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EVALUATION REPORT

- BiH/97/046

Regional Business Development Centers /RBDC/

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REGIONAL BUSINESS DEVELOPMENT CENTERS

DP/BIH/97/046

Report of the evaluation mission*

Mission members:

**Mr. Richard Temsch, Team Leader, nominee of
UNDP Mr. Mario Marchich, nominee of UNIDO
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I

TABLE OF CONTENTS

	Page
EXPLANATORY NOTES	iii
GLOSSARY.....	i
EXECUTIVE SUMMARY.....	iv
1. INTRODUCTION.....	1

1.1.
1.2.
1.3.
1.4.

Background.....	I
Purpose of the Evaluation	1
Composition of the Evaluation Mission.....	2
Evaluation Methodology.....	2

2. PROJECT CONCEPT AND DESIGN.....	4
2.1. Socio-economic Context.....	4
2.2. Reasons for Assistance from UNDP/UNIDO.....	5
2.3. Institutional Context.....	6
2.4. Project Document.....	6

3. PROJECT IMPLEMENTATION	8
3.1. Establishment of the Regional Business Development Centers (RBDCs).....	8
3.1.1. Entrepreneur Counselling.....	8
3.1.2. Managerial Training8 3.1.3. Capacity Building (Training of business advisors and training of entrepreneurs)	9
3.1.4. Access to Financing	10
3.1.5. Preparation of Business Plans and Loan Applications.....	11
3.1.6. Target Beneficiaries.....	11
3.1.7. Project Inputs and Budget.....	12
3.1.8. Interaction with the Chambers of Commerce.....	12
3.1.9. Interaction with International Agencies, Donors and Banks.....	13
3.1.10. Reporting of the RBDCs' Activities 13 3.1.11. Backstopping and Monitoring by UNIDO and Coordination with the UNDP Office in Bosnia and Herzegovina.....	14
3.1.12. Premises and Equipment.....	15
3.2. Project Results and Achievements	15
3.2.1. Relevance and Management Strategy	15
3.2.2. Effectiveness and Efficiency of the Services Rendered.....	16
3.2.3. Appreciation of the Services Rendered by Clients and Institutions	16
3.2.4. Capacity Building.....	16
3.2.5. Significance and Impact	17
3.2.6. Sustainability, Opportunities and Risks.....	17
3.2.7. Adequacy of Equipment.....	17

4. FINDINGS AND CONCLUSIONS	19
4.1. Background.....	19
4.2. Achievements.....	20
4.3. Sustainability.....	21
4.4. Expandability.....	21
4.5. Challenges	21
4.6. Center Management and Coordination.....	22
5. RECOMMENDATIONS	24
5.1. Recommendations to UNDP.....	24
5.2. Recommendations to UNIDO.....	24
5.3. Recommendations to the RBDCs.....	26
5.4. Recommendations to the Chambers of Commerce.....	27
5.5. Recommendations for Government Programs.....	28
6. LESSONS LEARNED.....	29

Annex I:	Terms of Reference for the Evaluation Mission
Annex II:	List of Persons Met
Annex III:	Detailed Financial Report of the Project as of 31 May 1999
Annex IV:	Information Brochures for Entrepreneurs
Annex V:	Conceptual Framework for the Evaluation

EXPLANATORY NOTES

The official currency in Bosnia and Herzegovina is the convertible Mark (BAM), rate of exchange according to the UN rate, at the time of the evaluation, was:

1 US\$	= 1.8932 cony. Mark (BAM)
100 BAM	= 52.8206 US\$

1 cony. Mark= 1 Deutsch Mark

GLOSSARY

BiH	Bosnia and Herzegovina
CoC	Chamber of Commerce
COMFAR	Computerised Model for Feasibility Analysis and Reporting
CTA	Chief Technical Adviser
EBRD	European Bank for Reconstruction and Development
EDA	Enterprise Development Agency
EU	European Union
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit HQ
	Head Quarter
ILO	International Labour Office
IPTC	International Project Team Coordinator
IRA	International Resident Advisor
ITPO	Investment and Technology Promotion Offices
MIS	Management Information System
NGO	Non-Governmental Organization
PHARE	EU Programme for the Private Sector
RBDC	Regional Business Development Center
RIPTC	Resident International Project Team Coordinator
SME	Small and Medium Enterprise
UN	United Nations
UNDP	United Nations Development Programme
USAID	United States Aid Development Programme
VET	- Vocational and Educational Training
Program WB	- World Bank

v

EXECUTIVE SUMMARY

Conclusions

Bosnia and Herzegovina's economic, social and industrial infrastructures were devastated during the war. The country's transition from command economy to market economy has been delayed. The main objectives of the project "Regional Business Development Programme" are to launch private SMEs and to generate employment by developing entrepreneurial skills. It is crucial to train entrepreneurs in assessing investment opportunities, preparing business plans, identifying credit facilities and filing loan applications. Three Regional Business Development Centers (RBDC) have been established to provide this assistance through the project and were set up at the Regional Chambers of

Commerce (CoC) of Banja Luka, Bihac and Zenica. The RBDC in Zenica replaced the originally planned one in Mostar, which could not be established for operational reasons. This model should be expandable to other regions.

The RBDCs have very successfully focused on getting loans for their clients from international donors. They have contacted almost 1,000 clients and submitted over 200 loan applications. Almost 100 applications have been approved for a combined amount of about DM 9.5 million. Nearly 400 jobs have been generated (about 40% for women). The financial and donor institutions find unanimously that the loan applications submitted by the RBDCs were very professionally drafted. Some donors and financial institutions have informed the evaluation team that they would now, even when they apply to them directly, refer loan seekers to the RBDCs.

The RBDCs have not yet started to charge for their services, but business consulting appears to be a sustainable activity in BiH. The degree of sustainability that can be reached is a matter of proactive client acquisition. In the near future the demand for consulting services is going to rise because of the imminent privatization of state enterprises on a large scale.

The cooperation between the RBDCs and donors has significantly facilitated access to international credit lines for SME owners, but many problems remain to be solved. Some donor organizations operate only in certain parts of the country. No major credit lines are available for startup businesses. Many entrepreneurs cannot provide the required collateral, which is in some cases excessive, for the loan. The provision of free consulting services is distorting the market.

A non-resident part-time team coordinator, assisted by International Resident Advisors (IRA) for each RBDC has managed the Project. The supervision of the International Project Team Coordinator (IPTC) was not sufficient, mainly because he was not continuously present in the country. This has caused problems for the project management and implementation, including the non-uniform manner of operation and reporting of the three RBDCs. During the six months project extension in 1999, which was essentially aimed at reaching the RBDCs' sustainability, the IPTC visited Bill only three times for a total of 24 days and could not sufficiently guide the RBDC staff towards this objective. Therefore, no major efforts were made towards the early registration of the RBDCs as legal entities, which turned out to be a prerequisite for being entitled to charge fees to clients. The RBDCs were only registered shortly before the expiration of the project extension, in one case one the very last day of the Project. Closer supervision should also have made the IPTC aware of the substantial progress towards sustainability, which the EDAs of the UNDP/ILO projects made during the same period of time by organizing training courses and charging them to donors or clients and even becoming the fund

managers for a EU sponsored revolving loan. The RBDCs could have taken a similar approach and revised their Memorandum of Understanding with the ILO Project, thus avoiding to leave the organization of most training courses on subjects, related to the RBDCs' activities, to the ILO Project.

The communication between UNIDO HQ and the UNDP Office in Sarajevo was not

satisfactory, because - according to UNDP - UNIDO did not directly answer complaints about the project management and reporting, but delegated the reply to the IPTC. The IPTCs comments were sometimes evasive, and certain documents, which he promised would be provided, apparently were never received by UNDP, e.g. the budget utilization and underlying reports or the reports of two International Experts as pledged in the IPTC's letter of February 18, 1999 to UNDP.

Some IRAs have not been optimally selected. Not all of them had adequate job experience. The job descriptions for the national staff members were not carefully prepared, since all job descriptions for team coordinators and business advisors were identical, though the actual duties were different. For example, not everybody at an RBDC should be responsible for the staffing table. The technical supervision was in some cases missed due to the IPTC's absence. A permanent resident International Project Team Coordinator could have ensured better coordination.

The evaluation team concluded that the Project has been successful and has reached its development and immediate objectives, in spite of some shortcomings.

The project has contributed to the process of transformation of the regional institutions into viable private sector institutions, offering a range of important services to the members of Entrepreneurs' Associations, banks and donors.

RECOMMENDATIONS

Based on the present findings, the evaluation team recommends to consider the following measures, should the project be continued or a new phase be envisaged, otherwise the money spent for the project and the built capacities in terms of staff and facilities would likely be lost. This is the most important issue, because in this project have been spent around US\$550,000 for personnel costs (US\$266,000 for international staff, US\$239,000 for national business advisors and US\$39,000 for administrative support staff). Without further temporary support all the capacities developed are in jeopardy.

The evaluation mission was not briefed at its start that there were no longer funds available for a further extension of the project. The fact that the extension granted was mainly to allow the RBDCs to register and so be able to act as entities totally autonomous from the project as of July 1999, was communicated only at the Tripartite Review Meeting in Sarajevo at the end of the evaluation mission on July 14, 1999 and was also not understood by the RBDCs' staff prior to this meeting. In view of the difficult situation in BiH after the war, the continuation of the Project is desirable in order to reinforce the existing structure and create new RBDCs in other regions.

The RBDCs should draft a suitable fee structure for their services and offer training in management, language, accounting and computer use. The courses could be charged to clients or be subsidized and financed by donors. The RBDCs should offer their services as fund managers to donors.

In the future, the RBDCs should diversify their services into areas such as legal counselling, accounting, tax advising, translating, export consulting, feasibility studies, risk assessment. Training of bank staff

in project appraisal and evaluating loan applications should be considered.

The new management of the Project, in consultation with UNDP and other donors, should seek improved access to credit facilities for start-up businesses. For the sustainable

territorial expansion of the project it is crucial to carefully select the locations and potential partners. The economic infrastructure of the regions deserves attention.

The most important improvement to be made is recruiting a full-time Resident International Project Team Coordinator (RIPTC) for Bosnia and Herzegovina. He should be experienced in managing international projects, assisting private SMEs, training for starting entrepreneurs, preparation of partnership agreements with foreign companies, project appraisal, drafting of business plans and loan applications. He should harmonize actions and reporting of the RBDCs, select key personnel, brief all staff members about duties and obligations, train staff members, promote RBDC products, facilitate cooperation with UNIDO's Investment and Technology Promotion Offices (ITPO) network to help clients find business partners abroad. For this purpose the list with addresses of all Investment Promotion Offices of the UNIDO network should be distributed to the RBDCs in order to allow them to contact these Offices presenting the partnerships which could be offered to industrial entrepreneurs of industrialized countries. The Center in Zenica has prepared an interesting booklet indicating the opportunities for investment and partnership in various fields of the industrial and service sector. The other RBDCs could do the same.

Local International Resident Advisors (IRA) are not necessary, except for the initial technical training of the national staff. Qualified National Team Coordinators should replace them at the expense of the RBDCs' budgets. An International Junior Expert with related job experience, stationed in Sarajevo, should be appointed to assist the RIPTC.

UNIDO HQs should revise its methods of communication and project supervision. In particular, it is highly desirable that UNIDO HQs answers directly to UNDP when UNDP has complaints about the project management or asks for financial accounts.

UNDP should carefully brief all staff members on their duties and obligations in regard to security issues.

The job descriptions for the international staff and the national staff must be properly written. They should indicate the duties and required qualifications of each individual. National staff should be better trained in regard to sustainability issues. For example, the difference between profit and cost recovery should be explained.

International staff should have several years of experience related to SME development. This was not always followed in the recruitment for the Project.

In the case of a new phase of the Project, the new budget should provide a car for each RBDC. This will enable them to visit their clients more frequently and plan their schedule in a more efficient way. It is recommended to supply additional facilities for training courses and presentation purposes.

Background

The project DP/BHV97/046, Establishment of Regional Business Development Centers (RBDC) in Bosnia Herzegovina, was signed in August 1997 and started its activities in December 1997 with the training of 36 persons suggested by the Chambers of Commerce for the position of Business Advisor. At the end of two week training 12 persons were selected (four for each RBDC). At the beginning of January 1998 the RBDCs started their activities in Bihac, Banja Luka and Zenica.

The aim of the project was to establish in each town a consulting and service center to train private small and medium entrepreneurs in various business skills and assist them in identifying and analyzing and new business opportunities and in preparing, financing and implementing business plans. These services were meant to be free of charge in the initial phase of the Project, but subject to fees at a later stage. After the end of the war in 1996, Bosnia and Herzegovina has been developing more and more a market economy. The privatization programme for state owned enterprises has been approved by the government and should start in the second part of 1999.

Using their direct contacts with the private sector, the RBDCs are expected to provide useful information to institutions, including Chambers of Commerce, donors and banks, and to facilitate a supportive environment for private entrepreneurship. UNIDO has been selected as executing agency for the implementation of the project.

The duration of the original Project was one year. Subsequently, the Project has been extended: first for two months and then for another four months till the end of June 1999. One key objective, according to paragraph 3 of the Document for the Extension of the Project of 16 February 1999 (revised version of 25 February 1999), was to "fully integrate the RBDCs into the respective Chambers of Commerce, which would require to set up the RBDCs as agencies of the Chambers of Commerce". This directive was followed only in Bihac.

Another main reason for this extension was to allow the RBDCs to reach self-sustainability. The minutes of the Tripartite Review Meeting of 1 December 1998 mention in point 3.4 that "A clear strategy to ensure the sustainability of the project should be developed as a matter of priority". However, no explicit reference was made in this point that the RBDCs had to be registered as legal entities to be allowed to charge for their services. The Document for the Extension of the Project of 16 February 1999 (revised version of 25 February 1999) does refer to this point in 5.1 by demanding "Clarification of the legal position, including the registration of the Centers". The evaluation mission, however, concludes that the RBDC staff did not understand the high priority of the issue.

The joint in-depth evaluation was requested by UNDP, because UNDP wants to evaluate all its projects, which are terminating this year. Based on the evaluated achievements of all programmes and on the needs of the Country, UNDP will formulate its future programme for the Country. The evaluation was also envisaged in point 3.6 of the Conclusions of the Tripartite Review Meeting of 1 December 1998. UNDP has no more resources to commit for this year for the Project.

2

1.2. Purpose of the Evaluation

A description of the tasks of the evaluation mission are described in the Terms of Reference (Annex I). The primary purposes of the in-depth evaluation are:

To identify and assess the factors that have facilitated or impaired achieving the

Project's objectives; particularly, to assess the implementation of the measures foreseen at the Tripartite Project Review Meeting of 1 December 1998.

To determine which lessons have to be learned from the experience of the Project, in order to improve the project activities in a possible further phase, with particular regard to the operations of the RBDCs and their ability to become financially self-sustainable by charging for their services.

The mission has also reviewed whether the approach used in the project has led to optimum results, or if better results could have been reached by a different approach.

1.3. Composition of the Evaluation Mission

The persons nominated to conduct the evaluation should not have been directly involved in the design, appraisal or implementation of the project. Their observations and findings are the results of the in-depth evaluation carried out in their own capacity. The views and opinions of the team do not necessarily reflect the views of UNDP/UNIDO or the Government of Bosnia and Herzegovina.

The mission was composed of the following members:

Mr. Richard Temsch, Independent Consultant, President of the Missing Link International Consulting Corporation in San Francisco, USA, Representative of UNDP and Team Leader

Mr. Mario Marchich, Evaluation Officer, Office of Internal Oversight, Representative of UNIDO

Mr. Ibro Cengic, Senior Expert Advisor, Ministry of Foreign Trade and Economic Relations, Representative of the Government of Bosnia Herzegovina.

The mission started its work on Monday, 5 July 1999, in Sarajevo with a first meeting at the UNDP office. Ten days were allowed for meeting UNDP staff and Bosnian entrepreneurs, interviewing representatives of the Government and of the Chambers of Commerce, staff of banks and financial institutions, visiting the three RBDCs in Banja Luka, Bihac and Zenica and discussions with their staff. The list of persons met and institutions visited is in Annex II.

The preliminary findings were presented by the evaluation team to the UNDP Office in Sarajevo during the Tripartite Review Meeting on 14 July 1999 and in Vienna at UNIDO Headquarters on 22 July 1999 to the Project Manager (Backstopping Officer), the Area Officers and to the First Secretary of Bosnia and Herzegovina in Vienna, Mr. Nedžad Rajkovic.

1.4. Evaluation Methodology

A questionnaire on client appreciation of services has been completed by the RBDCs, based on the answers received by approximately 200 clients, which can be considered a representative sample size. The mission has given priority to meetings with entrepreneurs/clients/end-users, representatives of Federal and Local Governments, representatives of business associations, staff of banks and financial institutions/donors, staff of the Chambers of

Commerce of four Regions (including Sarajevo), apart from discussions with the project staff and the local business advisors. The data derived from the Management Information System of the Project, the completed questionnaires, the interviews and the evaluators' own observations provided the mission sufficient insight in the achievements of the project to accomplish the evaluation.

The conceptual framework utilized for the evaluation is in

Annex V. 2.PROJECT CONCEPT AND DESIGN 2.1. Socio-economic Context

The economy and infrastructure of Bosnia and Herzegovina were enormously destroyed during the three and a half years of war.

The Urgent Recovery and Reconstruction Programme for Bosnia and Herzegovina, which started immediately after the signature of the Dayton Peace Agreement with technical assistance and financial support of the International Community, faced several challenges in the Country. Among the most important were:

Reconstruction of industrial production capacities

Completion of the process of transition from state planned to market economy, including the privatization process and the consolidation of the private sector in the country

Establishing new and re-establishing old economic and trade links of BiH enterprises with foreign partners

Solving various problems of the displaced population inside the country and returned refugees from abroad, particularly their accommodation and the problems connected with their unemployment. Reestablishment of jobs in recovered industries and in the service sector, and creation of new employment, mainly in industrial manufacturing sector.

Actually, the Project "Regional Business Development Centers" was performing in such socioeconomic environment, which had a significant impact on its implementation.

For the first period (1996-2000) of the Urgent Reconstruction Programme, the international donors estimated the financial needs for the country at US\$ 5.1 billion, which were pledged at four Donor Conferences for Bosnia and Herzegovina held in Brussels (Belgium).

The international financial and technical support to Bosnia and Herzegovina in the process of its economic recovery and reconstruction has focussed on emergency reconstruction and on the employment programme. The aim was to address the most essential needs of the population and was mainly directed to the infrastructural sector (over 80% donor funds have been spent there), which was logical due to the enormous destruction of this sector during the war and its priority for the Country.

This was the reason why during the last three years of the BiH economic reconstruction process, there was not enough financial donor support for the development of the industrial sector. Particularly privately owned micro and small industries and new private business beginners were not enough assisted with convenient loans.

In such socio-economic environment with significant political influences and complicated decentralized structures of governmental institutions at various levels, the Project was faced with the following specific issues:

The distribution of international funds for loans for private sector development support was very different from region to region,

Generally, few small loans with acceptable repayment terms and conditions were provided for new businesses and expansion of existing businesses, particularly in the industrial sector.

Little foreign direct investment in the country's industry due to late start of the privatization process.

2.2. Reasons for Assistance from UNDP/UNIDO

In the first Country Cooperation Framework for Bosnia and Herzegovina of December 1996 for the Country's transition to sustainable development, UNDP decided to establish its focus on projects designed to assist the local capacities in building up their infrastructure to start the transition from the reconstruction phase to development.

The cooperation framework established by UNDP concentrated on the support to sectoral reconstruction programmes, policy advisory support, upgrading of local human resources and promotion of external resources for development.

During the last thirty years UNIDO has accumulated a lot of experience in the preparation of investment studies and has elaborated a practical methodological approach for the development of the SME sector. This methodology contains comprehensive guidelines on how to prepare industrial feasibility studies, how to approach investment in small and medium sized businesses, economic analysis of investment projects and computer software.

UNIDO has also developed training programmes to prepare the end-users to the utilization of these methodologies, which are aimed at different groups of clients (consultants, entrepreneurs, banks and financial institutions, experts in investment promotions, etc.).

As response to the post-emergency assistance to Bosnia-Herzegovina UNIDO prepared a project proposal for "Preparation Facility for Small and Medium Enterprises," which is the basis of the Project

Document of this Project and was also indicated as top priority by the Ministry of Foreign Affairs.

Bosnia-Herzegovina has several donors for reconstruction finance facilities and for training of small entrepreneurs and bank staff on business management, business development, loan application and privatization.

UNDP initiated a preparatory assistance to expand the geographical coverage of technical assistance to private SMEs to provide equal opportunity and training for access to credit for entrepreneurs outside of the regions of present concentration. This UNIDO

executed project is a continuation of the UNDP preparatory assistance and has for objective the establishment of a network of three Regional Business Development Centers with trained staff for providing consulting services, project appraisal, business plan development and loan applications.

The initial plan was to have these Centers integrated in the Regional Chambers of Economy and Commerce in Bihac, Banja Luka and Mostar. However, for operational reasons it was decided to substitute Mostar by Zenica.

It was foreseen in the Project Document that the services provided by the Centers would have been initially free of charge and afterwards on a cost recovery basis as the enterprises become settled and able to pay for the services received. This way the Chambers could continue to expand these services as self sustained operations. Acquiring such facilities will allow the Chambers to progress on the way to represent private sector interests.

2.3. Institutional Context

In accordance with Dayton Peace Agreement decisions and the agreed Constitution frame for Bosnia and Herzegovina, institutionally this country consists of two Entities: Federation of Bosnia and Herzegovina and Republika Srpska. The Region of Brcko (Northern Bosnia) is in the process to be institutionally organized as a District, directly linked with state institutions. Both Entities have their Governments with relevant Ministries.

The State institutions are:

The Presidency of three members (Bosnian, Croat, Serb),

The Council of Ministries (in function as Government) consists of three Ministries: the Ministry of Foreign Affairs, the Ministry of Foreign Trade and Economic Relations and the Ministry of Civil Affairs and Communications.

The Ministry of Foreign Trade and Economic Relations is in charge, on behalf of the Council of Ministries, for the foreign economic relations and coordination of economic reconstruction programmes and projects financed by the international community on multilateral or bilateral levels.

All Agreements for the implementation of the internationally pledged funds and technical assistance for programmes and projects in Bosnia and Herzegovina are concluded at multilateral level between international and regional organizations and financial institutions (WB, EBRD, EC, UN programmes and agencies) or on bilateral level (USAID, GTZ and others) with the Bosnia and

Herzegovina State Level Authorities (Council of Ministries, or relevant Ministries).

For the implementation of the donors' financial sources (grants and long term loans) through the programmes and projects for Bosnia and Herzegovina, the state level institutions have concluded subsidiary agreements with the Entities' Authorities (the Governments or relevant Ministries).

For the implementation of grants or loans on regional level, any donor can conclude direct contracts with the beneficiary.

The Project BiH "Regional Business Development Centers" was approved and the Project Document signed by Ministry of Foreign Trade and Economic Relations. The Ministry is the cooperation partner and the beneficiary of the Project, UNDP is financially the Project Owner and Coordinator, and UNIDO is the Executing Agency for the Project implementation.

2.4. Project Document

The Project Document was signed in July 1997 and the operations started in the end of 1997. The target beneficiaries of the project were the communities based in Bihac, Banja Luka and Mostar. As mentioned before, Mostar was later replaced by Zenica for operational reasons.

The ultimate target beneficiaries and end-users of the project have been the entrepreneurs and private SMEs, which had access to support facilities for preparing business plans, cash flow projections and applications for loans from available credit lines. Additionally, potential entrepreneurs with good ideas received training, which allowed to further increase the number of bankable projects.

The main objective of the project was to establish three well-staffed Business Development Centers to enable entrepreneurs to initiate their own business or to develop existing enterprises.

Considering that Bosnia Herzegovina was coming out of a war and starting its transition from a state planned to a market oriented economy, counselling to private entrepreneurs was considered of great importance to help the development of the private sector.

According to the last detailed financial report on the project at 31.5.1999 (Annex III) the total allotment is US\$681.812. Out of this amount US\$467.745 have been spent in 1997 and 1998 and US\$52.188 have been actually already disbursed this year. US\$ 143.604 have been already obligated this year, which makes a total of US\$663.537, already spent or obligated at the end of May 1999.

The project document indicated that "staff salaries will be paid by the project for the 1-year duration of the project".

The project strategy has been designed to strengthen such capabilities within the existing institutional infrastructure of the Regional Chambers of Economy and Commerce to ensure the Centers' continuation and the sustainability of their activities once the project is completed.

The strategy of the project was also to provide training of national trainers, drawn from the staff of Economic Institutes, to train the staff of the RDBC's as well as individuals, who might become private business consultants. However to achieve results quickly, it was decided to provide the training of the RDBC's staff directly by UNIDO recruited experts. This has been accomplished in an intensive

training course of four weeks.

3. PROJECT IMPLEMENTATION

3.1.Establishment of the Regional Business Development Centers (

RBDCs) 3.1.1. *Entrepreneur Counselling*

The three RBDCs have focussed on preparing business plans and applying for loans from international donor organizations for their clients. The success rate in getting loans approved has been impressive. This is a result of the RBDCs' high competence in preparing business plans and loan applications. According to staff, the average amount of work invested by an RBDC is ten days per business plan. The clients have been referred to the RBDCs by banks, donor organizations, including USAID, CoCs, government bodies and fellow clients.

Many clients expressed their satisfaction with the RBDCs' staff members work in appreciation letters. Hardly any of the clients had ever drafted a business plan before. When the mission asked some of them in the interviews if they had gained skills by working with the RBDCs, some said that they could now easily draft a business plan or file a loan application on their own.

The clients, however, often did not know which donor approved their loan. Especially in the Federation, as opposed to Republika Srpska, their counterparts have been the commercial banks, which act as agents and do the initial screening for the donors. Usually the bank decides which credit line to use. In the Republika Srpska the initial screening is done by a government agency, the Republika Srpska Reconstruction Assistance Project Coordination Unit.

Besides counselling on an individual basis, the RBDCs have done market studies and published information material on marketing, financial and legal issues for their clients.

The RBDC in Banja Luka published brochures on "Available Credit Lines For SMEs in Republika Srpska" and "The Regional Business Development Center Banja Luka."

The RBDC in Bihac did two studies on "The Financial Market in the Una Sana Canton" and "The Tourism Potential Of The Una Sana Canton." Besides, it published an "Informative Brochure For Entrepreneurs" in English and Bosnian languages (Annex IV).

The Zenica RBDC published and distributed four brochures on "My Company And How To Be Registered", "Existing Credit Lines In The Ze-Do Canton", "Business Plan" and "How To Get A Bank Loan."

3.1.2. *Managerial Training*

The RBDCs have organized training courses and held seminars, but only on a very limited scale and free of charge. In Bihac and Banja Luka this is due to a Memorandum of Understanding, signed by the International Project Team Coordinator of this Project and the Representative of the UNDP funded and ILO executed project EDA Project (Enterprise Development Agency). According to this Memorandum the RBDCs will focus on drafting business plans and loan applications for entrepreneurs, while the EDAs would organize training courses.

This turned out to be a promising business for the EDAs. Some international donor organizations are seeking training capacities for their clients and are willing to pay for the service. Clients are also willing to pay, especially for English courses. The unemployment rate in BiH is already high. Currently, some 700,000 are out of work. This number is likely to increase when major state owned enterprises will be privatized. Training is the best chance for the unemployed to find new jobs.

The EDA in Banja Luka has trained hundred entrepreneurs since January 1999. The first ten days they received education in drafting a business plan, then they got five days of computer training. The average number of participants was fifteen in a class.

The EDA in Bihac started in February 1999 a long term seminar on Improving Entrepreneurial Skills. The duration of the course was 234 hours over a period of five months. It included also English lessons and computer training. 18 persons participated. Another program was aimed at potential entrepreneurs in different cities of the Una Sana Canton and had three groups with 80 participants in each group. The courses have been financed by international donors, such as the Phare Vocational and Educational Training Program (VET), which funded three of the EDA's courses. Another potential donor for EDA courses - negotiations are conducted now - is the EU's OBNOVA **Fund** for Quick Impact Facilities. Currently EDA Bihac is holding an English course for 16 participants, who paid DM 350 for 70 hours of teaching programme.

The RBDC in Banja Luka organized a seminar on "Marketing For SMEs". The RBDC in Bihac held three seminars on Financing Alternatives For SME Development" (May 12/99, 16 participants), "Empowering Entrepreneurial Skills" (May 27/99,14 participants) and "Marketing For SMEs - Basic Elements" (June 8/99, 15 participants).

The RBDC in Zenica held two training sessions on "Existing Financial Solutions And How To Get Them" and "Business Plan" and three courses at the Sarajevo CoC on " Pre-Start-Up Of A Business", "Start-Up Of A Business", and "Business Plan". The total number of participants in these five courses was about 100.

3.1.3. Capacity Building (Training of business advisors and training of entrepreneurs)

Most of the training activities of the RBDCs have aimed at the training of the 12 business advisors. They have been initially trained by two international experts recruited by the project.

These experts spent few weeks in each established Center. After a while the RBDCs started organizing free of charge, one day seminars for members of the Associations of private entrepreneurs, employees of the Chambers of Commerce, Municipal associations, staff of banks.

All together the RBDCs have organized 13 seminars divided as follows:

Banja Luka		
Subject	Date	Participants

Available credit lines and applying for loans	July 1998 August 1998	39 48
(Divided in two sessions due to the high number of participants)		
Venture funds	November 1998	12
Available credit lines and applying for loans(in district Doboj)	March 1999	57
Available credit lines and applying for loans(in district Sipovo)	May 1999	35

Bihac		
Financing for SMEs	May 1999	16
Entrepreneurial skills	May 1999	14
Marketing for SMEs	June 1999	15

	Zenica	
Existing financial sources and how to access	February 1998	40
Business plans	June 1998	17
Pre start-up of a business	May 1999	11
Start-up of a business	May 1999	11
Business plans	June 1999	20

In the above tables are not included workshops and conferences in which staff of the Centers have participated. Moreover the staff of the RDCBs has spent substantial time on papers, informative brochures and studies on financial markets and investments, which have been utilized by the banking community and donors.

3.1.4. Access to Financing

In all countries of Central and Eastern Europe, which have gone through the transition from command to market economy and through a major privatization process of the government owned and operated industry, project funding is the core challenge. In Bosnia and Herzegovina this problem was exacerbated by the war, which destroyed so many public and private assets. The SME sector has always been existing in the Country but has been rapidly growing after the war and during the transition of the economy. Therefore, many beginning entrepreneurs are competing for financing with already operating businesses.

The Government of Bosnia and Herzegovina, with the support of the international community

has installed a system of mainly international loans and grants. The structure of this system consists of donor organizations, commercial banks and government agencies. Donor organizations are international organizations, governmental organizations of BiH and other countries and NGOs. In most cases, the donor organizations work through commercial banks, which act in some cases only as agents and do not bear any loan risk. They receive a commission of, e.g., 2% of the loan amount for their services. In other cases they have to

guarantee for the loan applicant and get usually a higher percentage as a commission.

The largest donors are USAID and the World Bank. USAID has provided about 60% of all private industrial investment capital, a total amount of DM 280 million over the last three years. Initially, USAID dealt only with applications for more than DM 200,000. Now, the minimum is about DM 30,000. Typically, USAID loans have to be paid back within four years. According to the information received, the default rate has been in the range of 25%. USAID pays the banks for processing the loan applications and therefore does not allow the banks to charge the clients, too. However, in a significant number of cases bank employees have offered their consulting services privately to loan applicants for a fee of some DM 2,000 and more, which created a conflict of interest. USAID loans are only available in regions, where US troops are stationed.

The World Bank has provided about DM 130 million in loans, most of which were between DM 25,000 - 250,000.

Other donors include KFW (Kreditanstalt für Wiederaufbau, Germany), GTZ (Gesellschaft für Technische Zusammenarbeit, Germany), Care International, the Turkish Government Credit Line, Sinergija, Plavi Most and the Ministry of Finances (BiH). Some of these organizations also give loans to start-up business, a practice that is not shared by USAID or the World Bank. However, scarce investment capital for starting entrepreneurs and excessive collateral requirements are the most serious obstacles for establishing a new business in BiH. A few donors provide also grants (ICMC, Local Mission from Strasbourg, SFOR-DFID).

3.1.5. Preparation of Business Plans and Loan Applications

For all RBDCs the highest priority has been finding funds for their clients' businesses. Therefore, they consulted many small and medium entrepreneurs and assessed their projects. For viable projects the RBDCs' staff spent in average ten days per case to prepare a business plan and apply for a suitable loan. About half of the loans applied for were granted and most of those have been already disbursed.

The RBDC in Banja Luka had 384 initial contacts with clients and prepared and submitted 56 loan applications, 25 of which have been approved for a total amount of DM 2,650,988. Of this amount, DM 1,930,988 has been disbursed already and generated 182 new jobs, including 83 for women. At present 21 more loan applications for DM 2,232,735 are being examined by the banks.

The RBDC in Bihac had 156 initial contacts with clients and prepared and submitted 66 loan applications, 26 of which have been approved for a total amount of DM 3,124,700. Of this amount, DM 1,044,700 has been disbursed already and generated 55 new jobs, including 15 for women. At present 23 more loan applications for DM 2,066,000 are being examined by the banks.

The RBDC in Zenica had 456 initial contacts with clients and prepared and submitted 98 loan applications, 42 of which have been approved for a total amount of DM 3,700,316, all of which has been disbursed already and generated 144 new jobs, including 57

for women. At present 56 more loan applications for DM 3,546,940 are being examined by the banks.

3.1.6. Target Beneficiaries

The main beneficiaries of the project have been the communities of Bihac, Banja Luka and Zenica. The project has contributed to the process of transformation of the regional institutions into viable private sector institutions, offering a range of very important services to the members of entrepreneurs associations, banks and donors. The end users have been entrepreneurs, private SMEs, banks, donors and Chambers of Commerce in the targeted regions, which through the projects have had access to support facilities for identifying investment opportunities, preparing business plans, cash flow projections and for applying to available credit lines through properly and professionally prepared application.

Furthermore, through the, although limited, training activity of the centers several new potential entrepreneurs have been trained in investment identification, which has increased their capacity to provide ideas for bankable projects. However, the assistance to start up entrepreneurs has been limited due to extreme scarcity of financing possibilities for this category of businesses.

3.1.7. Project Inputs and Budget

In the project document the budget of the project was US\$ 483.000, entirely financed by UNDP for execution through UNIDO. The foreseen duration was of one year. Since the institutional beneficiaries, the government representative, the regional Chambers of Economy of the towns hosting the three RDBC's, as well as several clients (end users) requested a further extension, the project was first extended till 28 February 1999, because it did not start effectively its operational activities before March 1998, and then for four additional months, i. e. till end June 1999.

This further extension was decided at the Tripartite Review Meeting which took place in Sarajevo on 1 December 1998. Such an extension was granted to accomplish the integration of the RDBC's into the respective Chambers of Economy and to allow the RDBC's to register as legal autonomous entities in order to be able to charge fees for business plans and other services rendered.

The integration with the Chambers could not take place during the first year of the project because the local Chambers were not ready to integrate the centers, being themselves in a situation of reorganization and transition and also because the initial document of the project did not exactly consider the time necessary to implement this process.

The evaluation mission has ascertained that the real reason for the extension was not fully understood by the staff of the project and the non continuous presence in the country of the CTA contributed to this misunderstanding.

The total budget of the project for this four-month extension had only minimal revisions in respect of the original budget. An increase of 10% was made to adjust the salaries of the international experts, since they received lump sum contracts, which did not completely cover travel and

accommodation. Local salary were not adjusted. Some minor adjustments were done for travel of Government Officials, for repairs and maintenance of the equipment and for the rent of the office of the centre in Zenica, because the Chamber of Economy already anticipated its need for having back the premises due to a cooperation initiated with other European Chambers. In total to cover the fourmonth extension the budget was increased by US\$198.812, around 41% of the initial budget.

3.1.8. Interaction with the Chambers of Commerce

The Federation consists of ten regions called Cantons, after the Swiss model. Seven Cantons have CoCs. They are independent NGOs and there is no CoC for the whole Federation. As a result of the Dayton Agreement, there is a CoC for the whole country (Federation and Republika Srpska) foreseen, but it has not yet been established. Republika Srpska has four Regions, each of which has a CoC. They are subsidiaries of the CoC of Republika Srpska, which is a governmental organization and has its seat in Banja Luka.

Only in Bihac the RBDC has been registered as an agency of the CoC, as envisaged in the Project Extension Document of February 16, 1999. The other two RBDCs have been registered as "Citizens' Associations", a type of NGO. Most RBDC staff members were either recommended by the CoCs or worked at the CoC before they were hired by the Project. **In** two cases staff members work still part-time at the CoC.

Although some cooperation between the RBDCs and the CoCs exists and the relations are good in general, the impact of the RBDCs on the transformation of the CoCs (towards providing better assistance to SMEs) seems very limited. This does not mean, however, that the CoCs themselves would not make efforts for this transformation. In Zenica the RBDC had to vacate its office on the CoC's premises after the expiration of the initial agreement, because the CoC needed for cooperation projects with other European CoCs. These projects are simply more important for the Zenica CoC, but the evaluation mission has been credibly assured by the CoC's vice president that the Chamber hold the RBDC in high esteem and wishes to further cooperate with it in the future.

In general, most of the cooperation between the CoCs and the RBDCs consists of mutual referral of clients, joint participation on trade shows and translation services, provided by the RBDCs for the CoCs.

3.1.9. Interaction with International Agencies, Donors and Banks

Several international donor organizations, governments of other countries, NGOs, financial institutions, agencies for cooperation and private consortia have established credit lines to promote private enterprise development. However, at the local level very little information, education and preparation was available to help potential entrepreneurs benefit from the opportunities offered. The RBDCs have effectively contributed to disseminate this information.

All clients and organizations interviewed rated the RBDCs very high and said that they had improved their business skills because of the RBDC's managerial training and support in drafting business plans. A significant number of clients could get their loan applications approved, which were drafted by the RBDCs.

The financial and donor institutions that were contacted by the evaluation team (USAID, Agroprombanka, Universal Bank, Project Coordination Unit for International Credit Lines of Republica Srpska) said unanimously that the loan applications submitted were far more professionally drafted than most others. Many banks, donor organizations, CoCs and government bodies clients are now referring their clients to the RBDCs. One branch manager of a commercial bank said that not only would the RBDCs draft the best business plans, but their staffs skill in evaluating application would also exceed the capabilities of the bank's loan managers at the branch office.

3.1.10. Reporting of the RBDCs' Activities

The RBDCs have developed considerable presentation skills and used for reporting purposes the newest available software programs. Their presentations and reports look in general quite professional. However, careful reading has often shown inconsistency of facts and numbers and some charts and representations were inaccurate, not relevant or misleading.

The problem, which has been most common and least understood by the RBDC staff, is the non-uniformity of the reports. Every RBDC has its own particular way in describing facts listing numbers in tables. They use different terminology and different categories for activities and results. E.g., the evaluation team found great confusion of terms, such as loans processed, loans granted, loans obligated, loans disbursed, loans paid, etc. This non-standardized approach of reporting made it difficult and time consuming to understand and compare the reports from the RBDCs.

It seems that the lack of continuous availability of and monitoring by the International Project Team Coordinator has caused the non-uniform manner of reporting of the three RBDCs. The evaluation mission also concludes that the training of the RBDC staff in report writing was not sufficient and the instructions not clear enough.

3.1.11. Backstopping and Monitoring by UNIDO and Coordination with the UNDP Office in Bosnia and Herzegovina

The supervision of the International Project Team Coordinator's activities does not seem to have been sufficient. The communication between UNIDO HQ and the UNDP Office in Sarajevo was not satisfactory either. According to UNDP staff, inquiries about the progress of the Project, addressed directly to UNIDO HQ, were usually answered by the International Project Team Coordinator instead. The explanations were often evasive and questions remained unanswered. Requested reports were promised to be sent at a later time but apparently never received by UNDP. For example, when UNDP wrote a letter to UNIDO on February 1, 1999, with critical comments and questions regarding the "Progress and Final Report of December 1998", the International Project Team Coordinator answered on February 19, 1999, on behalf of UNIDO. The explanations were evasive and several questions remained unanswered. The letter promised that UNIDO HQ would send certain requested mission reports of international experts and answers regarding the budget utilization to UNDP. UNDP avers that these items have not been received as yet.

Some IRAs have not been optimally selected, since not all of them had adequate job experience for the project. A young professional without matching working experience is not an appropriate choice. Many local staff members were not really selected according to the job description and in singular cases the educational and professional background of local staff members had no relevance

The job descriptions for the national staff members were not carefully prepared. As far as it could be verified, Business Advisors and National Team Coordinators had the same job description regardless of their different functions. In all job descriptions for Business Advisors and National Team Coordinators "establishing of office premises and preparation of the staffing table" were listed as duties. These tasks should have been charged to the International Project Team Coordinator instead.

The technical supervision has been judged by the RBDCs' staff as sufficient, but in some cases was missed when needed. A permanent resident International Project Team Coordinator could have ensured better coordination with the UNDP office, which has not been regularly informed on the whereabouts in BiH of the International Project Team Coordinator and of other staff members.

The initially signed Project Document envisaged the establishment of an RBDC in Mostar. Instead, an RBDC was set up in Zenica, due to the impracticality of the original plan because of political differences between the two rivalling CoCs in Mostar and the resulting lack of cooperation. The evaluation mission finds the alternative solution justified. However, during the presentation of the findings and recommendations of the evaluation at UNIDO HQ on 22 July, 1999, the First Secretary of the Embassy of Bosnia and Herzegovina to the Republic of Austria criticized this decision and said that overcoming such complications and fostering integration and cooperation in the Country should be part of the agenda of UNDP and UNIDO.

3.1.12. Premises and Equipment

In view of the fact that the Regional Chambers of Economy were the immediate beneficiaries of the project, the initial project design foresaw the location of the RBDCs inside the premises of the Chambers.

As of end of June 1999 two centres, Banja Luka and Bihac, are still hosted by the respective Chambers, while the centre in Zenica since March 1999 had to find some alternative premises, because the Chamber, as mentioned before, was in need of the office space for some other activities. Presently the centre is hosted in an hotel and has to pay a rent of DM1.600 per month.

The equipment of the Centers is
as follows: Banja Luka

4 PCs (one given by the Chamber)
with printer 1 laptop
1 photocopy machine
1 fax
4 phones

Bihac
3 PCs
1

laptop

1

printer

1 photocopy
machine 1
UPS
1 binding
machine
1 scanner

Zenica
2 PCs
Pentiu
m 1
Printer
HP 6L
1
Telefax
1 Fax
modem
1 photocopy
machine 1
laptop GVC
6755C 1 PC

The attribution of this equipment at the end of the project has not yet been

decided. 3.2. Project Results and Achievements

3.2.1. Relevance and Management Strategy

The Project has been very relevant for the financial needs of the beneficiaries, the training of small and medium entrepreneurs, as well as capacity building in CoCs and RBDCs. There is a continued exigency for these and related activities, such as training of bank staff.

The Project approach is suitable to provide the necessary expertise to help entrepreneurs getting loans and enhance their management skills. It has a good multiplication effect in terms of business volume created compared to project funds invested. The training of trainers has built further educational capacities.

The management strategy has made good use of the national capacities, but the expertise of international advisers could be better focussed on the initial training of national staff, project coordination and strategy, as opposed to micro-managing the RBDCs.

3.2.2. Effectiveness and Efficiency of the Services Rendered

The preparation of business plans and loan applications has been very effective. Almost fifty percent of the loans applied for have been approved, a total of DM 9.5 million in about 100 loans. The efficiency of this activity was reasonably good. The average time spent per client for analyzing his or her project, preparing a business plan and submitting a loan application was about ten days. Taking into account that the RBDC staff had to acquire experience on the job and that the clients were trained at the same time in these tasks, this amount of time seems appropriate. The effectiveness and efficiency of the other activities of the RBDCs (seminars and publications) are more difficult to quantify. The fact that they were well received and did not consume very much in resources indicates that they were carried out properly, too.

According to the staff of all three RBDCs, the efficiency in visiting clients' enterprises in distant

16

places would have been higher if the RBDCs had their own

vehicles. *3.2.3. Appreciation of the Services Rendered by Clients*

and Institutions

The many appreciation letters from clients, along with the opinions expressed by clients in interviews, leads to the conclusion that the services have been extremely well received. This finding has been corroborated by all institutions interviewed, including banks, donors and governmental authorities. Many of these assured the evaluation mission that the RBDCs have provided the best service available in the Country for loan applications. The gained reputation of the RBDCs' staff is indeed a major asset for achieving self-sustainability.

3.2.4. Capacity Building

The project has been successful in building capacities of the RBDC staff and clients in terms of business skills. The evaluation mission could not find relevant evidence that the capacities of the CoCs have been enhanced by the Project. Only in Bihac the RBDC has been established as an agency of the CoC for the purpose of legal registration, but otherwise acts rather independently. The capacity built for the RBDCs as institutions can only be retained if the Project will be continued. One might argue that, if there will be no second phase for the Project, some staff members could be hired by the respective CoCs and the CoCs would benefit from the built personal capacities of these staff. However, there is no indication that the focussed potential of the RBDCs and their system to assist clients would be sustained by the CoCs.

3.2.5. Significance and Impact

The Project has had a direct positive impact for the beneficiaries, who received loans

for their own projects. It has also demonstrated to CoCs, Associations of Entrepreneurs and financial institutions that systematic education of entrepreneurs by preparing business plans with them significantly improved their skills and probably the viability of their operations.

The Project has also created employment for about 400 people, 40% of which are women. The RBDCs have earned high reputation in front of nationals and institutions of the Country as well as international donors, for themselves and also for UNDP and UNIDO as competent and effective providers of SME support.

3.2.6. Sustainability, Opportunities and Risks

Business consulting appears to be a sustainable activity in BiH, but the degree of sustainability that can be reached in a given time period is a matter of proactive client acquisition, type of services offered, fee structuring and overhead reduction. In the near future the demand for consulting services is going to rise because of the development of the private sector and the imminent privatization of state enterprises on a large scale. This will entail the downsizing of personnel in these enterprises, which can only be compensated by developing the SME sector.

This project has been considered as a pilot project for SME development in other regions of the country. Its expansion could create more employment in manufacturing, services and trading. In case

17

of a continuation of the Project, address'ng the employment of women and the needs of displaced or disabled people and returned refugees will deserve particular consideration.

New RBDCs could become sustainable in a shorter period of time by using the gained experience of the Project and thus cutting the learning curve. They would have to face the different conditions in every region, including the differences in fund availability. Together with NGOs and governmental organizations, they should find new ways to get loans for beginning entrepreneurs with realistic collateral requirements.

Providing free services over an extended period of time has to be seen as a risk of the Project, because it creates client dependence and has a counterproductive impact on the clients' entrepreneurial spirit. It also distorts the market for national consulting firms, which are SMEs, too, and have to make a profit. The RBDCs should not constitute an unfair competition for such firms.

3.2.7. Adequacy of Equipment

The equipment in the RBDCs appears to be adequate. Computers and software have been provided according to international standards. Should the activities of the RBDCs be extended to the preparation of feasibility studies, UNIDO should consider allowing them to use its Comfar software and also train the staff accordingly.

The evaluation mission finds that the RBDCs should organize more seminars and training courses. For this purpose the mission recommends to equip them with data projectors (beamers) and presentation software. For computer and language training, but also for training on business plans, more computers would be needed for the trainees.

In case of a second phase of the Project, the new budget should provide for one vehicle for each RBDC in order to improve efficiency when enterprises in distant locations have to be visited. This is usually necessary for the assessment of the quality of the businesses during

the preparation of business plans. In many parts of the Country public transport is not yet well developed and taxis are expensive, especially for out-of-town trips.

4. FINDINGS AND

CONCLUSIONS 4.1.

Background

Bosnia and Herzegovina's economic, social and industrial infrastructures were devastated during the war. Although in the past Socialist Yugoslavia had in general a better functioning economy than the Soviet controlled Eastern European countries and allowed small private enterprises, the industries were mostly government owned and operated by managers appointed by workers' councils. The privatization of the state owned enterprises and the development of the SME sector started in 1999. The country's full transition from state planned economy to market economy has been delayed, as compared to most other Central and Eastern European Countries, due to war consequences and the post-war recovery period. With the political and economic changes in BiH, in the neighboring countries and worldwide, the markets for both procurement and sales, along with the transportation infrastructure, have also changed.

The development and consolidation of the private sector (micro-, small and medium enterprises) is a key priority for international aid. Most small entrepreneurs have little or no experience

18

in establishing and operating a business in a global market economy.

Several international donor organizations, governments of other countries, NGOs, financial institutions, agencies for cooperation and private consortia have established credit lines to promote private enterprise development. However, at the local level very little information, education and preparation is available to help potential entrepreneurs benefit from the opportunities offered.

The main objectives of the project "Regional Business Development Programme" are to launch and reinforce the private small and medium enterprises of the country and to generate employment by developing the entrepreneurial skills of potential business owners. Apart from providing extensive training, it is crucial to assist qualifying individuals with good ideas and entrepreneurial aspiration in assessing investment opportunities, preparing business plans, identifying available credit facilities, linking potential local private entrepreneurs with loan providers and filing loan applications.

In the scope of the Project, Regional Business Development Centers (RBDC) have been established to provide this assistance. The RBDCs were set up at the Regional Chambers of Commerce (CoC) of Banja Luka, Bihac and Zenica. Designed as a pilot project for enhancing SME development, this Project should be expandable to other regions of the country.

The Project has to deal simultaneously with several issues:

- Post-crisis restructuring of the industrial
- production capacity Transition from state planned
- to market economy Privatization of state owned
- enterprises
- Establish/reestablish links with new/former trading partners, matching

the new framework

Creating jobs in manufacturing, services and trading, with particular consideration for the employment of women and addressing the needs of displaced people and returned refugees

This project is considered as a pilot project for SME development in other regions of the country

4.2. Achievements

All three RBDCs have focussed on getting loans for their clients from international donor organizations and local banks. They also provide training and hold seminars, but only on a very limited scale. In Bihac and Banja Luka this is due to a Memorandum of Understanding, signed by the International Project Team Coordinator of this Project and the Representative of the UNDP funded and ILO executed project EDA Project (Enterprise Development Agency). According to this Memorandum the RBDCs will focus on drafting business plans and loan applications for entrepreneurs, while the EDAs would organize training courses.

The success rate in getting loans approved has been impressive. This is a result of the RBDCs' high competence in preparing business plans and loan applications.

All clients and organizations interviewed rated the RBDCs very high and said that they had improved their business skills because of the RBDC's managerial training and support in drafting

19

business plans. A significant number of clients could get their loan applications approved, which were drafted by the RBDCs.

The RBDC in Banja Luka had 384 initial contacts with clients and prepared and submitted on behalf of them 56 loan applications, 25 of which have been approved for a total amount of DM 2,650,988. Of this amount, DM 1,930,988 has been disbursed already and generated 182 new jobs, including 83 for women. 21 more loan applications for DM 2,232,735 are being examined by the banks.

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All three RBDCs were very diligent in presenting their activities at regional meetings with the CoCs and in preparing and distributing very useful information material for entrepreneurs, willing to start a business or seeking loans.

The financial and donor institutions that were contacted by the evaluation team (USAID, Agroprombanka, Universal Bank, Project Coordination Unit for International Credit Lines of Republica Srpska) said unanimously that the loan applications submitted were far more professionally drafted than most others. These organizations also refer loan seekers to the RBDC for help with the applications. The branch manager of Universal Bank in Bihac

mentioned that the local RBDC was more competent in evaluating a business plan for a loan than his own office.

The CoCs in Banja Luka and Bihac support fully the operation of the RBDCs. In Bihac the RBDC has been registered as an agency of the CoC with separate accounts. In Banja Luka and Zenica the RBDCs have been registered as Citizens' Associations, a type of NGO. All RBDCs are cooperating with the CoCs and get client referrals from them. While the RBDCs in Banja Luka and Bihac are located on the CoCs' premises, the RBDC in Zenica, which was initially also accommodated in the CoC, had to move to another location in March 1999, because the CoC needed the space for hosting cooperation projects with other European CoCs.

4.3. Sustainability

The RBDCs have not yet started to charge for their services and have been fully financed from UNDP project funds. However, fees are being paid for similar services to other consultants. Several interviewees, including clients and banks, said that fees of DM 2,000 and more are being paid by clients to consultants for filing a loan application. EDA Bihac charged their clients DM 350 for a 30 hours English course and is receiving funds from various organizations (e.g., the EU's Phare Agricultural Program) for training courses offered free of charge to entrepreneurs.

The above mentioned Memorandum of Understanding with the ILO/EDA Project has retarded the rate of approaching sustainability for the RBDC Project and accelerated it for the ILO/EDA Project, because the RBDCs in Banja Luka and Bihac referred their clients to the corresponding EDAs

20

for the profitable training courses.

Business consulting appears to be a sustainable activity in BiH, but the degree of sustainability that can be reached in a given time period is a matter of proactive client acquisition, type of services offered, fee structuring and overhead reduction. In the near future the demand for consulting services is going to rise because of the development of the private sector and the imminent privatization of state enterprises on a large scale. This will entail the downsizing of personnel in these enterprises, which can only be compensated by developing the SME sector.

4.4. Expandability

The operation of the three RBDCs has generated valuable experience for a potential expansion of the Project to other regions of BiH. The achieved advance on the learning curve should facilitate the establishment of future RBDCs at lower cost and reaching sustainability in a shorter time. Consequently, certain modifications in the management and implementation of the project as well as in the portfolio of services offered should be made. The suggested modifications are listed below under "Recommendations".

4.5. Challenges

Although the cooperation between the RBDCs and donors has significantly facilitated access to international credit lines for SME owners, many problems remain to be solved.

Some donor organizations operate only in certain parts of the country. USAID, e.g., does not provide loans in regions where no US troops are stationed.

No major credit lines are available for start-up businesses.

Many entrepreneurs cannot provide the required collateral, which is appraised by the courts and must usually cover the threefold amount of the loan required.

Difficult terms and conditions of the loans offered for SMEs: high interest rates, short grace period and short repayment term (2 - 3 years).

The RBDCs collaborate well with the CoCs, but there is no indication that they could significantly contribute to the CoC's development as supporting organizations for the private sector.

In singular cases (e.g., a loan for a textile factory in the Banja Luka region) notable numbers of female employment have been created and also some of the business owners are women, but the RBDCs do not have a proactive strategy for the enhancement of female employment.

The provision of free consulting services is distorting the market, because it competes directly with private consulting firms, which are also mostly private SMEs.

4.6. Center Management and Coordination

A non-resident part-time team coordinator, assisted by international resident advisors (IRA)

21

for each RBDC has managed the Project. It seems that the lack of continuous availability of and monitoring by the International Project Team Coordinator has caused problems for the management and implementation of the project, including the non-uniform manner of operation and reporting of the three RBDCs.

The supervision of the International Project Team Coordinator does not seem to have been sufficient. The communication between UNIDO HQ and the UNDP Office in Sarajevo was not satisfactory either. According to UNDP staff, inquiries about the progress of the Project, addressed directly to UNIDO HQ, were usually answered by the International Project Team Coordinator instead. The explanations were often evasive and questions remained unanswered. Requested reports were promised to be sent at a later time but apparently never received by UNDP.

Some IRAs have not been optimally selected, since not all of them had adequate job experience for the project. A young professional at his first working experience is not an appropriate choice. Many local staff members were not really selected according to the job description and in singular cases the educational and professional background of local staff members had no relevance for their function.

The job descriptions for the national staff members were not carefully prepared. As far as it could be verified, Business Advisors and National Team Coordinators had the same job description regardless of their different functions. In all job descriptions for Business Advisors and National Team Coordinators "establishing of office premises and preparation of the staffing table" were listed as duties. These tasks should have been charged to the International Project Team Coordinator instead.

The International Project Team Coordinator did not properly brief the IRAs about their duties and obligations. The evaluation mission has discovered that international project staff, in a difficult situation, where also domestic travel should have been submitted to the clearance of the UN Security Coordinator, was travelling without previous authorization. They did not even inform the UNDP office in Sarajevo about their travels.

The technical supervision has been judged by the RBDCs' staff as sufficient, but in some cases was missed when needed. A permanent resident International Project Team Coordinator could have ensured better coordination with the UNDP office, which has not been regularly informed on the whereabouts in BiH of the International Project Team Coordinator and of other staff members.

The RBDCs' staff confirmed that the presence of an IRA would mainly be needed for guidance during the initial phase of operation and for representation purposes in front of clients, banks and international organizations.

The staff also stressed the need for a project car for each RBDC, in particular for visiting clients in the region. Public transportation outside of the cities is slow and complicated and taxis are expensive. Therefore, the ILO Project had foreseen in its budget a car for each EDA.

The initially signed Project Document envisaged the establishment of an RBDC in Mostar. Instead, an RBDC was set up in Zenica, due to the impracticality of the original plan because of political differences between the two rivalling CoCs in Mostar and the resulting lack of cooperation. The evaluation mission finds the alternative solution justified.

22

5. RECOMMENDATIONS

The evaluation team concluded that the Project has been successful and has reached its development and immediate objectives, in spite of some shortcomings. The team has the following recommendations to the organizations involved in the Project.

5.1. Recommendations to UNDP

In view of the difficult economic situation in BiH after the war, the continuation of the Project is desirable in order to further support, at least partially, the currently existing structure and create new RBDCs in other regions of the country.

Based on the present findings, the evaluation team recommends to consider the following measures, should the project be continued or a new phase be envisaged, otherwise the money spent for the project and the built capacities in terms of staff and facilities would likely be lost. This is the most important issue, because in this project have been spent around US\$550,000 for personnel costs (US\$266,000 for international staff, US\$239,000 for national business advisors and US\$39,000 for administrative support staff). Without further temporary support all the capacities developed are in jeopardy.

UNDP and UNIDO should brief all staff members on their duties and obligations in regard to security issues.

UNDP should closely monitor the quality and content of the reports received from the International Project Team Coordinator, as well as the reports on budget utilization. This will ensure that differences in opinion on the development of the Project can be resolved at an

early stage and mistakes corrected before they cause undesirable consequences. In case of delayed or incomplete response of UNIDO or its agents, UNDP should follow up and insist on clarification.

5.2. Recommendations to

UNIDO Expandability and

Project Optimization

For the sustainable territorial expansion of the project it is crucial to carefully select the locations and potential partners, e.g. CoCs or Associations of Entrepreneurs, if any. Much consideration should be given to the economic infrastructure of the regions. In particular, it is important to assess, which enterprises in the regions will be privatized shortly. These enterprises and their spin-offs, but also released employees, will be the new RBDCs potential clients. This also applies to existing RBDCs.

In case of the continuation of the Project, the backstopping management, in consultation with UNDP and other donors, should seek improved access to credit facilities for start-up businesses, since most of them lack sufficient collateral.

Project Management and Coordination

The single most important improvement to be made is hiring an experienced full-time Resident International Project Team Coordinator (RIPTC) for Bosnia and Herzegovina. He should be based in

23

Sarajevo.

Local IRAs for each center are neither necessary nor desirable, except for the initial technical training of the national staff of new RBDCs. Instead, qualified National Team Coordinators should replace them. They can manage the day-to-day business of the RBDCs, while the RIPTC can periodically visit them, for example twice a month for three days. The telecommunication network in BiH is working well and will facilitate the coordination of the Project. For new RBDCs an IRA could be assigned for the first three months.

The RIPTCs experience should include:

- Management of international projects Assistance to private SMEs
- Specific training for SME operators starting entrepreneurs Preparation of partnership agreements with foreign companies Project appraisal, drafting of business plans and loan applications
- Cooperation with financial institutions and donors

In view of the territorial expansion of the Project, an International Junior Expert should be appointed to assist the RIPTC in his duties. This Junior Expert should be resident in Sarajevo and have related job experience.

The RIPTC's principal functions should be:

- Coordinating and supervising the activities of the RBDCs

Reviewing and consolidating the RBDCs' monthly reports and forwarding them to UNIDO HQ and UNDP
 Harmonizing the ways and means of action and reporting of the RBDCs
 Ensuring proper and clear communication between the RBDCs, UNIDO HQ and UNDP
 Selecting key personnel for the RBDCs
 Briefing all RBDC staff members about their duties and obligations
 Providing training for RBDC staff members
 Helping the RBDCs compile their portfolios of services
 Assisting the RBDCs in organizing training courses and seminars
 Actively promoting and advertising the RBDCs' products
 Proactively finding new income sources and key accounts for the RBDCs
 Developing new products with the RBDCs
 Designing a marketing strategy for all products of the RBDCs
 Promoting cooperation with UNIDO's Investment and Technology Promotion Offices (ITPO) network to help clients find business partners abroad
 Representation duties when required

Initially the RIPTC should visit the RBDCs periodically for a few days each time. At a later stage he could dedicate more time to the establishment of new RBDCs.

UNIDO HQ should revise its methods of communication and project supervision. In particular, it is highly desirable that UNIDO HQ maintains a direct line of communication with UNDP. UNIDO is responsible in front of UNDP for the proper execution of the Project, and the RIPTC is accountable to UNIDO and not to UNDP. UNIDO and UNDP should brief all staff members on their duties and obligations in regard to security issues.

24

Definition of Duties

The job descriptions for the international staff and the national staff, including business advisers, RBDC team coordinators and administrative assistants, must be properly written. They should indicate the duties and required qualifications of each individual staff member recruited for the post.

The international staff should have about ten years of experience related to SMEs, since they will have to train the national business advisers. International advisers without relevant job experience should not be recruited for the training of national advisers, since some of the national advisers, although their English language skills may be limited, could have even more experience than such a trainer.

The staff structure for each RBDC should foresee one Team Coordinator, who could part-time work as a business advisor and also prepare reports and statistics, three business advisers and one administrative assistant (secretary).

Equipment and Transportation

The evaluation mission suggests providing each RBDC with a car. This will enable them to visit their clients more frequently and plan their schedule in a more efficient way. The experience of the EDA/ILO Project, which has a car for each center, shows the advantage of added mobility. Provisions for this budget line can be recovered from funds, which are no

longer required for permanent IRAs.

Apart from standard office and data processing equipment, it is recommended to supply, where necessary, additional facilities for training courses and presentation purposes, such as computers for practising, data projectors (beamers), software, etc.

5.3. Recommendations to the RBDCs

Sustainability

The RBDCs should draft a suitable fee structure for their services. In the case of business plans and loan applications, private consultants charge over DM 2,000 regardless of the outcome. The RBDCs could, for example, charge a low flat fee for the preparation of business plan and loan application and a commission for disbursed loans. This commission should consist of a flat minimum fee and a percentage of the loan dispersed. The reason for this minimum fee is to sustain the RBDCs' motivation to deal with smaller loans. Providing services free of charge creates non-productive client dependence.

Since the Memorandum of Understanding (cooperation agreement) with ILO did not yield any results for them, the RBDCs should explore offering courses in managerial training, sales training, foreign language training, bookkeeping and computer training. The courses could be charged directly to the clients, or they could be financed by international donor organizations, such as the Phare program. In both cases it is essential to sell the product assertively. The reputation earned already should be of great help in advertising the products.

Following the example of the EDA in Bihac, RBDCs should approach donor organizations and

offer their services as fund managers. The EDA in Bihac is managing a DM 600,000 revolving fund for the Phare Agricultural Program. The fund is targeted at farmers and pays out loans between DM 5,000 - 15,000 per applicant. The payback term is up to three years, including a six months' grace period. The interest rate is 12%, of which 7% are paid to EDA as a commission. EDA does not bear any risk for the capital at this point. After three years Phare will transfer the whole fund to EDA as a trustee.

In the future, the RBDCs should explore possible diversification of their services into areas such as legal counseling, bookkeeping, tax advising, translating, export promotion consulting, due diligence investigations, feasibility studies, risk assessment (the latter three products are mainly aimed at financial institutions). Obviously, for that purpose they would have to recruit qualified experts or subcontract to free-lance consultants.

All RBDCs should consider organizing training in project appraisal and evaluating loan applications. The mission noticed that the staff of some local banks does not have the required capability at international standards and even, in some cases lacks understanding of basic principles. Bank representatives have endorsed these findings and expressed interest in this kind of training. This will increase the RBDCs sustainability potential, because the banks could be charged for the training and the loan applications would be processed considerably faster.

Additional Center Activities

The RBDCs should organize more training courses for existing and potential entrepreneurs, as well as for bank staff involved in SME financing. The courses should be offered for a participation fee. New RBDCs could waive this charge for an introduction period.

5.4. Recommendations to the Chambers of Commerce

The CoCs should closely collaborate with the RBDCs and integrate their capacities into their own framework of activities, regardless of the legal form of the RBDCs' registration. The CoCs could subcontract to the RBDCs or cooperate with them in:

- Organization of member seminars
- Preparation of information material
- Translation services
- Financial and legal consulting to members
- Organization of trade shows
- Export promotion and partner search
- Investment promotion, in particular through UNIDO's ITPOs
- Liaisoning with UNDP, UNIDO and other international bodies

5.5. Recommendations for Government

Programs Support for Small and Medium

Enterprises

Parallel with the privatization of the industries, support programs for SMEs should be installed. Such programs can include incentives, such as:

- Creation of a support fund for beginning small entrepreneurs
- Creation of favorable conditions for foreign direct investment
- Tax holidays for start-up firms
- Accelerated depreciation of equipment
- Tax and duty free import of manufacturing equipment
- Tax breaks for environmentally sound technologies
- Tax advantages for the employment of disabled persons
- Tax advantages for the employment of displaced persons
- Together with host countries, incentives for returning refugees
- Research grants for

hi-tech firms

Harmonization of standards and norms with the EU

Protection of intellectual property rights

Additionally, the evaluation mission joins UNDP in recommending the following measures as described in UNDP's Human Development Report of 1998 for BiH:

Support for the Reconstruction of the Industrial Sector

Funds need to be allocated for necessary technical reconstruction as well as replacement of old, damaged equipment of the existing factories in order to prepare them for production. Funds are also needed for working capital for the existing companies, because the financial reserves were exhausted during the war. Funds need to be invested in new capacities and skills

Investment in Infrastructure

Telecommunication is lagging behind technical standards in developed countries. Particularly in RS the conventional telephone system is substandard and, as opposed to the Federation of BiH, there is no mobile telephone system in RS.

The formation of a stable and sustainable financial sector is a precondition for the rehabilitation of the BiH industry. BiH banks do not have permanent capital sources sufficient for long-term financing of the economy. Financial reconstruction and privatization of banks would be an incentive for the reconstruction of the industrial sector.

The industry has a serious problem of inadequate skills at the level of company management. Education and training of management staff are urgently required.

6. LESSONS LEARNED

A part of the experience gained in the Project can be useful for other projects in the future.

In large projects with centers on multiple locations it is imperative to employ an experienced full-time Resident International Project Team Coordinator. Only a permanent resident can effectively coordinate and supervise the activities of several teams and guide them in their day-to-day work. The proper selection of this RIPTC is very important for the successful and smooth implementation of the project. Without clearly structured relations and open lines of communication between the Project Owner, the Executing Agency and the Project Coordinator, satisfactory reporting is not achievable. The Project Coordinator should report to the Executing Agency (with copy to the project owner) and the Executing Agency directly to the Project Owner. These responsibilities should in no way be delegated. Recruiting and appropriately training experienced national professionals with a proven success record saves time by cutting the learning curve and is more cost effective than relying on foreign junior advisors without related job experience and language skills. Experienced international advisors should guide the teams initially and educate them by accompanying them to clients and institutions (shadowing/on-the-job training). The careful design of appropriate job descriptions and the according recruiting are essential for finding qualified staff and excluding nepotism. If the job descriptions do not reflect the tasks expected, the incumbents are insecure and do not understand their duties. The need for providing means of transportation should be analyzed in projects that cover a larger territory in order to increase efficiency,

especially when the clients are scattered in the region and public transportation is not well developed. Continued provision of free services over an extended period of time causes market distortion and creates client dependency. Charity cannot last long and a businesslike approach enhances understanding of the market economy. Joint in-depth evaluation of a project should take place at least six months before the end of the project in order to assure timely continuation of the activities in case of the extension of the project.