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**Bosnia and Herzegovina
Development Studies for Sectors with Potential
Development Study for the Shoe and Leather Industries**

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List of Abbreviations

AHK	Außenhandelskammer (Chamber of Foreign Trade)
BiH	Bosnia and Herzegovina
CAFAO	Customs and Fiscal Assistance Office to Bosnia and Herzegovina
CIS	Commonwealth of Independent States
DIHT	Deutscher Industrie- und Handelstag (Holding of all German Chambers of Industry and Trade)
EBRD	European Bank for Reconstruction and Development
EFBH	Europäischer Fonds Bosnien-Herzegowina (European Fund for Bosnia and Herzegovina)
EU	European Union
FIPA	Foreign Investment Promotion Agency
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (German Technical Cooperation)
IMF	International Monetary Fund
KfW	Kreditanstalt für Wiederaufbau (Loan Bank for Reconstruction)
MEB	Micro Enterprise Bank
OHR	Office of the High Representative
PCB	??
REFA	Association for Work Design/Work Structure, Industrial Organisation and Corporate Development
RS	Republika Srpska
SEED	Southeast Europe Enterprise Development
SME	Small and Medium-Sized Enterprises
USAID	United States Agency for International Development

1. Introduction

1.1 Sector definition, methodological foundations

The term sector refers to branches of the economy in their environment. Thus, the focus is not on individual enterprises but on the interplay between forward and backward linkages to supplying and purchasing enterprises as well as the horizontal and vertical relations among them. Therefore, a sector must be organised in the same way as a cluster. Clusters are, above all, promoted by political decisions on regional and local levels (source: Porter: The Competitive Advantage of Nations; Schwanitz/Bender, Entwicklung von Entwicklungsstrategien (The Development of Development Strategies)).

Within a sector study, measures are elaborated which, in the sense of systemic competitiveness, not only strengthen the economic situation of the enterprises but also improve the productive interplay among the various levels (micro, meso and macro) (source: Simone Schwanitz and Katja Bender, Entwicklung von Sektorstrategien (The Development of Sector Strategies)). Following the cluster approach, the economic environment of the leather sector will be first examined. The major problem in drawing up this study is the fact that sector-specific statistics are largely lacking in Bosnia and Herzegovina. For this reason, we have mainly collected economic and political information and supplemented it with our own two-year experience in Bosnia and Herzegovina. We have incorporated the lack of statistics into the weakness analysis and highlight the need to collect sector-specific information via the suggested measures.

The shoe and leather goods industries sector partially covers the fields or economic branches of agriculture (specifically the keeping of animals), leather production and leather processing. Meat processing and the chemical industry, however, are not considered to be part of the sector study, and will not be examined. Nor will the manufacture of ready-made leather clothes be dealt with in this study.

Leather

A versatile product made from animal skins and hides which are then tanned. Tanning prevents the skins from putrefying when wet and from breaking when dry, i.e. maintaining the original fibrous structure.

Leather composite fibre materials

These are produced in a wet process of leather or cellulose fibres which are either tanned using vegetable or synthetic agents, chrome-tanned, or tanned using conglomerate fibres by bonding suitable agents in sheets or rolls. By adding grease and dyestuffs, hairs, sawdust, cork waste etc., materials for specific applications can be obtained. These are used for toe caps, counters, insoles and in the manufacture of bags.

Shoes or footwear

Today, the term "footwear" is used for the entire range of different kinds of shoes made of leather, leatherette, textiles or other materials with either closed or open uppers. Footwear is classified under various aspects - individual types of shoes are labelled according to the

intended use, the materials used for the uppers and/or bottoms as well as the styles of the uppers, and the types of closing device.

Accessories

Accessories include suitcases, bags, belts and small leather items in general.

This sector study is based on the results of earlier GTZ studies and of studies by other donor organisations such as the United States Agency for International Development (USAID), the World Bank, the European Bank for Reconstruction and Development (EBRD) and the European Union (EU). In addition, documentation produced by ministries, offices of statistics in the entities and of the Foreign Investment Promotion Agency (FIPA) have been used. The literature and documentation analysed and evaluated in the course of this study are listed in Annex 1. To widen the reach of the study, personal interviews were also held. In addition, a Round Table was held in Vogošča with representatives of the Ministry of Industry of the Federation, as well as representatives from the textile, clothes and shoe industries to inform them about international trends, summarise their problems, and to develop certain solutions.

1.2 Trends in the shoe and leather industries

The shoe industry is by far the most important in terms of market share, well above the leather industry and the accessories sub-sector. The associations estimate the proportion sales of the sectors (world wide) as follows:

- Leather 30 %.
- Shoes 60 %.
- Accessories 10 %.

Within the past few years, the world market, especially the European market, has entirely re-oriented itself as far as the shares of individual countries are concerned. Due to the war and the subsequent isolation from the market, industrial development in Bosnia and Herzegovina is about 10 years behind.

Owing to the collapse of the former East-European economic area (COMECON states), particularly of the Soviet Union, ex-Yugoslavia has lost almost three quarters of its market. The successor states (CIS) have either found different suppliers, or can no longer place any orders because of their own economic problems.

The rapid privatisation of the combines in the former socialist economic systems of Poland, the Czech Republic, Slovakia, Hungary and Romania has created incentives for foreign investors to buy enterprises or to establish new ones. German shoe companies and firms that manufacture shoe accessory parts and tools have in particular made the most of chances in these countries by establishing new businesses or by taking over existing enterprises.

For investors, unit labour costs play an important role in the selection of a location and a partner. The question of (low) wages is of special interest to investors. Therefore, the costs of one performance minute in the shoe sectors in different countries with significant shoe industries are listed in the following tables, beginning with the unit labour costs in eastern

Europe. A “performance minute” is defined as the variable manufacturing costs of one minute.

Table 1.1: Performance Minutes in the Shoe Sector in eastern Europe in 1992, 1995 and 2001

Country	Performance min. in 1992	Performance min. in 1995	Performance min. in 2001*
Slovenia	0.229	0.266	0.309
Hungary	0.212	0.251	0.296
Poland	0.195	0.233	0.278
Czech Republic	0.169	0.222	0.291
Bulgaria	0.171	0.205	0.245
Slovakia	0.169	0.200	0.236
Romania	0.160	0.198	0.224

* 2001 estimated

Source: HDS News press conference of the Hauptverband der Deutschen Schuhindustrie (General Association of the German Shoe Industry) on 8 March, 2001

After the political changes, there was, at first, a clear trend towards eastern Europe. Due to the economic upsurge in these countries, costs are now approaching those in western Europe. As a result of the privatisation process, western European firms, especially German firms, have established themselves in eastern Europe in the form of partnerships (joint ventures). This is why such firms will not readily invest any capital in other countries, apart from situations when additional capacities are needed in peak periods.

Table 1.2: Performance Minutes in the Shoe Sectors in western Europe and in the Mediterranean in 1992, 1995 and 2001

Country	Performance min. in 1992	Performance min. in 1995	Performance min. in 2001*
Denmark	0.707	0.742	0.770
Germany	0.645	0.741	0.870
France	0.481	0.569	0.671
North Italy	0.652	0.479	0.452
Spain	0.385	0.407	0.430
South Italy	0.521	0.406	0.374
Greece	0.374	0.384	0.393
Portugal	0.276	0.294	0.314
Turkey	0.291	0.212	0.186

* 2001 estimated

Source: HDS News press conference of the Hauptverband der Deutschen Schuhindustrie (General Association of the German Shoe Industry) on 8 March, 2001

The biggest performance minute differences exist between the west of Europe and the Mediterranean. Between Germany and Turkey, for example, there is a difference of almost

KM 0.60. These details show clearly why western European countries, especially Germany, have shifted labour-intensive activities abroad .

Table 1.3: Performance Minutes in the Shoe Sector in Asia in 1993, 1995 and 2001

Country	Performance min. in 1992	Performance min. in 1995	Performance min. in 2001*
Taiwan	0.278	0.346	0.382
Hong Kong	0.253	0.319	0.364
India (Bombay)	0.204	0.247	0.278
India (North)	0.204	0.232	0.254
Indonesia	0.209	0.208	0.212
Vietnam	0.181	0.180	0.205
South Korea		0.151	0.191
China (South)		0.141	0.182
China (North)		0.140	0.180

* 2001 estimated

Source: HDS News press conference of the Hauptverband der Deutschen Schuhindustrie (General Association of the German Shoe Industry) on 8 March, 2001

Nations striving to develop, such as China and Vietnam, are serious competitors for western European **shoe manufacturers**. In addition to the very low costs in Asia, productivity is high. Within the past 10 years, such countries have learned how to produce shoes and leather to the desired quality and in any style requested.

Despite massive Asian pressure, Italy remains the world market leader. The Italian leather and shoe industries have highly qualified and motivated skilled personnel. Italian designers essentially determine and influence European shoe fashion. Such designers have a world-wide reach, thus showing Italian shoe fashion to its best advantage in the world market.

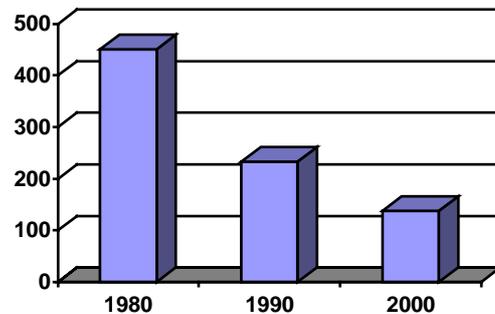
As a result of the BSE crisis and foot-and-mouth disease, drastic price increases were expected in the leather sector. Although the anticipated price increases have not occurred yet, additional charges of up to 11 % on shoes with a high proportion of leather have, however, been announced for the 2001/2002 autumn/winter collections.

In the field of **accessories and small leather items**, Turkish products are the best known. There are a lot of small enterprises (family firms) and genuine talent in this trade, which has a long tradition in Turkey. These products determine the style and selection of items available. Such family firms are flexible and can quickly respond to any variations in fashion. In the area of high-quality accessories and small leather items, there are few specialised enterprises, although their productivity tends to be very high.

Substitute and specific textile materials are of growing significance within the shoe and leather goods sector. Such products have properties similar to those of leather and are visually hard to tell apart. Constant new developments in textile materials used in shoe manufacturing ensure better day-to-day use, benefiting the customer. "GORETEX", "SYMPATEX" and related materials have, for example, successfully entered into shoe manufacturing.

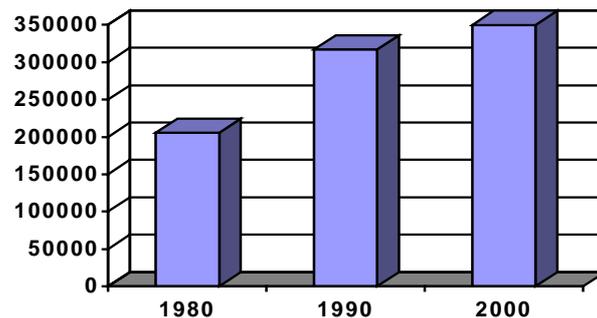
The massive shift of production abroad has resulted in a drastic number of insolvencies within the past 20 years, leaving an indelible mark on the German leather and shoe industries. Approximately 60 % of German shoe factories have been forced to close down since 1980.

Figure 1.1: Number of German Shoe Factories in 1980, 1990 and 2000



Source: HDS News press conference of the Hauptverband der Deutschen Schuhindustrie (General Association of the German Shoe Industry) on 8 March, 2001

Figure 1.2: German Shoe Imports in 1980, 1990 and 2000 (in 1,000 pairs)

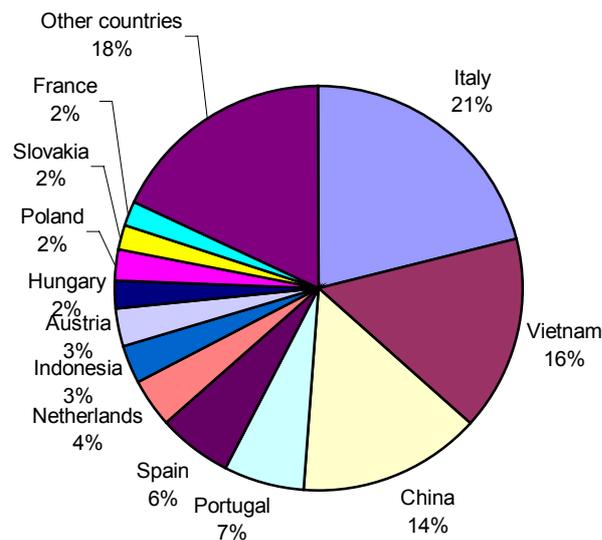


Source: HDS News press conference of the Hauptverband der Deutschen Schuhindustrie (General Association of the German Shoe Industry) on 8 March, 2001

In return, shoe imports for the German market dramatically increased between 1980 and 2000. Today, 97 % of the shoes bought in Germany are produced abroad. Germany therefore represents a typical example of the world-wide trend towards job manufacturing abroad. In international job manufacturing, it is notable that the two leading European shoe nations, Italy and Germany, have focused on different countries. Whereas Germany has shifted production mainly to Hungary, Poland and to the Czech and Slovak Republics, Italy is concentrating on its neighbouring Balkan states and is the sole job manufacturing customer in Bosnia and Herzegovina. World-wide trends are directed strongly towards Asia.

The following chart shows that Italy, Vietnam and China are Bosnia and Herzegovina's main competitors in the German market.

Figure 1.3: Proportion of Foreign Job Processing in Shoe Imports to Germany



Source: HDS News press conference of the Hauptverband der Deutschen Schuhindustrie (General Association of the German Shoe Industry) on 8 March, 2001

Within the past 10 years, Asian countries (i.e. India, China, Taiwan) have been seriously competing with European producers. In terms of productivity, quality, keeping to delivery dates and, above all, in pricing, they are in no way inferior to the Europeans. Using the latest communication technology (i.e. the Internet), production equipment and logistics, it takes Asian producers only 8 weeks from the placing of an order to their final delivery at German seaports (sample: Bombay - Hamburg).

Small and medium-sized enterprises as well as customers often overestimate transport costs. Even for longer distances, these costs are hardly important. Specific container express service transport lines are offered by carriers world-wide. For example, the cost of transportation from Bombay to Hamburg for a pair of shoes is just KM 1.00. The exact logistics of the respective enterprise and the necessary quantity of the assignment are the decisive criteria.

1.3 Added-value chain

The added-value chain covers the entire sector of leather, leather goods and shoes. It begins with livestock breeding and extends from the meat-processing factories to transportation and onto to the subsequent processing and marketing stages down to the final customer.

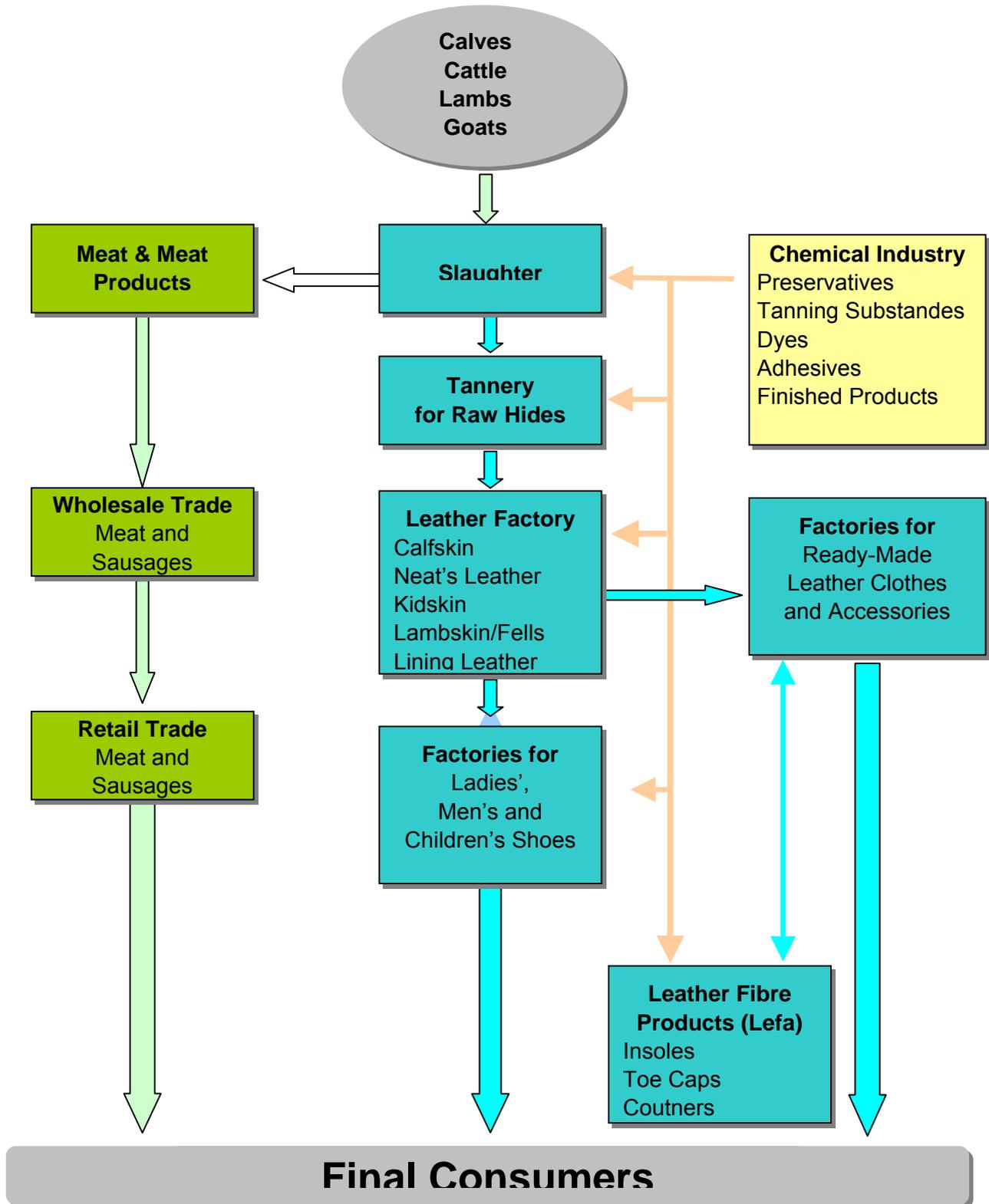
Within the course of processing right up to the finished leather, the raw hide undergoes a direct increase in value. For a raw hide with an area of approx. 2.5 m², the farmer, for example, receives about KM 8.00. On the other hand, a square metre of neat's leather costs between KM 45.00 and KM 60.00, depending on its quality and treatment.

Leather wastes product us preparation methods and fed back into the material cycle in the form ed during the different upgrading stages are processed into leather fibre products by vario of insoles, counters and toe caps.

The leather is subject to another increase in value in shoes, in small leather items and accessories, and in the production of ready-made leather clothes. Leather left over from shoe manufacturing and from the production of ready-made clothes is generally used in the manufacture of small leather goods.

The following diagram shows the added-value chain in the shoe and leather industries.

Figure 1.4: The Added-Value Chain in the Shoe and Leather Industries



- Legend:
- = Meat processing
 - = Leather production; leather Processing
 - = Chemical Industry

2. Analysis of the Actual Situation in the Shoe and Leather Industries in Bosnia and Herzegovina

Bosnia and Herzegovina consists of two entities, the Federation of Bosnia and Herzegovina (estimated population: 2.6 million inhabitants), and the Republika Srpska (estimated population: 1.3 million inhabitants). Both entities have their own legislatures where taxes, privatisation and accounting are regulated. There are seven free-trade zones. Investments are protected by law, and the transfer of profits is guaranteed. The unemployment rate is approximately 40 % in the Federation and about 50 % in the Republika Srpska.

About two thirds of the leather and shoe companies are located in the Federation and one third in the Republika Srpska. Particular conurbations in the Federation are around the cities of Sarajevo including Visoko, Travnik up to Bugojno, Mostar to Široki Brijeg and in the Tuzla Canton. In the Republika Srpska, this applies to the cities of Banja Luka up to Kotor Varoš, Prnjavor, Teslić, Bijeljina and Zvornik.

There is no preliminary stage industry for tools, lasts and shoe accessory parts.

In Bosnia and Herzegovina, there are also a few small factories in the field of accessories. An example of this is the private company "Mecom" in Sarajevo, which is represented at international fairs and whose products are genuinely market-oriented (see below).

Our examinations are based on information from the offices of statistics and the customs authorities of the two entities. The analysis of the actual situation suffers from the fact that it is, in general, difficult to collect reliable data. In addition, the two entities use different statistical acquisition methods, which makes the comparability of the data more difficult. Many international organisations use the information from the offices of statistics and add to them with their own data collection and estimates.

It is even more difficult to get sector-specific data, as leather and shoes are combined with textiles and clothing. For this reason, not much concrete, sector-specific data could be determined. Our results are based on the findings regarding the 25 leather and shoe companies we analysed in both entities of Bosnia and Herzegovina.

2.1 The significance of the sector for the national economy

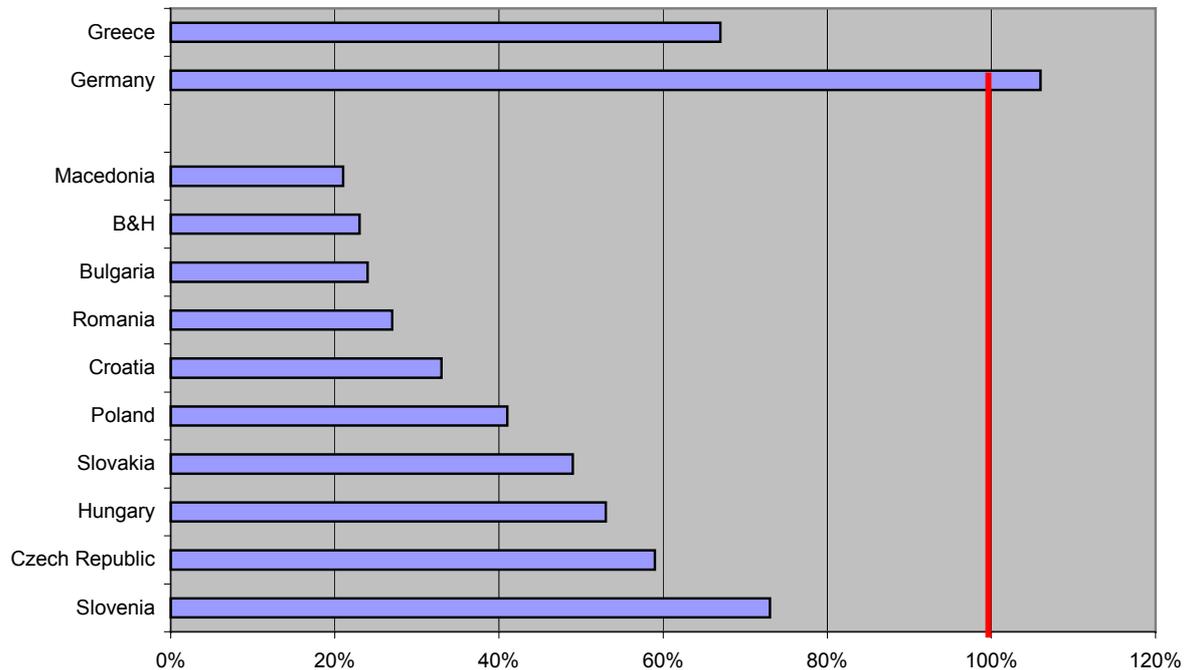
Contribution to the gross domestic product

After the breakdown of Yugoslavia, the successor states have developed in very different ways. Slovenia has moved to the forefront of economic development and has already outstripped Greece. The following graph shows the gross domestic product per inhabitant, converted with purchasing power parities, with the EU average assumed to be 100 %.

The macro-economic stability and economic growth of Bosnia and Herzegovina have been facilitated by international assistance. Nevertheless, the gross domestic product is still far below the pre-war level (1992). There are considerable differences between the two entities. The gross domestic product of the Republika Srpska is estimated to be 75 % of BiH's

average. At around 40 - 50 %, the unemployment rate is still very high. Economic growth is provided, above all, by the small and medium-sized enterprise sector. As a result of the currency union with the Deutschmark, inflation has been successfully combated.

Figure 2.1: The Economic Power of the Reform Countries



Source: Die Zeit/WIIW

Table 2.1: The Economic Development of the Gross Domestic Product

	1997	1998	1999	2000 (estimated)	2001 (expected)
GDP in mill. KM	6,367	7,244	8,014	8,976	10,237
... of it in the Federation	4,748	5,407	5,833	6,416	7,314
... of it in the Republika Srpska	1,619	1,837	2,181	2,560	2,917
GDP of the leather and shoe sector in the Federation	27.2	23.3	26.9	20.5	23.2
... per cent of the leather and shoe sector in the GDP of the Federation	0.57 %	0.43 %	0.46 %	0.31 %	0.35
GDP per capita (in mill. KM)	1,632	1,857	2,054	2,301	2,624
... of it in the Federation	1,826	2,080	2,243	2,467	2,813
... of it in the Republika Srpska	1,245	1,413	1,678	1,969	2,243
Economic growth	30.0 %	18.0 %	15.0 %	10.0 %	14.0 %
Growth of industrial production		35.0 %			
... of it in the Federation			10.6 %	5.6 %	6.4 %
... of it in the Republika Srpska			1.6 %	8.8 %	10.0 %
Inflation					
... of it in the Federation	10.8 %	7.9 %	6.5 %	2.0 %	2.0 %
... of it in the Republika Srpska			1.0 %	8.0 %	4.0 %
Unemployment rate	45.0 %	38.0 %	40.0 %	40.0 %	30.0 %

Source: Local experts, Federation, Mr. Šošević, Sarajevo, 31.07.2001, Republika Srpska, Prof. Ristić, Banja Luka, 02.08.2001

The gross domestic product (GDP) of Bosnia and Herzegovina is growing steadily. The GDP of the Republika Srpska is growing faster than that of the Federation but started, however, at an essentially lower level. The same applies to growth in industrial production.

Employment

The employment figures listed in Table 2.2 refer to annual averages.

Table 2.2 Employment in the Leather and Shoe Industries

	1997	1998	1999	2000	2001 (estimated)
Employees in B&H in total		639,800	628,600	631,700	735,600
... of it in the Federation		395,500	407,800	410,800	486,100
... of it in the Republika Srpska	201,800	244,300	220,800	220,900	249,500
Employees in the sector in B&H	10,972	11,324	11,113	10,770	10,678
... of it in the Federation	5,224	5,668	5,724	5,617	5,600
... of it in the Republika Srpska	5,748	5,656	5,389	5,153	5,078
Employees in the shoe industry in B&H	9,725	10,050	9,905	9,612	9,544
... of it in the Federation	4,700	5,100	5,200	5,100	5,100
... of it in the Republika Srpska	5,025	4,950	4,705	4,512	4,444
Employees in the leather industry in B&H	1,247	1,274	1,208	1,158	1,134
... of it in the Federation	524	568	524	517	500
... of it in the Republika Srpska	723	706	684	641	634
Average wages (net KM) in the sector in B&H	231	249	295	355	371
... in the Federation	350	329	374	412	433
... in the Republika Srpska	112	170	216	299	310

Source: Local experts, Federation, Mr. Šošević, Sarajevo, 31.07.2001, Republika Srpska, Prof. Ristić, Banja Luka, 02.08.2001 2001

After the war, employment in the sector has, overall, grown in Bosnia and Herzegovina (1996: 7,000 employees), but the sector has not returned to its pre-war level (1990: 17,000 employees). Between 1997 and 2001, there have been different developments in the entities. The number of employees in the shoe industry in the Federation has grown, whereas it has declined to a similar extent in the Republika Srpska. In the leather industry, a decline has occurred in both entities. During the period of assessment, wages have risen in both entities. Although they have caught up considerably in the Republika Srpska, they still have not reached the level of the Federation (2000 = approximately 70 % of the Federation level).

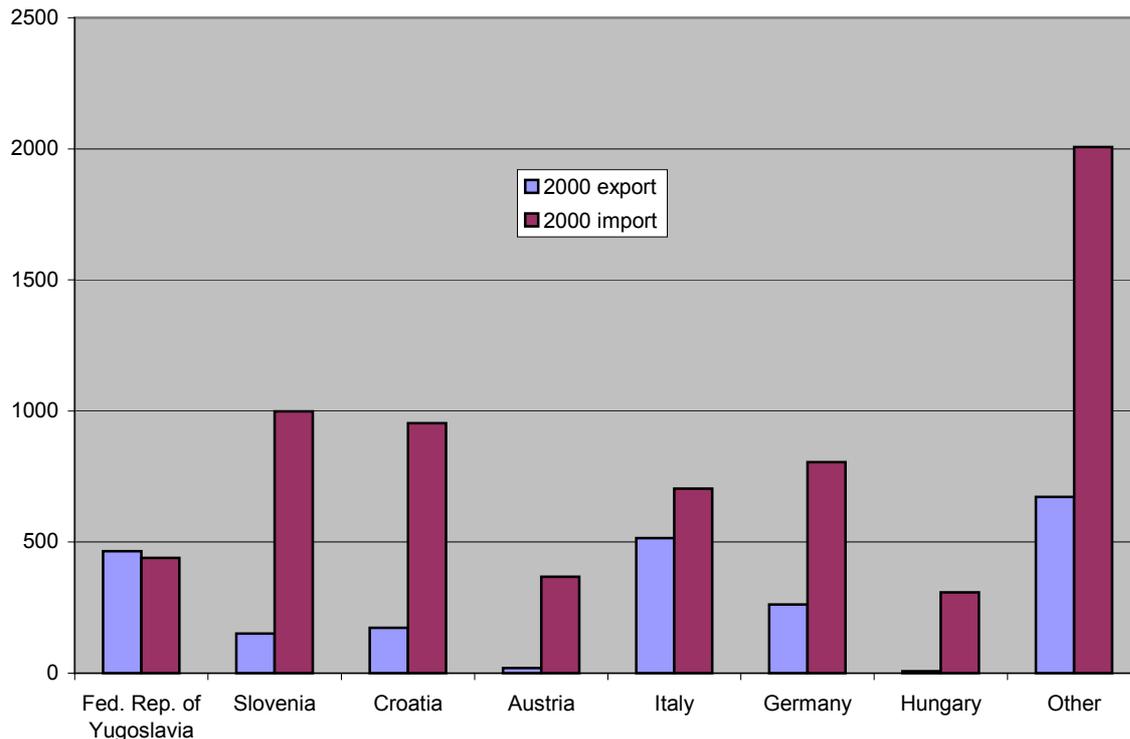
The Federation's shoe industry employs about nine times as many personnel as the leather industry. In the Republika Srpska, this ratio is about 7:1 in favour of the shoe industry.

There are no separate figures for the accessories industry.

Exports/imports

Figure 2.2 clearly shows that the Federal Republic of Yugoslavia, Slovenia, Croatia, Italy and Germany are Bosnia and Herzegovina's most important trading partners.

Figure 2.2: Exports and Imports from Other Countries in the Year 2000



Source: Business Partner B&H, published by DIHT, Sarajevo

In Bosnia and Herzegovina, it is usual to define job manufacturing as part of exports. Thus, more than 90 % of production is classified as "exports", given the high proportion of job manufacturing. Actual exports are called "classical exports" in Bosnia and Herzegovina, but separate figures do not exist for this category.

Foreign direct investments

When it comes to making commitments in Bosnia and Herzegovina, international investors are generally cautious, as a 1999 survey of 27 central and eastern European countries in the Wall Street Journal demonstrates (Table 2.3).

Table 2.3: Assessment of the Attractiveness of Bosnia and Herzegovina as a Location

Criterion	Ranking of B&H
Overall	Ranked 18, 1998: ranked 24
Business ethics	Ranked 18, before Russia and the Ukraine
Integration into world economy	Ranked 21, behind Georgia and Armenia
Investment climate	Ranked 19, between Armenia and Moldavia
Political stability	Ranked 26, before Yugoslavia

Source: Wall Street Journal, Central and Eastern European Economic Overview, 1999

Compared with other countries in Southeast Europe, very few foreign direct investments have been made in Bosnia and Herzegovina. Foreign firms tend almost exclusively to appear as job order customers, with some 95 % of them Italian companies. To date, no direct orders from German companies have been placed with the shoe and leather industries in Bosnia and Herzegovina. The last German shoe manufacturer - Salamander - withdrew from Bosnia and Herzegovina as a big job manufacturing customer in early 2000. We believe the reasons behind this decision are insufficient communication possibilities, excessively low productivity, various bureaucratic obstacles (especially customs delays), and long transport times caused by having to cross three different customs barriers.

Among the countries with commitments in Bosnia and Herzegovina, Slovenia stands out. The Slovenian shoe manufacturer "ALPINA" has bought and privatised the "FOGS" shoe factory in Sarajevo. Moreover, "ALPINA" frequently places job upgrading orders in Bosnia and Herzegovina. Other companies working for ALPINA include two shoe factories: KTK in Visoko and Lišto in Široki Brijeg. Slovenian investors are very familiar with the region, have the required knowledge of the language and know how to handle the discouraging bureaucracy. Eighty per cent of Slovenian investments abroad are concentrated in south-east European countries.

Table 2.4: Direct Investments in Bosnia and Herzegovina between 1997 and 2001

	1997	1998	1999	2000 (estimated)	2001 (expected)
Direct investments in B&H in total		1,856,669	1,749,682		
... in the Federation		1,399,696	1,279,682		
... in the Republika Srpska		457,000	470,000	515,000	618,000
Leather industry					
... in the Federation					
... in the Republika Srpska	80,000	100,000	150,000	100,000	80,000
Shoe industry					
... in the Federation					
... in the Republika Srpska	90,000	120,000	150,000	120,000	110,000

Source: Local experts, Federation, Mr. Šošević, Sarajevo, 31.07.2001, Republika Srpska, Prof. Ristić, Banja Luka, 02.08.2001. Information on the Federation is not available.

An essential reason behind the caution of foreign investors in the shoe and leather goods industry is that they have already met their needs for the European market. German shoe companies and firms that manufacture shoe accessory parts and tools have seized favourable business opportunities in the countries (Hungary, Czech Republic, Poland) already mentioned by establishing new businesses or by taking over existing enterprises. In the short term, we see little likelihood of foreign investments or the establishment of new firms in Bosnia and Herzegovina. This branch of industry is suffering from serious overcapacity. We estimate the capacity utilisation of this sector to be around 30 - 40 %. Experience has also shown that investors tend to commit themselves to countries with as high a purchasing power as possible. These include Slovenia, Greece, the Czech Republic and Hungary, but - for the present - not Bosnia and Herzegovina.

Private sector

There are no sector-specific data on this. Due to the privatisation process in progress, it is difficult to make a survey of the current property conditions. After consultations with the majority of the shoe and leather companies in both entities, the creation of the company profiles as well as by personal consultations with the privatisation agencies¹, the ministries and the chambers of commerce, we have come to the conclusion that all enterprises in this sector are in the privatisation phase.

In our opinion, only a few enterprises - "FOGS" in Sarajevo, "VITEX" in Visoko, Lauš in Banja Luka and "TVORNIKA OBUCE" in Bugojno - have been privatized so far. The establishment of new enterprises - particularly shoe companies - is also significant. Among these is a medium-sized enterprise in Travnik, BFM, that has bought "TVORNIKA OBUCE" in Bugojno. Another medium-sized enterprise is "DIMEX" in Bijeljina. In Sarajevo, "ARCO" has established a more craft-oriented, small shoe firm. All three firms are holding up well in the national and western European markets. They manufacture shoes by job upgrading for various well-known western European customers and sell their own collections in various countries.

In the field of other leather goods and accessories, numerous small private craft-based firms are active, although there is no information on their activities. Given the rather fragmented structure of this field, qualified estimates are impossible to make.

Firms complain about an oversized, inscrutable bureaucracy. The most significant economic and tax laws are attached as Annex 3. Foreign investors also consider these laws and regulations as the main obstacle for any commitment (source: DIHT).

Owing to the continuing privatisation process, our observations can only represent a snapshot.

¹ We have, among other things, drawn up the privatisation memorandums for three factories: "AIDA" in Tuzla, "FOGS" in Sarajevo and "KVALITET" in Bugojno.

Women

80 to 85 % of all workers in shoe and small leather goods production are women². Women employed in this sector thus essentially contribute to the social well-being of their families. This sector also offers single mothers a genuine chance to work. Sewing is the most important part of work in the manufacture of shoes, small leather goods and accessories. In shoe manufacturing, two thirds of the overall production time are taken up by sewing and cutting out or preparing, work almost solely done by women. On the other hand, relatively few women are employed in leather production because of the physically strenuous work and the technically poor equipment of the production lines.

The harmful stress levels that women in the production areas of the leather and shoe industries face is a general problem. This can be attributed to:

- heavy physical strain due to the lack of transport equipment.
- breathing in unhealthy fumes at gluing workplaces due to the lack of extraction systems (either centrally-installed or at individual workplaces).
- high temperatures due to the lack of air conditioning systems and thermal insulation from the attic.
- very low temperatures in winter due to the lack of intact heating installations.
- insufficient working environment and workplace illumination.

Typical workplaces expose women to high physical strain by steadily repeating working sequences, thus abnormally stressing certain parts of the body. Cutting out is mainly a standing activity with the body slightly bent forward, subjecting the vertebral column and the feet to especially high stress. Preparing and stitching operations are mainly sedentary activities tensing certain muscle parts in the areas of the upper arms and the neck. The arm muscles are always strained as the material to be sewn must be steadily guided and stabilised. A high level of concentration is required. If the bottom is manually sewn to the upper, this imposes particularly high strain on the fingers, shoulders and upper arms of the women. This kind of manufacturing technology automatically leads to tenseness and muscular pain.

In both the leather and the shoe industries, workers' eyes are exposed to permanent colour perception reflexes by ambient illumination of different brightness, twilight, insufficient workplace illumination and the various colour hues between the leather and the sewing cotton. This causes the colour sense to regress, resulting in poor vision.

Young employees

The offices of statistics do not provide any information on the age of employees. In the firms analysed, we found a low proportion of young employees. Most firms have too many personnel and must reduce staff numbers. This is the reason why they do not employ young people. If required, the firms tend instead to use the existing pool. In addition, there are no skilled junior staff because of the lack of leather and shoe-specific places of training. Young people have no professional prospects in the leather branch. Those who are given the opportunity to emigrate usually do so.

² According to official statistics, 3200 women (56 %) were employed in the Federation's leather and shoe industries in 1998 and 1999 - a proportion we feel is too low.

Rural areas

The geographic distribution of the firms is shown in section 2.2.2. The majority of leather and shoe companies are located in cities. However, many workers come from the rural regions around the cities and are taken to work by factory buses. For such employees, delayed payments and low wages do not make as much difference as they do to their urban colleagues, as they normally ensure their survival by growing fruit and vegetables and keeping animals. For the rural population, there is hardly any alternative to having several different jobs.

Ecology

Ecological awareness in Bosnia and Herzegovina is very underdeveloped. Both entities have drafted a number of bills to protect the environment, particularly to keep the water clean. These must, however, still be passed, and are not unfortunately harmonised: the entities are planning different laws which are not adapted to EU standards.

Sewage in the **leather industry** in particular is highly contaminated, as there are no adequate operational filtering and purification plants. Due to the wretched economic situation of the leather companies, investments in environmental protection are out of the question. The leather-finishing departments normally work without sufficient dyestuff filters and extraction systems.

If the wrong basic materials are used for tanning, PCBs will be released into the leather. The danger that employees could be exposed to carcinogenic substances, or that the finished product could be contaminated, cannot be excluded. The necessary laboratory examinations are rarely made if at all, while the leather factories hardly have any laboratories that can still be used. So, for example, the "laboratories" we visited at the leather factories in Bugojno, at Lauš's in Banja Luka, at KTK's in Visoko and at Kvalitet's in Bugojno, no longer perform any technical examinations. Owing to the economic situation and to the lack of technical laboratory equipment, the obligation to label products (certification that they are free from PCBs) is not correctly fulfilled.

Moreover, the noxious odours released by obsolete facilities are a considerable nuisance.

At the **shoe factories**, the environmental burden is not as grave as it is at the leather factories. The disposal of dust in the preparing shops and of dyestuff particles during finishing is the major problem. Also problematic are the disposal of residual leather and empty containers used for chemicals (adhesives and dyestuffs). Instead of being separately stored in special rooms, harmful and inflammable substances are often kept in the manufacturing areas. Collecting pans mostly do not exist.

Because of the disastrous economic situation of the leather manufacturers in particular, we do not see any short-term solution in the field of environmental protection. We consider internal information on environmental behaviour imperative. In this way, damage to the environment can be avoided without any major investments. For example, it is inexplicable that residual lacquer is discharged into the sewer or that flammable substances are not stored separately. Also on the meso-level, we see some scope for action. The laws on

pollution control will become stricter in the future, although more important is that the laws will be enforced.

The **companies producing other leather products** hardly affect the environment in an adverse way.

2.2 Leather and shoe production

As already explained, there is hardly any sector-specific information but only rough production figures that lump the leather and shoe fields together. In the following section, we will also combine the information on leather and shoes and, where possible, point out the distinctive features of these two fields.

2.2.1 Products of the leather and shoe industries

Production indices

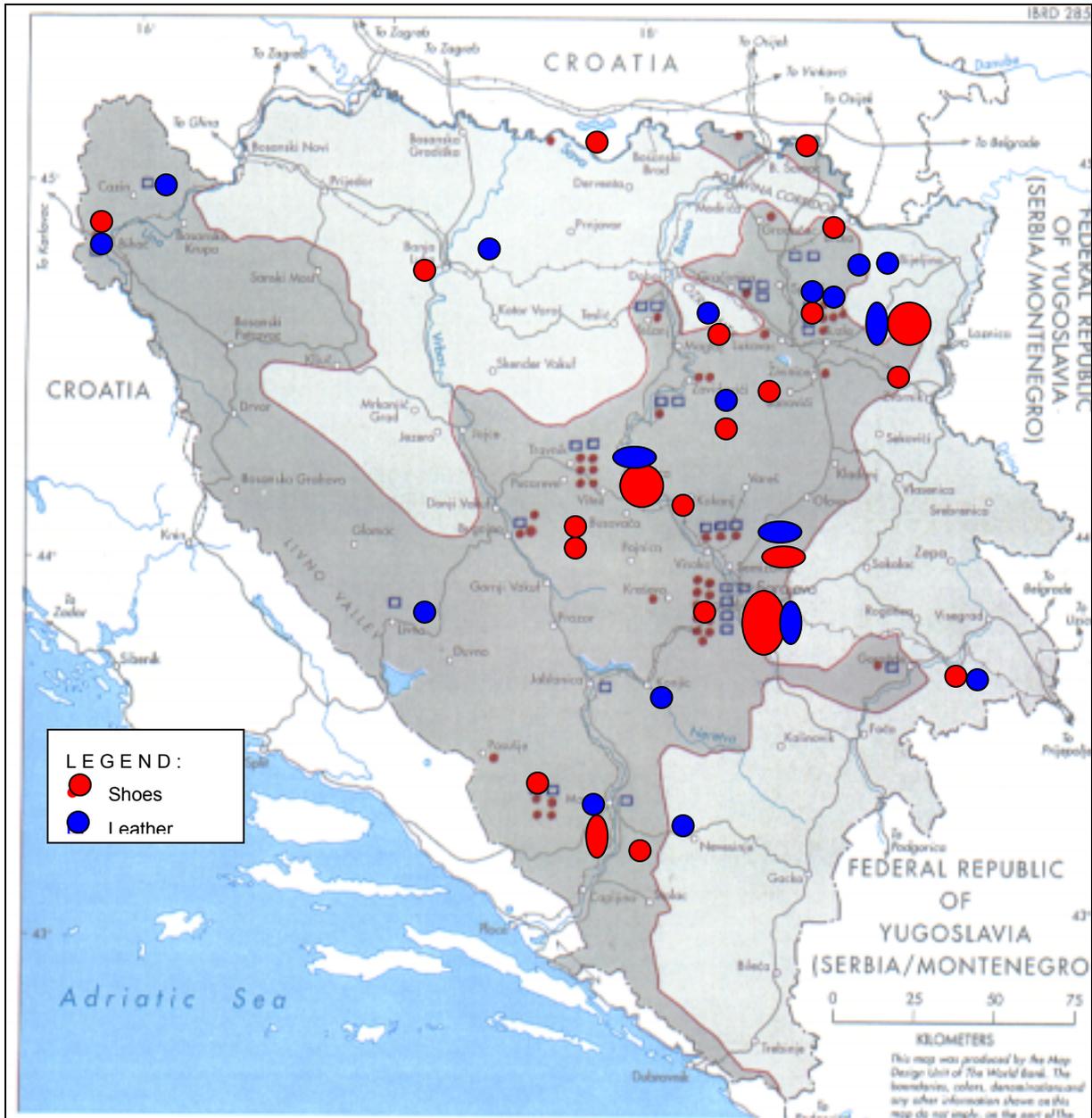
Whereas industrial production - albeit starting from a very low level - has almost doubled since 1996, the leather and shoe sector is currently stagnating at about one third of the pre-war production output.

2.2.2 Geographic distribution

Regional clusters of the leather and shoe industries are located

- in the Sarajevo area (including Visoko).
- in Banja Luka.
- in Mostar.
- in the Tuzla area.

Figure 2.3: Regional Clusters of the Leather and Shoe Industries



Source: Local experts, Federation, Mr. Šošević, Sarajevo, 31.07.2001, Republika Srpska, Prof. Ristić, Banja Luka, 02.08.2001.

These enterprises are neither horizontally linked within a production chain nor vertically. Nor have they formed any strategic alliances with universities, research institutes or enterprises from different sectors. Here freedom for action to form clusters and to increase the systemic

competitiveness is greatly needed, and this could be accomplished if all actors interact with one another³.

2.2.3 Firms

The managers of the enterprises are very often college/university graduates, mostly with technical degrees. Such degrees taken under the socialist system are no longer sufficient in the present market environment, especially due to the rapid advances in technology. The lack of qualified personnel is one of the major reasons for the problems of the shoe and leather industries in Bosnia and Herzegovina. Further training for longer-term staff members has not taken place since the war. This shortfall concerns all levels. To a large extent, the way of thinking of many managers is still production-oriented rather than market-oriented, as they try to regain the previous pre-war dimensions. This report strongly criticises the passivity of certain managers, who prefer to wait for someone to organise something new. This passive trend is further intensified by job manufacturing.

Foremen, team leaders and skilled workers have been cut off from former contacts and are unable to go on further training courses. The stylists have had no opportunity to get stay in touch with fashion trends. Due to the nearly exclusive focus on job manufacturing, a lot of their know-how has become lost.

This is particularly unfortunate as the Yugoslav shoe and leather industries go a long way back, and used to have a good reputation. As early as in 1929, the first vocational school for skilled workers in the leather and shoe fields in the Balkans was founded in Visoko. Until the war, Yugoslavia was one of the leading shoe-producing nations in Europe; since the end of the war (September 1995), however, there has been no dedicated educational facility.

Raw hides in Bosnia and Herzegovina are no longer produced by co-operatives but are mainly supplied by private farmers – in insufficient quantities. This cannot meet the demand of the leather companies. The leather industry is in a very bad condition. There is a disastrous lack of orders, while the facilities no longer meet the technical requirements regarding quality, labour safety and environment protection by quite some way. If the leather industry is not given any assistance within the next two years, we fear that this branch will be unable to survive.

Former Yugoslavia worked for many years for foreign customers, job manufacturing shoes. Job manufacturing is an ideal means for low-capital enterprises, meaning that they are not compelled to spend any capital. Job manufacturing even permits work to be profitable, as the examples of other countries (China, Vietnam) have shown. However, in Bosnia and Herzegovina, job manufacturing is not profitable for two reasons: firstly, productivity is so low that it is impossible to make any profit, and, secondly, Bosnian firms generally depend on *one* customer only who brutally dictates the terms. Bosnian firms accept any terms without negotiating from a self-confident position. In job manufacturing, there are always arguments concerning the quality supplied, on delivery dates as well as on differences in quantities and assortments. This is also a sign of weakness of the producers in Bosnia and Herzegovina. On this issue, this study disagrees with the USAID Study (USAID Business Development

³ We have already made an start on this by bringing together Bosnian leather and shoe companies to design a collection together; this was premiered in Riva/Italy after the war.

Program Sector Survey Textiles and Leather, Business Consulting, May, 1998) which exclusively argues in favour of job manufacturing as guaranteeing correspondingly high productivity.

By sharing a common economic area, enterprises in Bosnia and Herzegovina would have better sales prospects. A common economic area would enable enterprises to consistently utilise different wage structures and tax rates. On the basis of co-operation, these enterprises could, in general, fight more effectively and more self-confidently against the aggressive price pressure in job manufacturing.

Annex 4 contains a list of the leather and shoe companies of Bosnia and Herzegovina.

2.2.4 Current markets

With its estimated 3.9 million inhabitants, the local market is small. Owing to the new borders of Yugoslavia's successor states, the firms have been separated from their former suppliers, finishers and trade facilities. The former division of labour is now hampered by the new borders.

Some firms have their own sales networks in the form of company-owned shoe and leather goods shops where they also offer purchased goods of foreign and domestic origin. Offering in such shops a complete assortment of items purchased from other shoe manufacturers, accessories, small leather goods and shoe accessory parts such as shoe care agents and laces is a good marketing concept.

In Bosnia and Herzegovina, all price classes up to branded products are offered. The table below examines walking and leisure shoes as typical representative categories.

Table 2.10: Prices of Shoes in Selected Assortments

Assortment	Price	Offered in
Ladies'		
- Lower price group	Up to KM 40/€ 20.50	Markets/black market
- Medium price group	Up to KM 100/€ 51.15	Shoe shops
- Upper price group	From KM 100/€ 51.15 on	Special shops
Men's		
- Lower price group	Up to KM 40/€ 20.50	Markets/black market
- Medium price group	Up to KM 80/€ 41.00	Shoe shops
- Upper price group	From KM 80/€ 41.00 on	Special shops
Children's*		
- Lower price group	Up to KM 20/€ 10.25	Markets/black market
- Medium price group	Up to KM 40/€ 20.50	Shoe shops
- Upper price group	From KM 40/€ 20.50 on	Special shops

* The figures refer to the 10 - 14 year age group.

Source: ARGE Padilla & Klein

Sports shoes for leisure activities are family-oriented, i. e. the same type of shoe is offered for women, men and children. The prices vary considerably, depending on the intended purpose and outfit, and rank between KM 15 and KM 300 (€ 7.67 and € 153.39), with even higher amounts in exceptional cases. There are no statistical data concerning the sales structures of the leather and shoe industries. On the basis of the firms analysed, we assess the market structure as follows:

Table 2.11: Market Structure of Bosnia and Herzegovina's Leather and Shoe Industries

Industry	Domestic Market Share	Yugoslavia	Italy	Germany	Other Slovenia, Switzerland, Turkey, Croatia
Leather	30 %	20 %	24 %	19 %	7 %
Shoes	10 %	22 %	42 %	8 %	18 %

Source: Local expert, Federation, Mr. Šošević, Sarajevo, 31.07.2001. Figures are estimated.

2.2.5 Technical level

Technology

With a few exceptions, the machines and equipment installed are obsolete but serviceable. Their average age is between 20 and 30 years and, therefore, they do not play any role for the assessment of companies in privatisation. Despite the age of the machines and equipment, the factories are still capable of producing shoes for the medium price segment of a good quality and in different ranges, depending on the technical outfit.

Productivity

We interpret productivity as the quotient of the production output quantity per number of employees and shift. As these figures are not available, we have instead used figures of output quantities and employees. We take 220 working days per year as a basis.

Table 2.12: Productivity Figures in the Leather and Shoe Sectors from 1997 to 2000

Item Group	Unit	1997	1998	1999	2000
Leather and Accessories	m ² /employee	0.824	1.648	1.101	1.670
Shoes	Pairs/employee	2.375	1.475	1.980	1.821

Source: Local experts, Federation, Mr. Šošević, Sarajevo, 31.07.2001, Republika Srpska, Prof. Ristić, Banja Luka, 02.08.2001.

For conventional adhesive- lasted* footwear, the international reference value is a per capita capacity of 10 pairs of shoes per shift. Even assuming considerably fewer working days, the lag in per capita capacity in the shoe industry between Bosnia and Herzegovina and advanced countries is still very large.

In 1999, we analysed the capacity utilisation and productivity, among other things, of 18 shoe companies and 4 leather firms. We found an average capacity utilisation between 35 % and

65 % and a productivity ratio between 50 % and 65 %, compared with western European shoe and leather companies (source: PN 97.0072.5-001.00, Selektion von Betrieben im Schuh- und Lederwarenssektor in BuH (Selection of Companies in the Shoe and Leather Goods Sectors in Bosnia and Herzegovina); local stay from 24.10. to 13.11.1999).

2.2.6 Key business indicators and management know-how

The finance and accounting system in Bosnia and Herzegovina does not allow the provision of key business indicators. The predominant system is still oriented towards the socialist model, and a change of direction towards Western standards cannot be detected. The statements in this chapter are based on assessments made during our analyses of firms.

The cost of a performance minute is the most important basis for the calculation of an offer price. The cost of a pair of uppers or shoes are calculated by multiplying the required time determined by internal standards with the value of a performance minute. In our experience, the value of a performance minute varies between KM 0.08 and KM 0.14 (= € 0.0409 - € 0.0716). This value represents a full-cost calculation and, according to Western standards, is somewhat misleading. The exact determination of this important calculation basis is not made by any company in Bosnia and Herzegovina, as neither objective standards (such as REFA), nor the required cost information, nor modern cost accounting methods are available.

The prices western European companies pay the producers in Bosnia and Herzegovina is another important index. In our experience, the prices paid for a pair of uppers rank between KM 4 and KM 6 (= € 2.05 to € 3.07). For finished shoes, the values are between KM 5 and KM 8 (= € 2.56 to € 4.09).

Though there is cost category accounting in the shoe and leather companies we have analysed, they do not have cost centre accounting, nor do they even have cost unit accounting. This is why the management is not able to recognise the costs accrued and their causes and can, therefore, not initiate any countermeasures by cost-cutting programmes. Decisions are based on experience. There are three types of crucial costs, which can be broken down as a proportion of the total costs as follows:

- Personnel⁵⁰ (+/- 10 %).
- Materials 20 (+/- 5 %).
- Power⁴ 10 (+/- 5 %).

Especially in view of the prevailing shortage of capital, it is essential to address these costs as much as possible. However, there are at present no cost-cutting programmes exactly itemised by the principle of origin such as:

- An energy reduction programme (electric and thermal energy).
- reduction of personnel costs.
- application of material standards.

⁴ A particularly drastic increase in energy costs is to be expected.

- working according to individual standards for the purpose of performance-related payments designed to increase productivity.
- working according to quality standards.

The management of these companies have no businesslike strategy for the further development of their enterprises. With a few exceptions, not even the first signs of effort or the use of personal computers are detectable. The principle is always the same: they prefer to employ more personnel rather than trying to rationalise and save costs by introducing personal computers. Many managers still work in a production-oriented rather than in a market-oriented way.

2.3. Other leather products

Although there are a number of producers who exclusively make "other leather products", the manufacture of most such leather products is, however, connected with the production of shoes. Due to the smallness of the numerous companies in this sector and to insufficient official statistics, it is not possible to represent detailed figures. In the following section, we will, therefore, represent in brief only two examples of enterprises we have examined.

PROLEKS in Kotor Varoš produces, for example, a line of other leather products in their own styles, in addition to leather and shoe production. Their assortment is versatile and covers the fields of ladies' and men's handbags as well as various holdalls. In a wide spectrum of goods, they produce small leather items such as wallets, purses for ladies and gentlemen, various leather gifts as well as different belts for ladies and gentlemen. For industry and for domestic use they make working gloves of various qualities.

Two private firms, MECOM and ALIS in Sarajevo, focus on the production of accessories. Their product ranges are also wide and versatile. MECOM specialises in outfits for various occupational groups. Among other things, they supply safety gloves, safety belts, holsters, safety and working vests to security firms, the police and post office departments. Their range also includes items for the school, sports and tourism fields. The two private companies work on an order-related basis. Their customers are the state of Bosnia and Herzegovina and foreign clients.

This sub-sector does not play an important role in Bosnia and Herzegovina. The manufacturers do not market their products as aggressively as required.

2.4 Supplies, accessories and specialised service providers

These include pre-stage products (tools, lasts, toe caps, counters, outsoles and insoles) laces, eyelets, sewing cotton, adhesive. There is no specialised industry for such products. Their production is still concentrated in Croatia and Slovenia. Due to the post-war territorial changes, these products must now be imported (see section 3.6.2).

2.5 Product or input/output matrix

It was not possible to obtain any figures here, and for this reason, we have refrained from setting up a product or input/output matrix. The "added-value chain" diagram in section 1.3, showing the general functioning of such a chain but not containing any figures, can be used as an alternative. It graphically outlines the flows of goods and services in the leather and shoe sector. The advance service relations for each production sector and the supplies and services provided for the other production areas and the final customers are shown.

The added-value chain as per Chapter 1 does not function well in Bosnia and Herzegovina. The reasons can be attributed to the following:

- In the process of job upgrading, the customers provide all the leather and other materials. As job upgrading dominates Bosnia and Herzegovina's shoe production, the local demand for finished leather for the domestic shoe industry is too low.
- The financial resources are not sufficient to purchase the products needed from the chemical industry to produce good quality finished leather.
- There is no industry that uses the waste to make leather fibre products.

2.6 Meso level

To better integrate the sector, operative chambers of commerce play an important role. For the present, there are chambers of commerce on the level of the government and of the entities with departments for textiles, leather and shoes. The chambers of commerce should still be considered state institutions. However, in the Republika Srpska, a bill has been brought before parliament that abolishes compulsory membership. Similar plans also exist in the Federation. This will put the chambers of commerce under pressure to offer tailor-made services for their members (then being voluntary).

The Chambers of Commerce of the state of Bosnia and Herzegovina and of the Federation co-operate very closely. The Chamber of Commerce of the Republika Srpska does not yet recognise the Chamber of Commerce of Bosnia and Herzegovina. Neither chamber has a clearly recognisable development strategy. The Chamber of Commerce of the Federation brings together the textile, leather and shoe sectors. It endeavours to establish contacts with foreign customers and organises participation in fairs and exhibitions in former Yugoslavia. It is striving for a German-Bosnian meeting of entrepreneurs in Bosnia and Herzegovina. Thus, some activities for the promotion of the sector and approaches towards a development strategy in the fields of textiles, leather and shoes can, at least, be detected.

There is an **employers' association** (Podzetničko Društvo). In May 2001, it worked out a draft paper on its economic development and strategy from 2000 to 2004 and submitted it to the Ministry of Foreign Trade and Economic Relations. The ex-Yugoslavian associations are gradually resuming co-operation. Their first meeting took place in Ljubljana on 22.02.2001. Further meetings have been agreed to be held, among other places, in Bosnia and Herzegovina.

Since the war, Bosnia and Herzegovina has had no more **training facilities** in the form of vocational schools offering theoretical and practical training. At present, the shoe and leather companies still live off the pre-war pool of qualified labour. This, above all, concerns the trades of the shoe and leather manufacturers. Specifically, in such trades the average age is over 40 years. There is hardly any internal and job-related training or systematic recruitment of school leavers. Master craftsman training is no longer available either. Nor does technical college training for shoe manufacturing engineers in the various fields now exist⁵. Due to the lack of professional prospects, school leavers are hardly interested in these branches of industry. In this sector, there is an acute shortage of young, qualified technical personnel in all fields.

Corresponding suggestions on how to change this situation are contained in the package of measures. The various donor organisations hold training courses, seminars and workshops in Bosnia and Herzegovina. For example, the GTZ has held workshops on fashion trends and styles in the leather and shoe sector and rendered practice-related on-the-job training for management in modern management and marketing methods by various consultants.

The institutions and enterprises we have visited have no **research and development** facilities at all⁶.

CAD/CAM is, in our experience, not used. Due to the shortage of financial resources, there is a lack of efficient computers and software. As regards the core field of job upgrading (approx. 90 % of manufacturing), job preparation by CAD/CAM in the fields of collection development and production is not required in the combine structures that still predominate. As a result of the fact that there are hardly any sufficient qualified personnel in this field, it is becoming more and more difficult for foreign customers to provide CAD-oriented machinery for job manufacturing.

As far as we know, there is no **ecological certification**. A few companies have had themselves certified in accordance with DIN ISO 9002, such as Vitex in Visoko. Now and then, companies express their wish to achieve ISO 9002 certification. Wishful thinking and the initiation of strategic measures to obtain certification, however, end in the lack of enthusiasm of management. Only a few enterprises, such as KTK in Visoko, KVALITET in Bugojno, FOT in Teslić, have recognised that corresponding certification will increase their chances of entering international markets.

Test facilities in the form of internal laboratories exist here and there. There is no laboratory on a national level that defines standards for each product in co-operation with the European quality authorities and supervises the internal laboratories. Working on the basis of European standards is not possible, for even the documents, regulations and technical preconditions are not available.

2.7 Trading systems

Leather

⁵ Unlike in Bosnia and Herzegovina, training in Slovenia and Croatia is as it used to be, mainly at technical colleges for the leather and shoe technology.

⁶ Because of vacations, we had no access to universities and could, therefore, not collect any information.

The leather required for the shoe industry's own demand and for the sub-sectors such as accessories and small leather goods is purchased to order directly from the producer. Retail shops that mainly serve workshops for the manufacture of small leather goods are also supplied through agencies. Furthermore, the shoemaker area is provided with leather for repair purposes and for the fabrication of orthopaedic footwear.

Ready-made leather clothing companies are members within combines that have their own leather factories. The KTK combine in Visoko is a typical example.

Shoes

There is no classical wholesale trade in Bosnia and Herzegovina. In Bosnia and Herzegovina, wholesale trade is defined as large-volume ex-works sales. Sales are mainly handled through the retail trade. Such retail shops are partially owned by the shoe companies.

Agencies act as links between the customer and the shoe companies. They are also highly involved in export orders and in the placing of job upgrading orders. Even as regards foreign customers, a considerable part of them order through agencies. This type of ordering relieves foreign customers of bureaucracy, as the agencies are entrusted with the entire logistics.

Accessories

Manufacturers of accessories are mainly small workshops that obtain their leather and parts directly from the manufacturers. They sell their products at markets and through the retail trade. There are only a few firms that specialise in high-quality accessories and small leather goods. These few firms, however, generally enjoy high productivity. They include Proleks in Kotor Varoš as well as Mecom and Alis in Sarajevo. Their products and sales variants have already been described in section 2.3.

These many, mainly small companies - generally between 10 and 20 employees - are not organised in trade associations. The company size and resulting modest financial possibilities do not permit specialised management consulting. There are hardly any links between the individual companies.

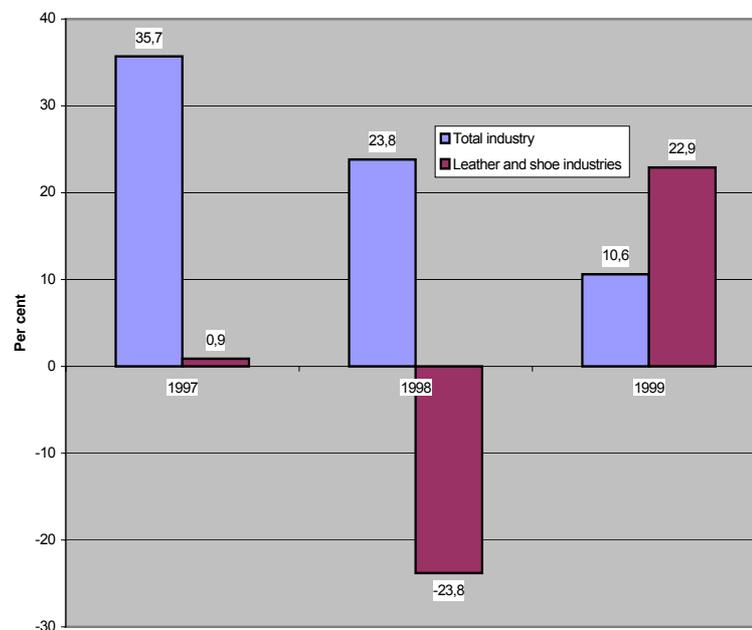
3. Sales Prospects

The following chapter examines sales prospects. Again no figures are available due to the lack of market research. This only allows an assessment to be based on practical experience.

3.1 Local market

The following graph shows that the growth rates of the industry have, in total, decreased, although they remain still high. The development in the local market of the leather and shoe industries is not stable.

Figure 3.1: The Development of the Total Industry Compared with the Leather and Shoe Industries



Source: Local experts, Federation, Mr. SOSEVIC, Sarajevo, 31.07.2001, Republika Srpska, Prot. Ristic, Banja Luka, 02.08.2001.

Compared with 1998, the leather and shoe industries showed a clearly positive development in 1999. Some stabilisation occurred in 2000. Due to the progressive privatisation and the restructuring associated with it, there is expected to be a productivity increase of at least 30 - 40 % from the year 2001 onwards, also in the subsequent years which, however, will also cause reductions in personnel levels - particularly of management staff (expected reduction: some 50 %). This will increase competitiveness and sales prospects.

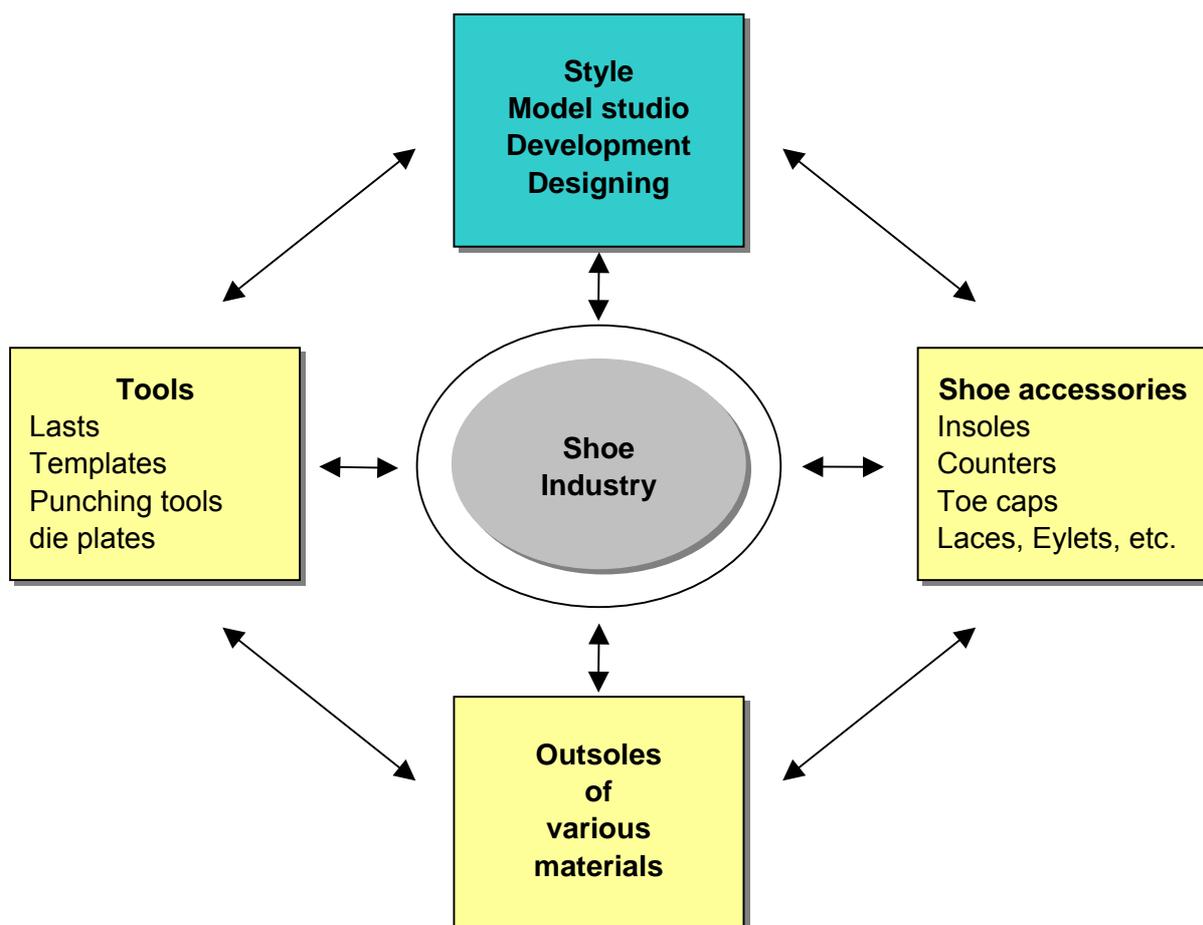
The problems and challenges Bosnia and Herzegovina is confronted with are very similar to those of other transformation countries. They also concern the enterprises of the leather and shoe industries. The shoe industry is by far the most important and is almost exclusively involved in job manufacturing for Italian customers, whereas the leather industry hardly plays any role for domestic or foreign customers. A pre-stage industry for the manufacture of

outsoles, shoe accessory parts, tools or lasts without which no shoe production is possible does not exist at all.

The 3.9 million inhabitants of Bosnia and Herzegovina are almost exclusively supplied by foreign enterprises. The national shoe industry has more or less "voluntarily" let foreign companies dominate the domestic market. On the other hand, the domestic market is too small to offer sufficient sales potential for leather and shoe industries. Bosnia and Herzegovina has good sales prospects both in terms of fighting foreign competitors in the domestic market and exporting products.

Chances of improving the economic situation are good if enterprises in the sector interact with institutions on the meso and macro-levels in the interest of systemic competitiveness, at first within the sector and then on a long-term basis. This includes specialisation which leads to rationalisation effects. The following diagram shows the possible interactions within the leather and shoe sector.

Figure 3.2: Compound Specialisation and Rationalisation



Source: ARGE Padilla & Klein

The above diagram shows the usual interactions among different industries the world over. Specialisation could lead to higher productivity along with high manufacturing quality. During

our advising activities, especially at the **shoe companies**, we repeatedly discussed the subject of specialisation with the general directors. The production of lasts and outsoles, however, cannot be built up by Bosnian firms. This would involve excessive effort, and there is a lack of qualified personnel. Such production lines can only be established by foreign investors.

The **lower price segment** is highly competitive. Here, we do not see any chances for companies from Bosnia and Herzegovina, as products are offered in a wide variety on normal markets or on the back market. The **medium price group**, however, offers some sales prospects. We consider it very important for firms to revive their previous brands, create some form of brand philosophy, and to continuously update their product groups. We are thinking of renowned company names such as AIDA, FORTUNA, IZBOR and PROLEKS. These firms are well known by both the native population and in western European countries for their good and quality-oriented footwear. The shapes and names of the lasts should be maintained as long as possible whereas the material ought to be adapted to current fashion demands and the outfit adapted to increasing quality requirements. If such measures are consistently implemented, we believe that these firms could be able to establish themselves even in the **upper price segment**.

This study has identified particularly good sales prospects in the extension of the **hand-sewing technology** field. Here enterprises in Bosnia and Herzegovina can make full use of their low wage advantage, particularly those in the Republika Srpska, as this entity has lower wages than the Federation. A hand-sewn shoe represents a convenience shoe. It will have to be further developed into a comfort shoe. Another advantage of hand-sewing technology is that considerably less investments are necessary in assembly, compared with a shoe produced by the classic lasting technology. This area should be covered by domestic workers more intensively than ever.

The demand for mass-produced **walking shoes** is sufficiently met and offers little sales prospects. However, due to the changes in leisure time behaviour and in the working environment - more personnel are employed in administrative jobs - more fashionable, i. e. more expensive products of the leather and shoe sector including accessories are demanded. People in this category mainly work in the civil service, at banks and for other service providers. As representatives they have to dress well, and, in addition, are ready to buy high-quality products. For this reason, there are better sales prospects in the fields of **leisure shoes** and stylish clothing.

The manufacture of **sports shoes** requires high investments in special machinery. The required funds can only be provided by foreign investors. Specialisation in the various types of sports shoes is very high. The leading producers of sports shoes such as Adidas, Nike, Puma and Fila control the market and will not let any new manufacturers become rivals. The special sports shoe area necessitates considerable investments in the fields of research and development. We therefore do not see any good sales prospects in this segment.

The **ladies' and children's shoes** sector shows more potential than men's shoes. Women buy about five times as many shoes as men and, because they are more fashion-conscious, are ready to pay higher prices. This universal trend also applies to Bosnia and Herzegovina. Especially in the cities, this group of customers exists despite low incomes. The fashion-conscious part of the population save other everyday things to afford this kind of "luxury".

Children's shoes automatically bring about higher consumption due to natural growth. A child needs, on average, two pairs of shoes every year. Within family communities, mothers and grandmothers particularly focus on the well-being of their children. In this case, the principle of cutting back on other expenses in favour of the children applies.

We have only found one company that manufactures **footwear for certain groups of trades**. This demonstrates that there is considerable need to catch up with sales prospects for some niche production runs. There are sales prospects for special shoes, such as shoes for craftsmen, for professions which involve a lot of standing or walking, for the health service, and for athletes or for theatres.

The production of oversize is another niche market, however, only as a second or third foothold of the shoe producers. The definition of an oversize for ladies' shoes starts at size 10.5, and for men at size 16. There is internationally a bottleneck in the manufacture of oversized ladies' and men's shoes. To meet this, specific production lines should be established in the factories and the products offered at company-owned shops. This concept should be supported by marketing measures.

For the leather sector, we see few sales prospects; and only then if **leather production** is concentrated in one factory in both entities. In such a case, the production could be extended to specific types of leather such as for ready-made leather clothes, furniture and car upholstery.

In the accessories branch the black market, for example of Turkish products, takes up a considerable proportion of sales. This branch of industry is controlled by small companies. Such companies are private and flexibly operate on the market. They have some capital and good sales prospects, not least because of their good craftsmanship. Foreign exporters, however, have some advantages over domestic producers as they offer small leather goods in combination with substitutes. Such substitutes look like leather and often cannot be told apart.

3.2 Regional market

The regional market is defined as the countries of ex-Yugoslavia. Customs revenues are extremely important to both entities. With the aid of the Customs and Fiscal Assistance Office to Bosnia and Herzegovina (CAFAO), Bosnia and Herzegovina has built up a customs system that is in accordance with the western European system. The duties on sector-specific products are as follows:

Product Line	Duty
Raw hides and raw leather	0 %
Treated leather, crust	5 %
Finished leather	10 %
Shoes	15 %

A customs handling fee of 1 % must be added in each case.

Customs duties do not affect the high proportion of job manufacturing in the sector examined. A customer must only submit a EUR1 Movement Certificate (certificate of origin) to the Inland Customs Office in Bosnia and Herzegovina. The CAFAO plans to introduce a new computer system by the end of 2001, by means of which the duties for both entities will be settled.

As regards the payment of duties, the two entities compete with each other by applying different rates in order to collect such duties for shipments at certain "favourable" checkpoints.

Gradual reductions in customs duties have been agreed with Croatia: 30 % in 2001, 40 % in 2002, 60 % in 2003, and 100 % in 2004. The port of Ploče in Croatia is interesting for Bosnia and Herzegovina as a free port. Customs agreements similar to that with Croatia have been planned with Slovenia, Macedonia and Yugoslavia.

According to the CAFAO, there are no further trade restrictions between Bosnia and Herzegovina and the other countries of ex-Yugoslavia.

Only little transport capacity is available in Bosnia and Herzegovina. Road transport is the only possibility. The railways do not offer any border-crossing capacities yet that meet the demand and are flexible enough. The forwarding agencies - with the exception of Inter-Europa - are not yet prepared for the professional customs clearance at the border (see section 4.2, 'Extension of services'). Due to the predominance of job manufacturing, however, high transport capacity is not required. Therefore, there are no bottlenecks for the enterprises in Bosnia and Herzegovina. The customers handle transportation themselves.

3.3 The EU

With 375 million inhabitants and a gross national product of US\$ 8,330 thousand million, the EU is an exceedingly important market for Bosnia and Herzegovina. More than 50 % of south-east European trade is with the EU. The most important EU markets are accessible by roads within 2 - 3 days. The planned association will make the clearing of goods easier. This will make Bosnia and Herzegovina increasingly interesting to investors.

The present EU trade regulation for the western Balkan countries already includes unilateral trade preferences for Bosnia and Herzegovina. So about 80 % of the imports already have duty-free access to the EU market. The EU has unilaterally relinquished the charging of customs duties. Bosnia and Herzegovina charges duties on imports in accordance with the following list (source: CAFAO):

Tariff Group	Product Line	Duty (Per Cent)
41	Raw hides, raw leather	0 - 10
42	Leather products	0 - 10
64	Shoes	10 - 15

However, the EU market is saturated. The number of firms is decreasing dramatically (see section 1.2, 'Trends in the shoe and leather industries'). We judge the sales prospects for export into the EU to be not good. Owing to the primary focus on job manufacturing, the EU

markets will only slowly be accessed after enterprises have build up their own collections. Contacts with final and previous customers offer better sales prospects (see section 4.3, 'Entrepreneurial measures').

3.4 Other markets

These include south-eastern European countries such as Albania, Bulgaria and Romania. The only way to sell to such countries is deliveries under the Stability Pact. For this purpose, enterprises must be steadily informed by tenders. For "normal" deliveries, we envisage few sales prospects, as the purchasing power of such countries restricts the market, while bank settlements are problematic.

The CIS market has disappeared and no longer plays any role because of low purchasing power. Other markets with high purchasing power such as, for example, the USA, are occupied by competitors like German firms. Opening such markets does not seem to us to be realistic at the moment.

3.5 Competitors and benchmarking

The following chapter will deal with the competitors Bosnia and Herzegovina has to cope with in obtaining orders. Successful enterprises of the leather and shoe sector from other countries such as India and Vietnam have analysed the behaviour of their competitors with respect to what they do better and, at first, copied such behaviour. Having reached some degree of independence, they have developed their own strategies. The areas copied at first include:

- marketing.
- the ratio between job manufacturing and self-production.
- manufacturing technology.
- job organisation.
- quality.
- meeting deadlines.

The major competitors are

- EU countries:
 - Portugal.
- the EU membership candidates:
 - the Czech Republic.
 - Poland.
 - Hungary.
 - Romania.
- Southeast Asia:
 - China.
 - Vietnam.

3.6 Sales prospects and future opportunities

3.6.1 Overview, specific strong and weak points

The strong and weak points will be represented in the form of keywords and on the basis of a SWOT analysis.

Strong points

- The lowest wages in Central and East Europe (refer to Tables in Chapter 1.3)
- Well-trained workers still available at present
- A wide, good quality product range
- Large and immediately available production capacities
- Long tradition
- Common language (the Serbo-Croat language family)

Weak points

- Lack of management capabilities in a market-economy environment,
- especially in marketing and styling
- Management is not market-oriented but still production-oriented
- Redundant personnel, especially on the management level
- Lack of suitable training facilities
- Low productivity
- Extremely dependent on job manufacturing (especially on Italy)
- Lack of liquidity
- Low capacity utilisation
- Lack of knowledge of foreign languages
- Lack of sector-specific information with resulting unreliable planning

Chances

- Located close to European markets
- Sale of domestic leather to the domestic shoe industry
- Improvements in plant organisation and manufacturing technology
- Substitution of imports
- Utilisation of the European transport corridors

Threats

- Lacking domestic demand
- Aggressive foreign competitors
- No steady supply of raw hides
- Poor reputation of Bosnia and Herzegovina, due to political instability and its status as a crisis area (war zone)
- Bureaucratic obstacles in registering and running enterprises
- Non-uniform legislation in both entities, particularly regarding tax and privatisation laws
- High taxes and duties, 75 % non-wage costs
- Black economy undermining the national budget
- Corruption, especially in customs clearance
- Redistribution of international assistance

- Poor rating by international agencies
- Continuing emigration of young, qualified workers

3.6.2 Sub-sectors

The sub-sectors include **pre-stage products** (tools, lasts, toe caps, counters, outsoles, insoles) and **accessories** (bags, purses, belts, suitcases and small leather items). We foresee good sales prospects, particularly in the accessories area, for items produced by small, private firms capable of flexibly adapting to the changing demands of customers (see section 4.4, sub-section 'Narrowing the range').

4. Development Strategy for the Sector

4.1 Structure of goals

National/local policy

There are a number of approaches in both national and local policies designed to improve the economic situation within the country and to establish contacts with the other ex-Yugoslavian states in order to promote exports. Bosnia and Herzegovina has founded a state institution, the Foreign Investment Promotion Agency (FIPA), which was established at the Council of Ministers. The FIPA seeks to attract foreign investors and facilitate their investments in enterprises in Bosnia and Herzegovina. It is the only place where foreign investors can go to with problems.

Bosnia and Herzegovina is supported by a number of initiatives of international organisations which, however, only partially render sector-specific assistance (see below: 'Important donors'). The state and the entities seem, initially, to be more focused on gathering revenues. These include primarily duties and taxes. In the Federation, customs duties make up about 85 % of the entities' revenues. The CAFAO supports Bosnia and Herzegovina in the implementation of an efficient customs system. In April 2001, the IMF concluded a project on tax harmonisation which the governments of the two entities have meanwhile agreed on. It intends that the following apply to both entities:

- a general sales tax of 20 %.
- a reduced tax rate of 10 %.
- no special regulations for building materials will apply.
- The sales tax will not be levied on the entire sales margin.

On 03.04.2001, the GTZ started discussions on the harmonisation of income tax. By January 2002, uniform income tax will be applied in both entities and in the Brčko District.

EU/stabilisation and association

In the long term, Bosnia and Herzegovina wants to become a member of the EU. In 1999, the EU initiated the stabilisation and association process with Bosnia and Herzegovina. The way the stabilisation and association process functions is specified in the "EU Road Map". The latter contains the following suggestions for the economic development:

- Elimination of all trade restrictions between the entities.
- Setting up *one* National Institute of Standards in Bosnia and Herzegovina.
- Passing legislation for the protection of competitions and consumers.
- Implementation of legislation for the protection of foreign direct investments.

Working towards EU membership is of great interest, especially for the leather and shoe sector, and efforts must be intensified to enable the enterprises in this sector to re-establish their previous relations with western Europe and to increase their competitiveness as economic and bureaucratic barriers are removed.

Office of the High Representative (OHR)

The OHR is the most significant institution for the implementation of the civilian part of the Dayton Peace Agreement (September, 1995). It works on behalf of the international community. Data for the leather and shoe sector are not available from the OHR either. Any details are based on information from the offices of statistics. There is no specific support for the leather and shoe sector as regards the provision of information or the establishment of contacts.

Important donors

Sector-specific

An enormous number of international organisations are active in Bosnia and Herzegovina. These international organisations do not play any major role in the financing of the leather and shoe sector. Only USAID renders consultation services and financial support in this sector, e. g. for FOGS in Sarajevo and for Fortuna in Gračanica. Since May 1999, the GTZ has been providing consultation services, mainly on the micro-level, to improve the competitiveness of the supported enterprises. Within the course of this activity, the GTZ has, so far, analysed 25 enterprises in the leather and shoe sector and supported about 12 firms in concrete projects designed to improve their competitiveness.

General

The donors support Bosnia and Herzegovina mainly by credit lines and technical co-operation. Important donors include:

- the World Bank Emergency Recovery Project (ERP credit line).
- the World Bank Transition Assistance Credit (Federation TAC credit line).
- the European Bank for Reconstruction and Development (EBRD).
- the USAID Business Development Program (Bosnia Reconstruction Finance Facility - BRFF).
- the Kreditanstalt für Wiederaufbau (Loan Bank for Reconstruction) (KfW).
- the EU.

In March 2000, the World Bank decided to increase its standby loan by US\$ 22.7 million. The entire assistance provided since May 1998 has totalled US\$ 122 million. In December 2000, the assistance was increased once more. This is loan serves to promote the co-operation between the two entities.

Assistance from the EU amounts to € 85.1 million. Its objectives are: the setting up of a uniform economic area, support in economic reforms, the development of the private sector, and the creation of jobs.

The World Bank, together with the International Development Agency (IDA), the US Government, the EU and other countries, is supporting a US\$ 140 million project for improvements in trade and transport in Southeast Europe until 2003.

The leather and shoe sector will indirectly profit from this.

4.2 Strategic approach

Job manufacturing in the shoe industry

The strategy here must be to drastically increase productivity in job manufacturing, first to yield profit, and then to use this profit to establish individual collections. The products can then be exported to the other countries of ex-Yugoslavia. Leather and shoe firms must reduce the proportion of job manufacturing step-by-step and build up their own collections again to free themselves from their dependence on job manufacturing. This will enable Bosnian firms to set up a second foothold in this sector and obtain higher prices with large numbers of pairs/areas and low prices, in addition to the mass business of job manufacturing. In this way, enterprises in Bosnia and Herzegovina can reduce the risk of their extreme dependence on mainly *one* customer. For this reason, this step is imperative from the entrepreneurial point of view.

Extension of services

To our knowledge, no specialised private service providers exist yet. There are, however, many businesses that could be detached from certain enterprises and made independent. These include **auxiliary facilities**, such as transport (also works traffic for personnel), sales branches, thermal stations, restaurants, laundries, or works protection forces. Outsourcing can be implemented in two steps:

1. The service providers can become profit centres responsible for obtaining their own orders; the "parent company" will be entitled to place orders with other external service providers as well.
2. These service providers shall be sold in the course of privatisation. The new independent firms shall receive used machinery and equipment free of charge as "starting capital", or pay the purchase price from their income.

Outsourcing offers the advantage that firms can concentrate on their core activities, thus increasing their efficiency and profitability. On the other hand, the specialised service providers can also increase their efficiency and offer low-cost services. All in all, this will result in productivity gains for the national economy.

We consider outsourcing an important option, reducing staff and raising the attractiveness of the enterprises, thus increasing their chances in the privatisation process.

The establishing of specialised **forwarding agencies** should in particular be enforced, for there is too little transport capacity, and forwarders who are familiar with customs clearance are not available. However, a prerequisite for this is that the proportion of companies' own production can be extended, as only if this occurs will more transport capacities be required.

The establishing of **agencies** supplying **temporary workers** for various shoe factories could also be interesting. Rural areas have an especially high potential for this purpose. Such agencies could also assist in the restructuring of companies and clear factory grounds no longer needed. In this way, firms can adapt their excessive capacities to the demand, areas and buildings are prepared for investors.

Initiatives to establish specialised service companies may also be initiated by persons who are not company employees. However, the probability of success is higher if the previous firm supports the founding of a new enterprise.

The future of the leather industry

Against the background of the poor competitive position of the Bosnian leather firms, the only chance for survival is under the following conditions:

- Concentration on only *one* leather company in both the Federation and the Republika Srpska, for political reasons. The Ministry of Industry would be expected to act together with the enterprises. From our point of view, the best candidates would be KTK in Visoko und Lauš in Banja Luka⁷.
- Consistent use of domestic leather by Bosnian shoe firms, based on co-operation already started in Riva/Italy.
- Utilisation of the large capacity reserves by using domestic raw hides and additional imports.
- Upgrading up to the 'crust' production stage (also by job manufacturing for foreign customers).

The surface treatment of finished leather should be done at specialised factories abroad.

The future of niche products

Niche products offer opportunities for success in any markets. They are normally not cheap products. In Bosnia and Herzegovina, there have been only occasional examples of successful marketing of niche products, for example, of specific slippers. Niche products can be found in western foreign countries, often in a prestige-related environment (e. g. Ferrari shoes). For Bosnia and Herzegovina, we see a chance for the manufacture of specialities such as shoes for national costumes, wooden clogs, oversized shoes, or small leather goods mainly for export. Items for restaurants (dice cups, beer mats), for hunters and members of shooting clubs as well as high-quality leisure-time and working clothes should also be taken into consideration.

⁷ Such decision should be prepared in a separate study.

Needs from the viewpoint of the firms

In discussions with company directors, the following steps needed to improve their economic situation were constantly reiterated:

- Quick privatisation.
- New machines and equipment to increase productivity.
- Return to the original capacities.
- Additional funds (especially circulation capital).
- Foreign partners.
- Reduction of the excessively high taxes and social security contributions (social security contributions are about 75 % of wages).
- Finding qualified personnel.

Needs from the viewpoint of the experts

In the following, we would like to comment on these suggestions:

- Making the privatisation process realistic
The privatisation agencies assume that the privatisation process for POS (Public Offering of Shares) can be completed by the end of the year. We consider this to be very optimistic. From our point of view, the following needs will arise:
 - The privatisation laws should be adapted to the market. Right from the start, the purchase price should be oriented towards the market price. Majority interests of foreign investors should be admitted (the privatisation law in the Republika Srpska only allows for a maximum of 30 %).
 - Partial privatisation should be allowed from the very beginning.
 - Privatisation should be pushed ahead rapidly.
- Improving job organisation instead of making investments into new machinery
 - We believe no essential new investments will be required in the longer term. The large capacity reserves should rather be utilised first. Meanwhile, there has been one successful example in this respect: Alpina from Slovenia, which has taken over FOGS in Sarajevo without any new investments, and more than quintupled production within three months.
 - We see further rationalisation potential in the introduction of improved job organisation (mainly standards and performance-related payments) and of preventive maintenance.
 - Visits to fairs and exhibitions should be continued in order to reactivate previous customer contacts and to establish new ones.
- Obtaining additional funds (especially circulation capital)
 - Innovations will have to be introduced without any additional liquidity. The firms must learn how to deal with banks in a professional way and to realistically assess their situation. The banks must learn to be considered service providers and to work in a customer-oriented way, especially to be responsive to the mentality of their customers.

- Finding foreign partners
 - The wish for co-operation with foreign partners, especially from Germany, frequently expressed by firms and chambers of commerce is unrealistic for the present. Within the past two years, we have, in vain, been trying to awaken the interest of more than 40 German firms (manufacturers and dealers) in partnerships with enterprises in Bosnia and Herzegovina.

As a result of our experience, we recommend:

- finding partners from neighbouring countries. In this connection, Slovenia is the best option, as this country is presently the biggest investor in Bosnia and Herzegovina.
- finding partners the indirect way, via orders placed with enterprises in Bosnia and Herzegovina.

For this purpose, visits to and participation in fairs will be necessary to give enterprises from Bosnia and Herzegovina the opportunity to present themselves in the European market and to acquire trial orders. Some initial successful orders could be acquired in Riva/Italy, for example. When foreign customers begin to feel certain of their suppliers in Bosnia and Herzegovina, they will be more willing to enter into partnerships.

The leather and shoe sector enterprises will have to revive their previous ties within Yugoslavia. The market in Yugoslavia is set to develop very interestingly after all the recent changes.

- Returning to original capacities
 - This is, from our point of view, utterly unrealistic and displays an incorrect assessment of the real market situation.
- Taxes and social security contributions are too high
 - The enterprises analysed complain about the burden of high taxes and duties. This, in particular, applies to the social security contributions that have reached western European levels. In this connection, the state is expected to work out a concept for
 - the reduction of taxes and duties.
 - the provision of incentives for investors.
 - the exploitation of free economic zones or free trade zones.
- Lack of qualified personnel
 - Introduction of a sector-specific training system based on the German model (see suggestions in section 4.5).

In addition to the needs expressed by the firms, we recommend

- making customs clearance more efficient and
- increasing the livestock supply, thereby making Bosnia and Herzegovina self-sufficient in raw hides.

4.3 Market-opening measures

State measures (macro-level)

- Improving Bosnia and Herzegovina's image
By creating the Foreign Investment Promotion Agency (FIPA), the state of Bosnia and Herzegovina has made a strategically important step to attract foreign investors. The agency has been installed as the sole contact for investors ("one-stop-shop") and directly reports to the Council of Ministers.

The annual budget of KM 300,000 available, however, does not permit that many generous measures. This budget is only just enough for a few targeted measures (e. g. brochure production) and to cover the administrative costs. This is why the FIPA has not been able yet to develop a marketing strategy. Therefore, we suggest that a marketing strategy should be developed via a study.

- State countermeasures to stem illegal imports and the black market
In Bosnia and Herzegovina, goods are imported illegally, evading customs duties. The best known example is the Arizona Market, a huge market on the border of the Brčko District that was originally founded by SFOR to integrate the various ethnic groups. Meanwhile, the OHR has worked out for a concept to stem illegal imports. Although there have been some initial successes, the government will still have to keep enforcing this concept vigorously.
- Association-level measures (meso-level)
Establishment of a leather and shoe industry association
Such an association does not exist yet. Its establishment must be initiated by private enterprises, since the state enterprises do not understand the necessity of an association, referring to the existence of the chambers of commerce. In the Federation, the Ministry of Industry is very open-minded about this idea.

Further typical tasks of the association would be:

- the formation of a central marketing agency.
- the setting up of initiatives to encourage the purchase of domestic products.
By seminars and workshops, the enterprises must first be trained in simple marketing questions such as: what customers do they want to address, how to determine demand, how to follow up with their customers, and how to fix appointments for visits.

Entrepreneurial measures (micro-level)

- Doing market research.
- Visiting fairs.
The successful visits to and participation in fairs should be continued. The acquisition of further (trial) orders should be aimed at.
- Setting up an efficient sales force.
As a first step, agencies should be employed to avoid the fixed costs of an in-house sales force. On a medium-term basis, the services of a central marketing agency should be called upon.
- Contacting all previous customers.

Records on previous customers still exist at the enterprises, so that these customers could be contacted. Due to the poor telecommunication connection, however, such contacts are difficult to establish. It is better to look previous customers up at fairs.

- Determining final customers and directly contacting them.

To the best of our knowledge, Bosnia and Herzegovina does not directly export to Germany. Nevertheless, shoes from Bosnia and Herzegovina can be found in German shoe shops. The job customers handle sales for the present. Because of this, firms in Bosnia and Herzegovina do not know their final customers. Even if they sold through agencies, they still would not get to know their final customers.

4.4 Measures to better integrate the sector

- Bringing together the two entities

For the country of Bosnia and Herzegovina, it is essential that a uniform economic area be set up. The OHR is focusing on this, financially supported by international donors such as the World Bank. The leather and shoe sector will indirectly profit from it.

- Co-operation within the sector

The existence of a leather and shoe industry association would also help to highly improve co-operation within the sector (see section 4.3). For this reason, efforts to establish such an association should be promoted.

- Narrowing the range

Manufacturers must specialise in products they can make at the lowest costs. Higher numbers of pairs etc. will result in lower unit costs. Such specialisation also applies to the sub-sectors of the pre-stage industries. This includes toe caps, counters, tools and lasts as well as soles. At the moment, no firm can pay for the investments needed for the production of lasts and soles. However, considerable synergistic effects can be expected in the specialised manufacture of toe caps, counters and tools.

- Sales co-operation

Each supplier must be able to offer the customer a complete assortment from the leather and shoe sector. Therefore, the suppliers must purchase as commodities any products they do not manufacture themselves. Family programmes are especially suitable for this purpose. Enterprises in Bosnia and Herzegovina partly have their own networks of shops. These could put sales floors at one another's disposal in order to offer a complete range. As a lower-cost variant, a complete range might also be offered in ex-works sales. The large number of empty halls that, in addition, could be suitable for the sale of other items or even used as shopping centres would be suitable for this.

- Use of domestic raw hides

Shoe manufacturers, above all, must use domestic raw hides instead of imports, thereby giving domestic leather producers a chance to survive.

- Joint utilisation of resources

The establishment of joint transport companies for transportation within Bosnia and Herzegovina makes sense if the job order customers do not organise their own transports. The means of transport already available should be brought into such projects. For international transport, specialised forwarders should be used that have customs clearance offices at the borders or in the cities where main customs offices exist. As there are hardly any internationally active forwarding agents in Bosnia and Herzegovina, additional enterprises will have to be established, for example, through subcontractors of experienced foreign forwarders. They should be integrated into the existing transport routes, mainly in

transport corridor V: Venice - Triest/Koper - Ljubljana - Budapest - Uzgorod - Lvov.
branch B: Rijeka - Zagreb - Budapest.
branch C: Ploce - Sarajevo - Ossijek - Budapest.

These transport corridors are relevant to the leather and shoe sector as they offer important transshipment points, even though not all of them directly go through Bosnia and Herzegovina.

4.5 Training measures, research and development

Training measures

Owing to the many years of tradition in Yugoslavia's leather and shoe production, enough skilled workers are still available in production. On a medium-term basis, these skilled workers, however, will not be sufficient, as no more basic and further training exists. There is therefore urgent need for quick action. "Quick" means the following further training programmes are needed until suitable training facilities are in operation.

Area	Subject of Training	Seminar/Course Period in Days
Management	General management, marketing, personnel management and motivation, management by objectives, delegation of responsibility, restructuring	5
Marketing/Sales	Modern marketing and sales	10
Finance and Accounting	Cost accounting, international controlling, profit centre, budgeting, IT utilisation	10
Human Resources	Personnel management, strategy, assessment, motivation	10
Technical Management, Works Management	Economic management in a market-economy environment	5
Quality	International standards, especially ISO 9000	5
Modellers	Modern style, modern production techniques, market economy principles	5
Master Craftsmen Training and Further Training	New technical/technological manufacturing techniques, standardisation, quality assurance measures	3

Such short-term training can be supported by the international donor organisations. On medium and long-term bases, a suitable education system must be built up step-by-step. For this purpose, a concept must be worked out that makes suggestions to the ministries in both entities. In the Federation, the Ministry of Education, Science, Culture and Sports is the responsible body, while the Ministry of Education is in charge in the Republika Srpska.

Operative level

The following training measures are recommended on the operative level:

- Shoemaker (skilled worker)
Two years of basic training (cutting out, including preparing, stitching and assembly operations).
In the 3rd year, specialisation focussing on the making of uppers and bottoms.
After the completion of this training, further training can be undergone to become a shoe technician, shoe modeller and a shoe manufacture foreman.
- Shoe technician
Two-year further training in making uppers and bottoms.
After the completion of this training, further training can be undergone to become a shoe manufacture foreman.
- Shoe industry modeller (stylist or designer)
Two-year further training at the modelling department within the factory.
After this further training, there will be good prospects of promotion to higher positions both at home and abroad.

Management level

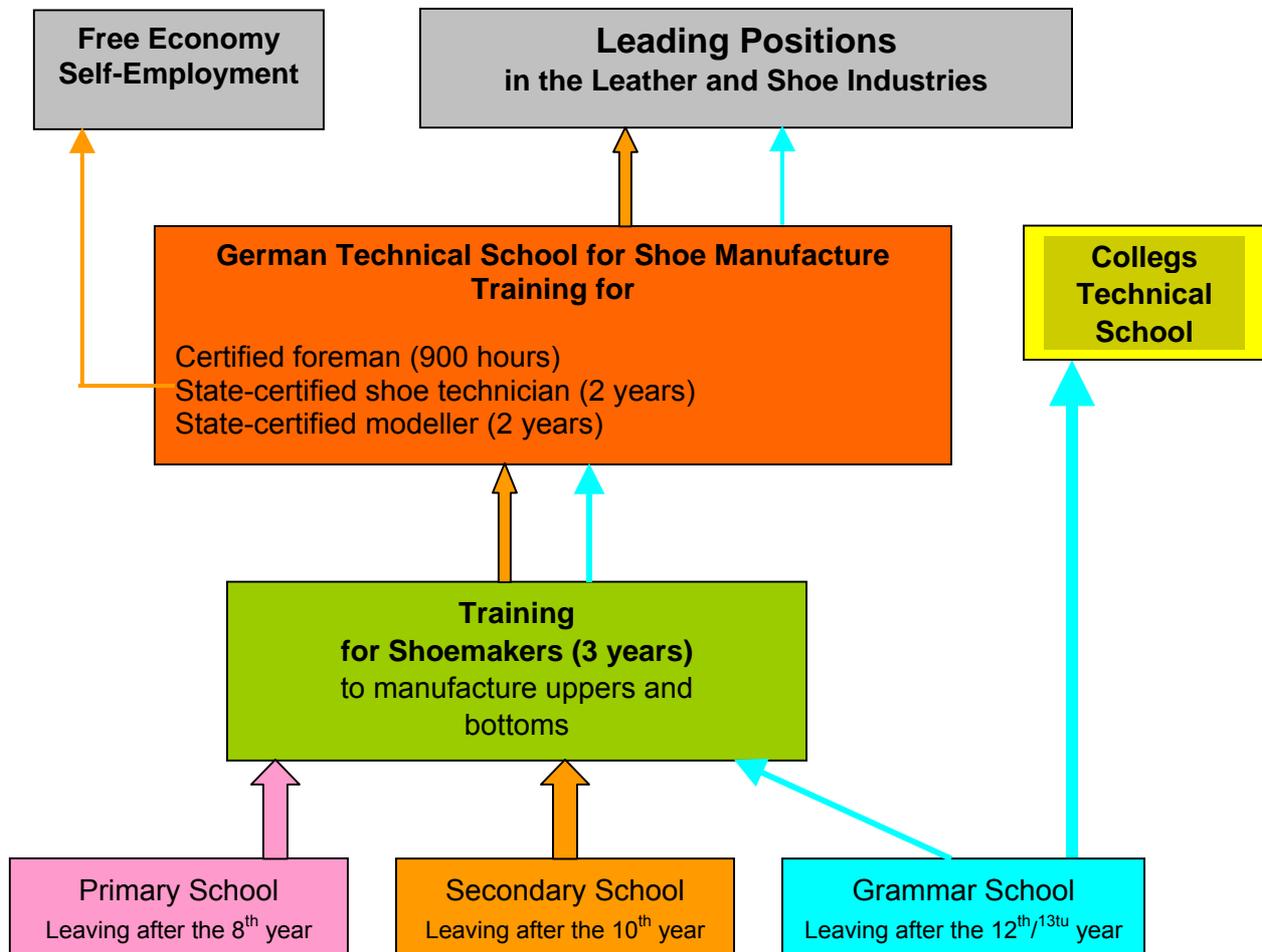
In the course of their university or technical college education, new managers must be systematically trained in the fields already mentioned under the short-term measures. Particular importance should be attached to transmitting practical experience. Due to the necessity of exports, knowledge of foreign languages is indispensable. It should be examined whether it would make sense to hold such training courses within Bosnia and Herzegovina, or to do so abroad based on certain incentives offered by corresponding agreements. Together with the enterprises, universities are being encouraged to develop new courses of studies and examination regulations to allow managers to work in a market economy environment.

The responsible Ministries of Industry (and Education) should provide the basic prerequisites such as

- the creation of defined outlines of trades for the leather and shoe industries.
- the creation of curricula for the theoretical and practical vocational training of leather workers and shoemakers.
- the setting up of training centres by delegating training responsibility to leading enterprises (master craftsman's training; including adult education).
- the defining of training guidelines for professional or university graduate engineers from the leather and shoe industries.

The concept of reorganising the sector-specific education system in Bosnia and Herzegovina should be implemented by a separate project with the support of international donors. The German system of vocational training could, for example, be adapted to the needs of Bosnia and Herzegovina and serve as the basis for new training (as per the following diagram).

Figure 3.3: Educational Courses in the Leather and Shoe Industries in Germany



Source: ARGE Padilla & Klein

Research and development

Here, the state (Federation: Ministry of Education, Science, Culture and Sports; Republika Srpska: Ministry of Education) is expected to order the corresponding facilities and funds. Qualified personnel for research and development are not available as there are no longer any training facilities. In terms of financial resources and personnel, the enterprises are not in a position to do research and development. A concept addressing this issue should be integrated into the reorganisation of the sector-specific education system mentioned above.

4.6 Financing (sector-specific)

Some of the major problems are caused by the lack of financial resources. The firms are, in particular, short of liquid capital. They are not able to build up their own collections since they

have to pre-finance the period between the receipt of an order and the receipt of payment. This period lasts 90 - 120 days. In particular, the firms have no financial resources to purchase raw materials.

Various major international banks are represented in Bosnia and Herzegovina. An overview of the active banks and institutions with their terms and conditions can be found in Annex 5. The banks only grant a small number of loans to enterprises in the shoe and leather industries. The majority of loans are made to the textile, wood and metal sectors. According to our estimations, leather and shoes only receive about 1 % of all loans granted.

The majority of firms in the leather and shoe industries are still state-owned and in the privatisation process. In many cases, the directors tend to overestimate the value of their enterprises which leads to confusion in the negotiations with the banks. Often the enterprises are unable to create the business plans that the banks need to assess them. Due to their poor liquidity, it is difficult for shoe and leather firms to borrow any money. As a result, the international institutions (USAID, MEB, KfW) will still be expected for some time to come to develop tailor-made, low-cost offers of long-term loans specifically for small and medium-sized enterprises and to assist them in the preparation of the relevant documents. Further measures must be to:

- provide loans for these enterprises, at first in the short term and then in the long term.
- grant small and medium-sized enterprises business start-up loans promoted/ subsidised by the state (to our knowledge, no new businesses have been founded in this sector since May 1999).
- further strengthen re-financing for local banks (e. g. revolving EFBH funds of the KfW), thus increasing the banks' loan portfolios.
- improve the training of the bank employees, with particular attention to be given to customer orientation.

In the longer term, self-financing of the enterprises will have to become the most important funding source of the leather and shoe sector. The required funds will have to be produced by the enterprises themselves by cost-cutting measures, changes in their organisational structures, improving their wage incentive systems and job organisation as well as by higher marketing efforts.

4.7 Foreign investments, founding of new businesses

As already explained, we believe that new investments will not be necessary in the longer term. Foreign investments are restricted by the privatisation laws of both entities. The 85 strategic firms in the privatisation list include two shoe companies, one of which has meanwhile been taken over by a Slovenian shoe factory.

We suggest that further firms should be included in the privatisation agencies' list of strategic firms so that privatisation will be pushed ahead consistently. Due to the privatisation process presently in progress, it is not possible to make any suggestions that are relevant to the current situation.

The founding of new firms is out of the question because of the overcapacities already mentioned. In the long term, there will be no demand for additional capacities in Bosnia and Herzegovina. Nevertheless, it is absolutely vital to increase productivity in the existing enterprises to improve their competitiveness and to provide such firms with the liquidity they so urgently need.

5. Package of Measures

All measures taken to promote a cluster should be combined to form an integral concept within the sector. For this reason, the Ministries of Industry, the Chambers of Commerce, universities and international donor organisations have been integrated into the following package of measures as responsible authorities and offices.

To document the time-frames of our suggestions, we have divided these measures into short, medium and long-term activities and assigned them priority stages within their implementation periods. The geographic distribution and responsibility concern the state of Bosnia and Herzegovina, the entities and the foreign regions. The responsibilities are also suggested in the following. The demand for donor support is always indicated. It has not been possible to provide any figures of the required assistance within this study.

5.1 Immediate measures

This category consists of measures that should be implemented within one year:

Subject	Responsibility	Geographic Distribution	Required International Support	Priority
Completing the strategic list of the privatisation agencies with any remaining shoe companies.	Entities	B&H	None	High
Granting subsidies to concentrate the leather industry into two firms.	Entities	Federation, Republika Srpska	Banks	High
Higher integration of working from home into firms' concepts.	Enterprises	B&H	None	High
Continuing visits to international fairs and exhibitions.	Enterprises	Bologna, Riva, Dusseldorf	Local authority	High
Visiting local fairs on one's own initiative and exhibiting products.	Enterprises	For example, "MODA" International Textile,	None	High

Subject	Responsibility	Geographic Distribution	Required International Support	Priority
		Leather and Footwear Fair in Banja Luka, from 25 to 29 Sept. 2001		
Reducing personnel by using natural fluctuation.	Enterprises	B&H	Consultation	High
Further training of management in marketing.	Enterprises	B&H	Consultation	High
Increasing productivity by improving job organisation (REFA methods, if possible) and changing the organisational structure.	Enterprises	B&H	Consultation	High
Making working from home possible: providing sewing machines and leather remnants free of charge.	Enterprises	B&H	None	Medium
Making special shoes for selected target groups (sports, theatre, leisure time).	Enterprises	B&H	Consultation	Medium
Introducing relaxation exercises to relieve the results of high physical strain.	Enterprises	B&H	None	High

5.2 Medium-term measures

This category consists of measures which will take 1 - 3 years to implement:

Subject	Responsibility	Geographic Distribution	International Support	Priority
Image-improving measures: greater financial and personal support from FIPA.	State of B&H (Council of Ministers)	B&H	OHR	High
New regulation on severance payment when jobs are lost (relieving enterprises of excess staff, thereby increasing their	State of B&H	B&H and unions	OHR	High

Subject	Responsibility	Geographic Distribution	International Support	Priority
chances of attracting foreign investors).				
Introducing an office for measurements and goods testing	State	B&H	Consultation	High
Collecting sector-specific information to increase planning reliability.	State, offices of statistics	B&H	Consultation	High
Issuing regulations on ergonomic workplace layouts and the wearing of working gloves.	State	B&H	Consultation	High
Improving employees' health protection (in leather factories: preventing PCBs from being set free; shoe factories: installation of dust filtering systems, disposal of adhesives and dyes, storage regulations for harmful and inflammable substances, installation of drip pans for chemicals).	State	B&H	Consultation	High
Granting business start-up subsidies (for SMEs).	Entities	B&H	None	High
Training local consulting societies in the fields of productivity increasing and marketing (train the trainer).	International donors	B&H	International donors	High
Setting up an investment fund for B&H similar to the Slovenian regulations.	State	B&H	KFW and other banks	Medium
Introducing uniform statistical survey methods in both entities.	State and entities	B&H	OHR	Medium
Simplifying the registration of enterprises.	Entities	B&H	OHR	Medium
Country-wide sector-specific advertising campaign.	Chamber of Commerce/ association	B&H	Consultation	Medium
Reviving previous brands.	Enterprises	B&H	Consultation	High
Building up a brand	Enterprises	B&H	Consultation	High

Subject	Responsibility	Geographic Distribution	International Support	Priority
philosophy.				
Extending hand-sewing technology and further developing it towards the production of comfort shoes.	Enterprises	B&H, especially RS	Consultation	High
Concentrating sales efforts on Slovenia and Croatia.	Enterprises	B&H	Consultation	High
Building up companies' own collections.	Enterprises	B&H	Consultation	High
Using leather from domestic production in the shoe industry.	Enterprises	B&H	None	High
Establishing works laboratories.	Enterprises	B&H	None	High
Changing the ranges: ladies' and children's shoes, extending the ranges of fashionable and luxury products.	Enterprises	B&H	Consultation	Medium
Production of oversizes.	Enterprises	B&H	None	Medium
Introducing consultation services with costs as already practised by the DIHT and SEED.	Enterprises	B&H	None	Medium
Determining final customers and contacting them.	Enterprises	B&H	Consultation	Medium
Deliveries to Southeast Europe under the Stability Pact.	Enterprises	B&H	Consultation	Medium
Learning foreign languages.	Enterprises	B&H	None	Medium

5.3 Long-term measures

This category consists of measures which need more than three years to implement:

Subject	Responsibility	Geographic Distribution	International Support	Priority
Building up an educational system by creating curricula for jobs in the leather and shoe	State of B&H, educational establishments	B&H	Consultation	High

Subject	Responsibility	Geographic Distribution	International Support	Priority
industries, changing university education to be geared to practicality and the market economy (basis: German training system).				
Introducing training programmes for women, since they represent a very high proportion of the employees.	State of B&H, educational establishments	B&H	Consultation	High
Concentrating leather production at two locations.	State of B&H with entities	Federation and RS	Consultation	High
Harmonising economic legislation (tax and privatisation laws).	State of B&H	B&H	OHR	Medium
Making the customs system more efficient.	Customs policy: state of B&H, customs authorities: entities	B&H	CAFAO	Medium
Developing a concept for the reduction of taxes and social security contributions.	State of B&H and entities	B&H	GTZ and other donors	Medium
Organising the exchange of managers and students.	Entities	B&H	GTZ and other donors	Medium
Establishing production of specific types of leather.	Enterprises	Federation and RS	Consultation	Medium
Adapting the privatisation laws to the market requirements.	Entities	Federation and RS	Consultation	High
Eliminating the black market.	Entities	B&H	OHR	Medium
Harmonising environment protection laws in the entities and adapting them to EU standards.	Entities	B&H	OHR	Medium
Providing investment incentives/depreciation privileges, for example, to improve or eliminate high risks to health (air-conditioning and central	State	B&H	Sponsoring pointed investments/ measures by international donors	Medium

Subject	Responsi- bility	Geographic Distribution	International Support	Priority
extraction systems), to promote productivity-increasing measures; wearing trade-specific clothing (leather and shoes), introducing computers.				

In the short term, the enterprises should themselves be responsible, whereas in the medium to long term the politicians are mainly expected to take the necessary actions.

Annex I: References

Bericht über die Vormission vom 9.10. bis 13.10.2000 zur Erfassung von Rahmendaten auf der Meso - Ebene (Report on the Pre-mission from 9.10 to 13.10.2000 for the Collection of Overall Data on the Meso-Level)

Book of Rules of Origin of Products - EUR. 1 Movement Certificate, Official Gazette of BiH, Nos. 1/97 & 7/87

Business Guide to Bosnia and Herzegovina, Foreign Investment Promotion Agency

Business Partner Bosnien und Herzegowina, "Ein fruchtbarer Boden für Ihre Geldgeschäfte", herausgegeben von AHK und DIHT (Business Partner for Bosnia and Herzegovina, "Fertile Soil for Your Financial Operations", published by AHK and DIHT)

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МЕСЕЧНИ СТАТИСТИЧКИ ПРЕГЛЕД, РЕПУБЛИКА СРПСКА, РЕПУБЛИЧКИ ЗАВОД ЗА СТАТИСТИКУ

Нацрт закона о удружењима и фондацијама БиХ (Bill on Associations and Funds in Bosnia and Herzegovina)

Porter, Michael E., The Competitive Advantage of Nations, New York, 1990

Regional Investment Forum 2000, Business Association for International Economic Cooperation "Export-Invest", Sarajevo

Schwanitz, Simone and Bender, Katja: Entwicklung von Sektorstrategien zur Modernisierung der Wirtschaft und Erhöhung der Wettbewerbsfähigkeit in den EU-Beitrittsländern, Teil I (The Development of Sector Strategies for the Modernization of the Economy and for the Improvement of Competitiveness in the Countries Applying for Membership in the EU, Part I)

Statistički Podaci o Privrednim/Gospodarskim I Drugim Kretanjima, Statistical Data on Economic and Other Trends, Federal Office of Statistics



Deutsche Gesellschaft für
Technische Zusammenarbeit (GTZ) GmbH

Statistički Godišnjak/Ijetopis Federacije Bosne I Hercegovine, Statistical Yearbook, Federal Office of Statistics

The Monthly Statistical Review, Republika Srpska, Institute of Statistics

USAID Business Development Program Sector Survey on Textiles and Leather, Business Consulting, May, 1998

Annex II: Web Sites Visited

bdi	http://www.bdi-online.de
BMWl	www.bmwi-online.de
BDI	www.bdi-online.de
CIA World Factbook 2000	www.cia.org
Delegation der Deutschen Wirtschaft	www.ahk-bih.ba
EU (in general)	http://europa.eu.int/search
EU & Southeast Europe	http://europa.eu.int/comm/external_relations/see/sap/index
and	
EU (customs)	http://europa.int/scadplus/leg/de/lvb/160022.htm
European Parliament (Introduction Strategy for EU Expansion)	http://europa.eu.int/search/s97.vts
and	http://www.jpanet.net/hot
	www.europarl.eu.int/enlargement/briefings/24al_de.htm
and	
	www.europarl.eu.int/enlargement/briefings/33al_de.htm
and	
	www.europarl.eu.int/enlargement/briefings/35al_de.htm
and	
	www.europarl.eu.int/enlargement/briefings/36al_de.htm
KfW	www.kfw.de
Office of the High Representative (OHR)	ohr.int
Stability Pact for Southeast Europe	www.stabilitypact.org/About.htm
World Bank	www.worldbank.org.ba
Chamber of Commerce of B&H	www.komorabih.com
Chamber of Commerce of the Federation of B&H	www.kfbih.com
Chamber of Commerce of the Republika Srpska	www.pkrs.inecco.net
Central Bank of B&H	www.cbbh.gov.ba/english/statistics.htm

Annex III: Important Laws

State of Bosnia and Herzegovina:

Law on the Policy of Foreign Direct Investment (Official Gazette BiH, No. 4/98)

Federation:

Law on Agency for Privatisation

Law on Business Companies

Law on Privatisation of Enterprises

Law on Privatisation of Banks

Law on Privatisation Investment Funds and Management Companies

Law on Restitution

Law on Enterprises

Law on the Federation Securities Commission

Law on Share Registry

Republika Srpska:

Law on Registered Pledges on Moveable and Shares (Official Gazette R.S. 16/00)

Law on Foreign Investments and Concessions (Official Gazette R.S. -21/96)

Law on the Central Registry of Securities

Law on Opening Balance Sheets in Course of Privatisation of State Capital in Enterprises

Law on Enterprises

Law on Privatisation of State Capital in Enterprises

Law on Privatisation Investment Funds and Privatisation Fund Management Companies

Law on Securities

1793818	19.301	2	"OKO" D.J.L. SARAJEVO	KOŠEVO 12		MILJKOVIĆ AIDA
1796714	19.302	2	D.J.L. "ASK" P.O. BINAČ	GAZI HUSREFIĆEVIĆA 11	077-351-128	SAMIR KUJENKOVIĆ
1796888	19.302	2	"OSIEL" D.J.L. SARAJEVO - LIJUŽA	BLAŽUVSKI DRUM 28		EDEM BALIĆ
1798108	19.301	2	PRERADILICE "ANTILOP" ZAVODNOVIĆI D.O.O.	ZLATNIH LJILJANA 88	072-878-488	POHORIC ESAD
20012412	19.301	2	"NAMIK" D.O.O. ŠIROKI BRLEGI	TRG ŽRTAVA RATA 88	080705-079	TOMISLAV ŠKOKO
21801504	19.301	2	"PRPO-MIP" DOO SA P.O. GINJANICA LUKAVAC	GINJANICA 88	075-571-200	TABAKOVIĆ MUHAMMED
21823108	19.301	2	DOO "ERIKOS" TUZLA	TURAL BEGOVA 22	090-135-434	DREGO KOS
21826336	19.301	2	PRERADILICE "SOLE" D.J.L. VISOKO	TOPUZOVO POLJE 45		ČOŠOVIĆ NUGDIM
21843315	19.301	2	"THEMA" DOO GRADUČAC	VI BATALJONA 88	076-819-425	SARAJLIĆ SALIM
23008241	19.302	2	"VIŠEH KRUG" D.O.O. GORAŽDE	PERISA DUDAREVIĆA 21	073-227-675	HUSIĆER EDEM
211101763	19.301	4	"TACKO" D.O.O. KREJEVO	POLJE 88	088-290-888	
21116782	19.301	4	DO "STANDARD" TUZLA	MUJE KERIĆEVIĆA 181	078-214-987	KAVASOVIĆ FADIL
21215886	19.301	4	"OBUČA" BUGOJNO	BURE SALJAJ 8	072-41-762	HUSOVIĆ ADEM
213021417	19.301	4	"VERONA SISTEMI" MUEŠOVIĆI PODUZEĆE D.O.O. ŠIROKI BRLEGI	PRA GRDE MARTIČA 24	761-188	
220168818	19.301	4	"CONTRA S" D.O.O. NOVI TRAVNIK	KRALJICE KATARINE 88	791-196	JOŠIP NEVEŠTIĆ
21059954	19.301	4	DO "AIDA" TUZLA P.O.	18 HRVATSKE BRIGADE 2	078-271-555	
21060737	19.301	4	"FORTUNA" DO GRAČANICA	INDUSTRIJSKA ZONA 88	078-787-220	MILIĆ FARUK
2110814113	19.301	4	"B I O" D.O.O. ČITLUK	ČERIN B.S.		

Source: Local experts, Federation, Mr. Šošević, Sarajevo, 31.07.2001, Republika Srpska, Prof. Ristić, Banja Luka, 02.08.2001

Current information on active firms is not available. The above list also contains firms that do no longer exist, for example Luxus, Živinice.

Annex V: Terms and Conditions of Selected Banks

Organisation/Institution	Loan Size (000 KM)	Average Interest Rate	Grace Period (months)	Maturity (years)
Investicijska Banka Federacije BiH, Sarajevo				
IKB Zenica	500 max.	1.3-1.5 % (monthly)	-	1 max.
KfW BuH, Sarajevo	10 - 100	12-16 % (yearly)	6 max.	5 max.
Komercijalno Investiciona Banka, Velika Kladuša	1 - 60	2 % (monthly)	1 max.	1 - 3
Kristal Banka, Banja Luka	10 - 2,000	12-14 % (yearly)	-	1 max.
LT Komercijalna Banka, Livno	100 max.	1.75-2.2 % (monthly)	-	1 max.
MEB, Sarajevo	0.5 - 300	1-2 % (monthly)	-	5 max.
Nova Banka, Bijeljina	5 - 500	1.5 % (monthly)	-	1 max.
Privredna Banka, Brčko, Gradiška, Doboj	100 max.	12 % (yearly)	-	1 max.
WB/PSCU - Project Coordination Unit, Banja Luka	20 - 250	9 % (yearly)	6	3
Raiffeisen Bank, Sarajevo	According to Bank's terms	16-18 % (yearly)	-	1 max.
Razvojna Banka, Banja Luka	250 max.	12 % (yearly)	-	1 max.
ŠEH - IN Banka, Zenica	100 max.	0.8-2 % (monthly)	-	1 max.
ABS Banka, Sarajevo	500 max.	1.5 % (monthly)	-	1 max.
AGROPROM Banka, Banja Luka	100 max.	12-18 % (yearly)	6	3 max.
Balkan Invest Banka, Banja Luka	No limit	11 % (yearly)	12	5 max.
Banjalučka Banka, Banja Luka	5 - 1,000	13-15 % (yearly)	4 - 12	5 max.
Bobar Banka, Bijeljina	200 max.	20 % (yearly)	6 max.	1
BOR Banka, Sarajevo	2,200 max.	7.5-20.4 %	24 max.	7 max.
CeBEDA, Travnik	10-50	1% (monthly)	3 - 6	1 - 2
Central Profit Banka, Sarajevo	10 min.	18 % (yearly)	-	1
Depozitna Banka, Sarajevo	500 max.	18-24 %	10 max.	2 max.

Organisation/Institution	Loan Size (000 KM)	Average Interest Rate	Grace Period (months)	Maturity (years)
		(yearly)		
EBRD, Sarajevo	50 - 1,000	Depending on the bank	24 max.	5 max.
Gospodarska Banka, Sarajevo	200 max.	16-24 % (yearly)	-	1 max.
Horizonte Management, Sarajevo	Venture Investment fund - investing directly to companies 500-4,500			4 - 6
IFC, Sarajevo	4,500 min.	Libor + 4-6 %	Depends on credit size	7 - 10
IGA, Sarajevo	2,000 max.	10 % (yearly)	-	1 max.
International Economic Bank, Sarajevo	5 - 500	12-18 % (yearly)	6 max.	5 max.
Travnička Banka	100 max.	1.6 % (monthly)	3 max.	1 max.
Turkish Ziraat Bank Bosnia, Sarajevo	10,000 max.	1-2 % (monthly)	-	5 max.
Tuzlanska Banka, Tuzla	5 - 500	2 % max. (monthly)	-	1 max.
UNA Banka, Bihač	20 - 1,000	Libor + 4-6 %	48 max.	7 max.
Union Banka, Sarajevo	10 min.	14-19.6 % (yearly)	-	1
Universal Banka, Sarajevo	100 - 1,000	2-2.5 % (monthly)	-	1 max.
UPI Banka, Sarajevo	No limit	10.75- 12.75 % (yearly)	-	1 max.
USAID Business Finance, Sarajevo	30 - 1,000	Libor + 4 %	12 max.	3 - 5
Vakufska Banka, Sarajevo	No limit	12-18 % (yearly)	6 max.	3 max.
VB Banka, Banja Luka	500 max.	12 % (yearly)	3	1 - 3
Volksbank, Sarajevo	3 - 4,000	10.25-12 % (yearly)	6 max.	5 max.
Zagrebačka Banka, Mostar	100 max.	13 % (yearly)	-	1 max.
Zepter Komerc Banka, Banja Luka	No limit	15 % (yearly)	-	1 max.