Sarajevo's housing stock has been seriously affected by the war. More than 35,000 apartments have been damaged out of nearly 62,000 surveyed in four municipalities of the Bosnia and Herzegovina capital. In addition, of about 60,000 privately owned houses, more than 60 per cent have been damaged and a fifth destroyed. An imaginative and novel plan has been drawn up UNIDO to recycle rubble and debris for use in new and refurbished homes. It involves sifting re-usable building materials, bringing the additional benefits of creating work, introducing new technology and offering training opportunities. Pre-demolition audits of condemned properties are identifying potentially re-usable materials. Careful demolition is enabling them to be stockpiled for distribution through public and commercial channels. Normally in disaster areas and war zones, demolition has been wholesale, with recycling merely the reprocessing of rubble and debris as aggregate or landfill. UNIDO's approach aims to add a commercial dimension by creating a market in re-usable materials. This in turn will create added value where materials are processed and adapted, as well as encouraging entrepreneurship and cost-effective distribution. Where salvaged material can be re-used in its original form, there will be savings in both time and scarce new raw materials, as well as a reduced need for capital investment. The Action Plan is also linked to rehabilitating existing plant and equipment, as well as providing new production capacity for the building materials industry. This will enable new materials to be provided where recycling cannot fulfill needs. New technology is also being introduced to help increase production efficiency. This is expected to give the construction materials sector a competitive edge in international markets when Bosnia and Herzegovina's more urgent problems have been addressed.

COSTS AND DURATION: *This is an immediately implementable project of 1 year duration. Total costs are expected to be about \$350,000 available for experts to set up and lead the Action Plan and for training.*



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Raw material supply will be a long-term problem. Several large and internationally experienced companies had their Yugoslavian headquarters in Bosnia and Herzegovina and had a wide geographical spread of operations in engineering, manufacturing, aluminium smelting, steel making and oil refining. The partitioning resulting from the Dayton Agreement has cut off former Serbian sources of raw materials from plants in Bosnia and Herzegovina, including bauxite supplies for the aluminium smelter and the produce needed by many food processors.

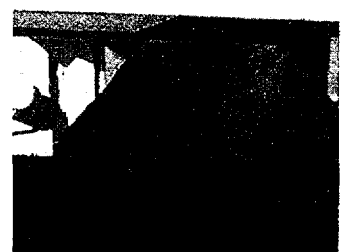
Personnel is also a problem because many skilled managers left the country as a result of the war. Many enterprises now have inexperienced directors and senior managers. Skill shortages are likely to persist.

The age of factories, plant and equipment is also of concern. Although there was some new building in the 1980s, most other plant and equipment is 25 to 30 years old.

Although a few enterprises can claim experience in overseas trade, but most were geared to internal Yugoslavian markets. Demand from the new republics is now largely reduced or has disappeared, with resumption impracticable. Companies are faced with a combination of finding new markets and downsizing, with no hope of growing larger until new markets have been developed. A few sectors, such as textiles and leather, are better placed because of previous good trading relations with the European Union and Italy in particular; but they are exceptions.

Meanwhile, all enterprises are constrained by a chronic shortage of working capital and the lack of a banking structure to provide it.

A start was made in 1990 to privatize some companies by issuing shares to employees, but these shares were taken back into Government control as a wartime measure. The vast majority of industry, therefore, remains "socially owned". Prior to the war, such businesses were managed day-to-day by workers' councils, but they lacked financially sound management controls, and there was insufficient accountability for losses. Only a few small companies, mainly in the





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REHABILITATING THE WOOD INDUSTRY

The former Yugoslavia had a large and well-developed wood processing industry and exported a wide range of products to western Europe and the US. There was effective integration: producers of sawn wood and panels, of adhesives, finishes, hardware and other supplies were linked to factories making furniture. The latter were mostly large, employing between 1,000 and 2,000 people and producing a range of products including furniture, parquet flooring, glued-laminated beams and pre-fabricated houses.

OBJECTIVES: *To assess what is needed in terms of wood supply, plant and machinery to rehabilitate the main wood factories in Bosnia and Herzegovina, with special emphasis on preparing the industry for investment promotion and privatisation. The economy urgently needs prefabricated elements such as doors, windows, roof trusses, as well as a wide range of other wooden products, including school desks.*

INPUTS: *Expertise in production management, advisers on privatisation and reorganisation of large enterprises, and the development of policies and incentives aimed at incorporating small and medium-sized enterprises into the mainstream of industrial production. The SMEs may be wood processing specialists or suppliers of ancillary materials to the industry.*

COST AND DURATION: *The Action Plan is in two stages, consisting of a three-month study and assessment of needs, with a two-year second phase to implement consultants' recommendations. The second phase will receive \$680,000 of the total of \$880,000. Where national consultants with international experience can be found, costs will be reduced.*

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service sector, are privately owned. The bulk of the small private sector is made up of several thousand tradesmen and retailers with fewer than five employees each. The Government's policy is to move to a privatized economy on a balanced regional basis.

In the immediate post-war period, the Government's priority was to encourage projects requiring little investment but which employed as many people as possible quickly. Longer-term plans, however, recognize the need to build technical engineering skills, not merely to try and recreate the pre-war industrial structure. At individual company level, there is widespread recognition of the need to find new markets and introduce new products. Companies are searching for foreign partners, but with former contacts lost or lapsed and little national institutional capacity for investment promotion, the search is difficult.

Funding is available from the World Bank, the European Bank for Reconstruction and Development, the United States Agency for International Development and other agencies. It is aimed particularly at small, private sector investors. However, many enterprises still have much to learn in formulating project proposals, particularly concerning cash flow forecasts and market analysis, to meet the requirements of international funds and agencies.

HOW UNIDO IS HELPING

When peace eventually came to Bosnia and Herzegovina, a group of United Nations experts quickly identified a wide range of projects needed for immediate assistance and longer-term rebuilding of the economy. It has been UNIDO's task to formulate projects for pharmaceuticals, agro-industry, SME development, promotion of entrepreneurship, restructuring and privatization of industry, private sector development, improvement of management skills, investment promotion, industrial statistics, information technology, as well as a range of other industry-specific objectives.



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REHABILITATION OF THE LEATHER INDUSTRY

The leather industry played a prominent role in the national economy of Yugoslavia. Bosnia and Herzegovina houses tanneries in Livno and Visoko, shoe factories in Derventa, Travnik and Tuzla, and a leather goods production unit at Visoko. War has damaged factories, which have also lost experienced staff. Discontinued and interrupted operations have damaged markets.

The industry needs to re-establish markets and sources of supply, or find new ones, train new labour and repair, replace and supplement production equipment. Getting tanneries, footwear and leather goods factories back into production will provide much-needed local jobs and help to re-establish an export trade that can earn much-needed hard currency. UNIDO's inputs cover all these fields and will be continuously refined with experience as the Action Plan progresses.

COSTS AND DURATION: *The plan is for two years and has been budgeted at \$3m, with \$1.36m for the key personnel who will lead and deliver it. About \$1m will be needed for equipment, while training costs have been budgeted at \$620,000.*

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Funding has been secured for some projects, but much finance has still to be raised from international donors. Projects are likely to appeal to donors who want their contributions clearly targeted. There are clear objectives, inputs are well defined and outcomes can be measured. Moreover, each is expected to make a long-term contribution to the rehabilitation of industry in Bosnia and Herzegovina and contribute to the development of a much more self-sustaining economy. One result should be that Bosnia and Herzegovina will, over time, need to make fewer demands on the international community.

Taken as a whole, the programme combines restructuring of industry with support for the private sector and SMEs, while expanding the economy's capacity to absorb and use foreign capital more effectively. Strengthening managerial capability and upgrading information technology are vital components of all projects. UNIDO's approach to some of these areas is worth amplifying.

INDUSTRIAL STRATEGY

UNIDO has been able to help immediately with executing projects at the enterprise level, particularly in the food, pharmaceuticals and building materials industries. However, it cannot be stressed too much that any immediate help should always complement longer-term plans for industrial and economic development. Part of UNIDO's role has, therefore, been to advise policy makers and enterprises to act in cohesion to ensure that national policies and business plans are compatible with each other. Such a strategy enables broad goals to be set for each industrial sector and practical goals developed down the line to the level of individual enterprises. The impact on SMEs is particularly important. With widely understood, clear policy guidelines, the potential benefits of privatization, re-orientation of enterprises and promotion of SMEs can be geared to national objectives in the most effective manner.

PROJECT PREPARATION, APPRAISAL AND PROMOTION

Redevelopment of Bosnia and Herzegovina will require considerable capital inflows so there is an urgent need to appraise and prioritize major investment projects. Considerable funding is available, but



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INDUSTRIAL RECOVERY AND PRIVATE SECTOR DEVELOPMENT

Reviving industry is a top priority in post-war reconstruction. The challenge is threefold: to repair war damage, restructure enterprises so they can meet market demands, and promote future sustainable development. Valiant efforts by Government have been impaired by a shortage of knowledge, know-how, capacity and capability at all levels of leadership and management. The complex nature of the problems means that all elements in any programme of support have to be carefully integrated with each other. UNIDO has therefore drawn up a cohesive programme which focuses on five strategic functions:

- *formulation of industrial strategy*
- *project development and appraisal*
- *targeted investment promotion*
- *pilot examples of restructuring*
- *SME support through a Small Business Development Centre*

OBJECTIVES: *One aim is to help Bosnia and Herzegovina to formulate strategy for restructuring industry and enterprises, privatisation and SME development. Another will help those involved to prepare and appraise investment proposals to the standards required by donors, banks and international financial institutions. High-impact projects will be used for targeted investment promotion so that they can act as an example to others. The careful restructuring of selected enterprises in line with long-term strategy for the industry concerned will exemplify the need to make changes in the broadest possible context. Ensuring Bosnia and Herzegovina develops appropriate institutional support for small business is also crucial to long-term sustainable development.*

COSTS AND DURATION: *A total of \$6.24m has been budgeted, of which the largest share, \$2.82m, will be taken by enterprise restructuring, a process expected to last 18 months. Helping develop better formulation of industrial strategy will cost \$1.35m and take two years. Project preparation and investment promotion are budgeted together at \$1.19m, with the latter scheduled to take four months after 18 months of preparations. Establishing the Small Business Development Centre is expected to take two years and cost \$880,000.*

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projects vary in quality and proposals often fall short of the standards expected by donor governments and international financial institutions. UNIDO is experienced at helping countries build capacity for financial appraisal, as well as in facilitating successful promotion of projects to donors and foreign investors. In the medium and long term a foreign trade and investment promotion agency will be needed; in the short term, targeted efforts can exemplify and demonstrate what is needed in preparing project proposals likely to appeal to potential partners, as well as how to initiate contacts, open discussions and carry out negotiations.

‘HANDS-ON’ HELP FOR ENTERPRISES

Bosnia and Herzegovina enterprises cannot be expected to restructure, find new markets and learn to operate in them competitively without detailed assistance in the techniques involved. The type of advice UNIDO has experience in providing includes:

- general management;
- fundamentals of financial and cost restructuring;
- organisational structure;
- market development and product planning;
- applying new technologies;
- new plant specification;
- appraisal;
- equipment procurement techniques;
- human resources management, training and development.

Candidate enterprises, selected by the Government and UNIDO, will initially have to be relatively important to national industrial strategy, or be significant in terms of supply or procurement linkages with other enterprises. Helping them should, therefore, have a ripple effect on standards across a much wider range of enterprises, especially if the candidates are also chosen for their potential as model enterprises that might set examples to other enterprises in the same field.

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BOSNIA ON THE INTERNET

One of the most damaging effects of the war was a flight of highly educated people and expertise from Bosnia and Herzegovina. Many services for local industry ceased to function or disappeared, leaving the country dependent on obtaining such assistance from abroad. The rapid development of the Internet has provided a cheap, easily accessible means of finding such assistance quickly from wherever it might be in the world. BOSNET – Bosnia on the Internet – is planned as a specialised search engine for finding the right experts and linking them with the appropriate people in Bosnia and Herzegovina. A similar system has already proved successful in the Philippines. Software developed via Action Plan 4 – to coordinate and monitor aid more efficiently – would provide information input for BOSNET, where appropriate.

OBJECTIVES:

- *To provide local industry with a cost-effective means of communicating worldwide and find any expert help that might be needed.*
- *BOSNET will enable local requirements to be broadcast worldwide at little cost.*
- *To build an easily accessible database of appropriate industrial experts who can offer Bosnia and Herzegovina relevant help.*
- *To create an industrial information dissemination centre managed by Bosnian and Herzegovinan experts.*
- *To train these local experts in how to set up other centres elsewhere in the country.*
- *To provide training to ensure proper maintenance of the network and its databases.*

COST AND DURATION: *Six international consultants will spend six months training 24 Bosnian and Herzegovinan experts. The budget is \$260,000.*

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MANAGEMENT SKILLS

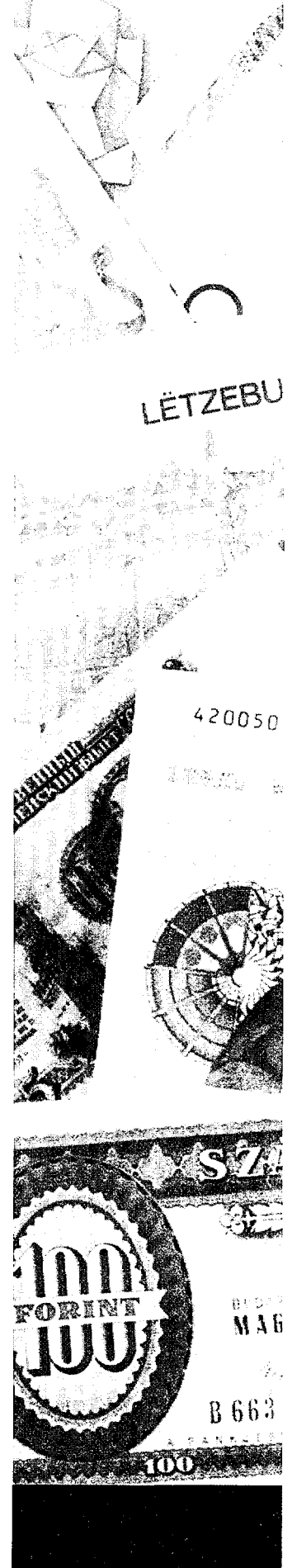
Better management is crucial to the future of Bosnia and Herzegovina. Training people to run businesses better is a vital component in all other efforts to reconstruct, rehabilitate and restructure industry in general. All hands-on help is associated in one way or another with strengthening managerial capabilities and enhancing management development. People will, therefore, be better equipped to build on their experience as they go along and learn and refine the skills needed for successful leadership in industry.

SUPPORTING SMALL AND MEDIUM-SIZED ENTERPRISES

Several international donors have already initiated programmes for SMEs by supporting local development and providing finance and outreach services. Numbers of SMEs are expected to increase rapidly, fuelling demand for a wide range of information, advice and training. A more strategic input is, however, needed. Bosnia and Herzegovina needs to build its own capacity and expertise to identify what SMEs need and, from this, to develop policies and institutions to meet them. Key tasks for such institutions include:

- monitoring the development of SMEs, identifying their needs and problems and ensuring Government and donors understand them;
- developing policy proposals for SME support by Government and donors;
- training and supporting the providers of small business services of all kinds.

UNIDO already has considerable experience in developing such institutional capacity around the world and is applying this experience in Bosnia and Herzegovina.



action plan

BETTER USE OF FOREIGN INVESTMENT

Given the volume of foreign funds available than Bosnia and Herzegovina, it can be difficult to absorb and use them with maximum efficiency. There is a system for coordinating foreign assistance but sometimes difficulty in selecting and implementing priority projects. Industrial reconstruction and industry have priority because they provide jobs for the unemployed and returning refugees, but urgency sometimes dictates that non-economic and financial considerations are also given priority. Moreover, there is only limited capacity to prepare and justify projects in terms acceptable to foreign capital providers, such as banks and international funds. Institutions and trained personnel are needed to do the job better. There is also a need to broaden the present base of surveys and analysis to determine priorities and pick the projects most likely to interest foreign investors, particularly private sector ones. Each potentially attractive project needs to be fully supported with appropriate technical assistance. All these issues must be addressed urgently and in the longer term. To try and achieve immediate impact, however, the Action Plan has been designed to use the skills and experience of potential foreign investors to help fill the gaps in Bosnia and Herzegovina's capabilities and develop various types of partnership.

METHOD: *Projects are being designed for implementation by private contractors who are potential investors. Each will take the form of a technical cooperation agreement. In effect, funding will reduce risks to potential investors by subsidising the investigative, analytical and initial feasibility phases of any project. This will create a financial incentive for investors to carry out all necessary evaluation with the benefit of more detailed knowledge than might be otherwise available. At the same time, each project will be a case study illustrating how to prepare and promote investment proposals acceptable to the foreign investment community.*

COSTS: *A sum of \$1m has been budgeted, with about a third set aside for experts and consultants and \$385,000 for the actual technical cooperation contracts. Training and study tours would be funded to a total of \$150,000.*

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GETTING PHARMACEUTICALS BACK INTO REGULAR PRODUCTION

One final example demonstrates the role UNIDO can play in providing emergency assistance while laying the foundations for important, long term industrial reconstruction. In this case, the Government of Japan is also playing a vital role by financing the project concerned.

Bosnalijek Pharmaceutical and Chemical Industry, which is located in Sarajevo, is critically important to Bosnia and Herzegovina because it is the country's only pharmaceutical manufacturer. It was founded in 1951 and is well experienced, with licensing agreements from international counterparts such as Astra of Sweden, Sandoz of Switzerland and Germany's Astra Pharma and Natterman. It had 900 employees before the war and a turnover of about \$30m a year.

However, the factory is only one kilometre from what was the war's front line. In 1,000 days of fighting it was hit by more than sixty shells. Manufacturing operations were hampered and interrupted. Production under licence was significantly curtailed or dropped to nil. To try and keep going, some plant was moved, heroically, to the basement under heavy shelling but, nevertheless, some equipment essential to the main production lines was damaged beyond repair. At the same time, there was a serious shortage of raw materials because of irregularity of supplies resulting from the siege of Sarajevo. Any that got through came by air and were donated.

Getting the company back into regular production is a priority from both the industrial and humanitarian points of view. The priority production lines for mass manufacture of essential medicines are tablets, coated tablets and hard gelatine capsules. The urgent need for fresh, locally produced drugs is illustrated by the time-expired age of many donated pharmaceuticals. One hospital received batches of different antibiotics which had expired twenty years ago.

The Government of Japan is providing more than \$1.86m to help start getting the factory back onto its feet. The money will pay for technical assistance to help rebuild industrial capacity, as well as replacing destroyed equipment.



action plan

STRENGTHENING MANAGEMENT

Transforming a centrally-planned economy into a market-oriented one with a strong private sector depends largely on the capabilities of policy-makers and operational staff at central and regional levels, as well as the ability of training institutions which support industry, and the people who actually manage enterprises. This is the body of human resource Bosnia and Herzegovina needs for economic and industrial recovery. Training is urgently needed for people who formulate policy and strategy, as well for teachers at the institutions and universities selected to implement training programmes for managers.

OBJECTIVES: *The first stage of the Action Plan will involve 300 people involved in policy-making, institutions and the senior management of enterprises. The second stage will be aimed at selected training institutions and universities to build up their skills in the management field.*

INPUTS: *The key input will come from management specialists recruited to prepare and conduct 10 courses of 100 hours each. Courses will cover such subjects as industrial policy and strategy, feasibility analysis, restructuring and privatisation, marketing, financial management, quality management and control, and how and when to best use particular management techniques and tools.*

COSTS AND DURATION: *The Action Plan is budgeted at \$400,000 over two years. Most of the cost will involve paying for relevant international and national consultants, training, equipment and travel.*



Other projects, however, have been identified to improve long term sustainability and expand production to help Bosnia and Herzegovina become increasingly self-sufficient in pharmaceutical supplies. One is for renewal of the heavily shelled 10,000 sq m factory itself and another for an antibiotics formulation facility. These will require funds of \$3.5m and \$5m respectively.

Something will also have to be done eventually about the time-expired drugs sent by well-meaning donors. These will have to be disposed of safely or, preferably, reprocessed. This will require highly specialized assistance, which UNIDO will help to provide when funds become available.