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EVALUATION OF THE

BUSINESS DEVELOPMENT PROGRAM, E.R.O.

U.S.A.I.D./BOSNIA AND HERZEGOVINA

(Contract AEP-0085-I-00-6019, Delivery Order 803)

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LIST OF ACRONYMS

BC	USAID Business Consulting (formally Bosnia Business Assistance Center)
BDP	USAID Business Development Program
BF	USAID Business Finance (formally Bosnia Reconstruction Finance Facility)
BiH	Bosnia and Herzegovina
CAFAO	Customs and Fiscal Assistance Office (EC)
CDC	Citizens Democracy Corps (USAID PVO Contractor)
CIRPs	Community Rehabilitation Projects
DM	German Deutsche Mark
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ERO	Economic Restructuring Office (USAID)
EU	European Union
EWMI	East-West Management Institute (USAID Contractor)
FBA	Federation Banking Agency
FDI	Foreign Direct Investment
FTA	Federation Tax Administration
GDP	Gross Domestic Product
HVO	Croat Defense Forces
IFC	International Finance Corporation (World Bank Group)
IFOR	Implementation Force (Military)
ITF	Industry Task Force
IGA	Investment Guarantee Agency
ILO	International Labor Organization
IMF	International Monetary Fund
MIGA	Multilateral Investment Guarantee Agency
MIS	Municipal Infrastructure and Services
MOF	Federation Ministry of Finance
NGO	Non-governmental Organization
OECD	Organization for Economic Cooperation and Development
OHR	Office of the High Representative
PVO	Private Volunteer Organization
PW	Price Waterhouse (USAID Contractor)
RS	Republika Srpska
SFOR	Stabilization Force (Military)
SFRY	Socialist Federal Republic of Yugoslavia
UKKH	United Kingdom Know How Fund
UNDP	United Nations Development Program
UNHCR	United Nations High Commission for Refugees
USAID	United States Agency for International Development
WB	World Bank

I. EXECUTIVE SUMMARY

1. INTRODUCTION

The fundamental premise of U.S. assistance to Bosnia is economic revitalization, specifically the generation of new employment and the recapture of national income levels. Consequently, USAID has a number of component activities to address the strategic objectives, including the ***Private Sector Reactivitation and Development Program*** (known simply as the ***Business Development Program***). This is the focus of the evaluation, and although most other USAID activities are vital to private enterprise development, it is the BDP program that is the most visible aspect of USAID assistance in Bosnia.

The Business Development Program was implemented under a $278 million budget in 1996 to accomplish two tasks. First, the Bosnian Reconstruction Finance Facility (BRFF) was to provide quick-disbursing loans to Bosnian businesses that would help jump-start economic recovery and "restart" war-shattered enterprises. This component is known now as USAID Business Finance (BF). Second, the Bosnia Business Assistance Center (BBAC) was charged with providing technical assistance and training to a wide range of enterprises and emerging local support organizations in support of private enterprise development. This project is known now as USAID Business Consulting (BC).

The size and potential impact of BDP activities on other USAID and international donor programs must be recognized as a vital dimension of the Reconstruction Program. As the primary-- and in many instances -- only source of commercial credit available to enterprises, the BDP may be the single most important engine for financial growth in the private enterprise sector. Privatized firms and new start-up companies simply may vanish in certain instances without this support, but most Bosnians are probably resilient enough to overcome these difficulties if BDP did not exist. Without foreign assistance of the type provided through the Business Development Program, many companies would "regenerate" along familiar lines and management techniques common to the old regime. These pre-war practices were inept then, and at this moment, would not help Bosnia to sustain itself as a competitive nation in the European region.

Against this backdrop, the BDP components fulfill two vital strategic roles. The first role is the implementation of actual tasks under the specific scopes of work for Business Finance and Business Consulting. The second role is one of development leadership among the donors and within the fragmented nation itself. This role cannot be assessed or measured, yet it is crucial. Specifically, if BDP fails to meet its expectations, the United States could be chided for failing to uphold its commitment under the Dayton Accords. If the shortfall in results is serious, USAID will be highly vulnerable to criticism both in Bosnia and in the United States.

The fundamental objective of the Business Development Program is to address the first strategic objective of USAID's reconstruction assistance: ***To restore private sector productive capacity, thus providing immediate employment growth and medium-term sustainable economic growth***. The strategy to accomplish this objective is to provide a dual-activity program that ***provides commercial credit in the form of quick-disbursing loans to private Bosnian businesses in concert with business consulting services to improve financial management, marketing, and business plan development skills.*** This focal objective is the basis for the current evaluation.

The evaluation team conducted in-depth interviews with 23 client organizations receiving both BF loans and BC technical assistance. A sample was drawn to represent high-performing and low-performing enterprises, a selection from Saravejo, Tuzla, and Banja Luka in the Republika Srpska, and diversity in industrial sector and size. Senior executives or founders were interviewed in all instances. Their combined credits represent about 16 percent of BF disbursements. In addition, the team made in-depth interviews and studied performance among nine Agent Banks that handle BF loans. Their lending activity represents approximately 75 percent of the total BF portfolio. The team also interviewed every expatriate available in both projects, all managers, visiting consultants who were dealing with Portfolio Analysis and Bank Lending Analysis, all international donors with programs relevant to private enterprise development or commercial lending activities, and key ministers and government officials. Local staff of both BF and BC were interviewed, educators working with USAID were visited, and the key Mission officers were briefed each week with opportunities to respond to questions and comments. The following findings represent the most critical items, but within the report, a comprehensive analysis and report on findings is provided.

2. EVALUATION FINDINGS

There are two crucial finding that stand above all others and underscores recommendations that follow in this section. Specifically:

1. ***Many loans need restructuring as the cash flow capability of borrowers does not match the repayment terms. Loans made with the multiple purposes of working capital, equipment purchases and building construction have always been bundled into one repayment schedule. Some banks would even restructure loans that are current, foreseeing downstream difficulties by many borrowers who have yet to face cash flow crises.***

2. ***A consensus management style prevails at Business Consulting. This style may not be appropriate for a "fully loaded" and major program as BC in Bosnia. There are inefficiencies in deployment of resources, and many consultants are left to their own devices to pursue projects or to define services. Too many projects are handled by too few consultants, yet there is a budget surplus that could be used to provide more comprehensive consulting services. PVOs could have been more effectively utilized to address specialized enterprise problems. And communications tend to break down within BC, with their clients, and among other donors. These points are symptomatic of management problems that may result from a leadership style inappropriate for BC in Bosnia.***

The following summary of key findings were selected from comprehensive lists in the final section of this report to reinforce the two issues noted above:

- Agent banks, client companies, and the evaluators agree that the program places too much emphasis on volume of activities rather than on quality of applications, structure of loans, and timing of both disbursements and repayment schedules.

- There is a geographic limitation on lending activity that may prove awkward. Bankers and the ministries urge a broader outreach for BDP lending and consulting activities. There is a possibility of focusing so intensely on one area that development becomes lopsided, both within the State itself and among sectors served.

- All bankers and enterprise managers interviewed acknowledge the great value that the BF and BC projects have brought to Bosnia, and aside from suggestions for operational improvements, everyone is in strong agreement about the strategic purpose of the USAID Business Development Program. Even the most candid remarks did not detract from a pervasive viewpoint that both BF and BC staff and consultants are highly committed and diligent individuals acting in Bosnia's best interests.

- USAID must consider restructuring BF's portfolio as a primary component of its activities. The loan portfolio has been underwritten with the same repayment terms for loans for working capital, equipment purchases and building construction. Cash flows of businesses do not fit such terms as each of the three normally has a different repayment cycle. The Credit Audit just completed makes comments in this regard, and before more loans are approved under the existing scenario, changes should begin immediately to prevent difficult future loan structures or repayment difficulties.

- From the perspective of Business Finance, the functions performed by the Turnaround Unit at BC are essential to the success of the BF program. Professional consultants capable of working with clients on their internal operating structure and financial management need to resolve enterprise problems before adjustments in credit structure can be considered. It would be possible to perform these functions under a BF umbrella, but it is probably better left to experts with the capabilities and resources separate from the BF component.

- The banking industry in Bosnia will most likely go through a consolidation phase in the next two years which will result in mergers and failures. BF faces a degree of risk with loans generated through agent banks that fail during this consolidation phase. Therefore BF must take measures to focus on fewer Agent banks, and attempt to concentrate their efforts on the banks of higher quality with a better chance of survival.

- Business Consulting must clearly focus on core activities and priorities of the Mission. Essentially, BC needs to return to basics and the real reason for its existence, establishing accountability among consultants and local professionals for accomplishments. BC management must reduce the range of intervention activities, and begin to provide more meaningful assistance to fewer organizations. This may require a sector-specific target for clients, better selection criteria, or pre-qualifications of enterprises that can partially fund technical assistance.

- Support for SMEs has not yet materialized, yet building an entrepreneurial foundation of enterprises has proved essential to every developing economy. A proactive SME lending and consulting effort is needed in Bosnia, and perhaps as capital markets become established together with a better overall enabling environment, enterprise funds and innovation centers will become feasible.

- While BC would be advised to narrow its focus on high-growth sectors, and also to consider a portion of its efforts directed toward SMEs. The project has been somewhat lopsided from both a regional and sectoral perspective. In time, this may create a polarized pattern of economic growth, which will be sensitive within the Federation's cantons, and between the Federation and the RS.

- The turnaround and enterprise restructuring efforts have grown from the BF troubled loan portfolio, but was instigated by independent consultants at BC and BF. This has been a huge success and demonstrates the capabilities of a good consulting organization to go into a firm and make a major difference. The nature of this assistance, however, is comprehensive and often requires industry specialists and consultants with more than academic credentials, but real-time industrial experience.

- If there is one critical dimension of development consulting, it is to bring to an enterprise the ***optimal technology*** required in very specific circumstances. Optimal technology means the knowledge, equipment, and processes fitting to an enterprise according to the society, individual capabilities, cultural constraints, and local economic factors (costs, output needs, markets, etc.). This sense of optimality is sacrificed when modular delivery systems are used pervasively.

- Modularized assistance should be positioned where it is appropriate and not generally employed for all projects. However, standardized systems are very cost effective, and in a developing economy where there is a vast need for fundamental business assistance, off-the-shelf methods can pay huge dividends. It is important to note that ***the core effort required by BC in Bosnia is to provide basic business capabilities to the broadest number of enterprises***, and as long as this focus remains a high priority, ***standardized approaches may yield the best leverage of assistance resources.***

- Following on the prior point, there is an ever-present danger that modules permeate a program under the false assumption that they are "magic bullets." Most enterprise managers will benefit from standardized applications of business practices, and USAID will benefit from the resource leverage, but many companies have unique circumstances that require consultants with broad insights and the ability to adapt to field conditions rapidly; standardization often reduces this flexibility.

- The BC project cannot be fully transferred to indigenous consultants. Although local capacity development is being pursued effectively through BC's consulting and training programs, there is not yet an institutionalized entity to whom BC could immediately transfer its primary activities. The BC internal and apprenticeship training programs are intended to qualify individuals for professional consulting, but they do not provide the experience or depth required for self-sustained organizations.

- ***Business Consulting has substantially met its primary task objectives*** with some weakness in results on secondary and extended task responsibilities. The consultants have performed very well under adverse circumstances, but there is a sense of too much redirection and internal slack.

- Difficulties with leadership style emphasized at the outset cannot be entirely blamed for this situation. Indeed, a majority of the supporting managers (both expatriate and Bosnian) at BC are not effective as leaders, and, with a few notable exceptions, they cannot provide the talent required by the Chief of Party to succeed in the project as it is currently structured. ***A change in COP will not resolve the problem (perhaps worsen it). The COP is well respected, ethical, capable, and has created effective consulting systems.***

3. RECOMMENDATIONS

If there were no strategic changes in the Business Development Program, and only attention given to resolving operational issues, USAID could continue with confidence in the success of its development efforts. At the same time, there are several realistic alternatives that might better facilitate USAID's strategic objectives in Bosnia. These are outlined below:

3.1 Maintain BF and BC Projects with Task Modifications

Both BF and BC have had difficulties, but the projects have evolved to become improved and have more efficient operations. It is almost as if the first two years of the program represent a learning process in which each project has now become positioned to go forward with greater success. Consequently, the first alternative is to make no changes in the primary scope of work for either unit, but to resolve the management and operational problems detailed in this report. The entire loan portfolio should be reviewed and appropriately restructured, either under BC, or as a joint BC/BF effort.

Business Finance should resolve their agent bank relationships and reduce the range of their activities to ensure feasible and complete fiduciary relationships with banks and borrowers. Immediately alter the structure of loans, criteria for loans, disbursement decisions, and repayment schedules. Attention should be given to priority training for banks and borrowers, and a rigorous effort should be made to prepare Bosnia bank officers for generating a sustained banking sector, including commercial lending to smaller enterprises, credit monitoring, and implementation of relationship banking.

Business Consulting should reduce the scope of work to regain the primary emphasis on the most important program elements. These include direct consulting services to BF client borrowers, in-depth consulting to any Bosnian enterprise with the credentials for growth and sustainability required in the mission objectives, and continued support for training and education directed toward enterprise managers. Also important, BC must generate a positive and rigorous program of developing indigenous professional consulting capabilities through the apprenticeship program, mentoring, and better use of subcontracting of relevant services to local organizations. BC must also take advantage of PVO expertise, target sectors better to leverage their resources, and set better priorities for providing deep and lasting consulting services rather than broadly based and shallow services.

3.2 Redesign BF and BC Projects with Expanded Local Responsibilities

Assuming that operational responsibilities can be addressed as noted in alternative under 3.1, and that a turnaround function can be established with coordinated BC/BF activities, a second alternative is to redesign the BDP so that both projects are downsized to core expatriate groups. These groups would be primarily responsible for pursuing the Mission's priority objectives through carefully articulated task orders, but to do so through a system of subcontracting with indigenous organizations. This would include a substantial component of training and development for local bank officers and consulting staff, intense management of their activities during the contract period, and a sensitive coordination role for the expatriate groups that would be ultimately responsible for task objectives, yet expected to facilitate those objectives primarily through local organizations.

Management and funding of both projects could be reduced, with the majority of responsibilities for operations shifted to local organizations. This would increase (not decrease) the responsibilities for managing the projects, but substantially decrease the implementation roles of expatriates. It would shift funding expenditures to support for local subcontractors, consultants, educators, and bankers. The overriding benefit of this alternative is the ability to proactively move toward a full graduation by USAID from Bosnia, yet to do so while fully meeting its primary business development priorities.

3.3 Combine BF and BC Projects

A third alternative would be to incorporate the operational and task modifications required under either 3.1 or 3.2 above, but collapse the administration of both components under one roof. This option may appeal to those who see a pressing need to rationalize budgeting and funding control, thus simplifying the reporting channels and providing USAID with one composite contract rather than several components with diverse operations. There would be some actual cost savings if task responsibilities remained similar to either 3.1 or 3.2, but the substance of each program profile could change.

Looking at this alternative objectively, the changes would be primarily administrative, and although more tidy to define and control, some performance may be lost. Specifically, a composite program would probably evolve more toward financing or toward consulting, depending on the personalities involved and the contractor's expertise. It would be very unusual to find one contractor capable of providing the integrated expertise required for both dimensions. Consequently, priorities would shift, and while USAID might initially believe the rational one-roof structure is easier to manage, in reality, objectives are likely to be sacrificed, and the overall development program weakened.

3.4 Redesign BDP with Three Components

A fourth alternative is to redesign the BDP with three projects. This option would take the best and highest priority tasks of each existing BF and BC component, resolve management and operational problems, and create a third high-powered turnaround project for one year that would report directly to the Mission. The focus of this configuration would be on a comprehensive and self-contained turnaround/restructuring "squad" of experts who would have one primary goal: to review and restructure as necessary every loan in the USAID portfolio. This team would make recommendations for the desired results needed in each enterprise, which would then be reviewed by the Mission and handed off to the consulting group to pursue. Decisions on loan restructuring would be in the form of recommendations by the team for the finance group to implement.

From a conceptual viewpoint, the main issue is to empower a separate team with these responsibilities, which at the same time, is not accountable to the BF or BC projects. This uncouples three critical dimensions of development that have major differences in priorities. The turnaround/restructuring group would not owe allegiance to either BF or BC, thus be free to make the difficult recommendations for enterprise changes and loans -- or even propose legal actions against enterprises – without the potential conflict of interest associated with joint BF/BC efforts.

4. CONCLUSIONS

The term "restart" has less meaning today than two years ago when productive capacity was devastated. Instead, many businesses in most sectors have the fundamental opportunities to regain a sustainable level of capacity, and many have regained their profitability. Several have regained their employment levels, and a few have exceeded their pre-war levels. Still a large number are merely on the verge of recovery and will require assistance until they can stand tall as models of private enterprise success among their peers in Bosnia. ***These are vital assets to Bosnia and to USAID that cannot be abandoned at a crucial juncture of their evolution by a premature reduction in U.S. assistance.*** Most companies currently in the BC portfolio can benefit from support, and in turn benefit this society by their successful examples.

The lending program has provided the intended rapid infusion of capital that was absolutely essential for this economy to begin to recover, but the structure of loans and expectations for repayment now presents a dangerous level of constraint on many enterprises. ***In effect, the extremely rapid initial infusion has become a liability to some firms. USAID may have a moral obligation to follow through with expertise in consulting, loan restructuring, and training required to complete what the BDP initially set out to accomplish.*** New loans will be required for more client enterprises, more enterprise managers will need the fundamental training and consulting required to start and succeed in their endeavors, and more local candidates searching for support to become consultants or bankers will need USAID's expertise to help them prepare for the twenty-first century.

5. RECOMMENDED COURSE OF ACTION FOR USAID

The evaluation team suggests that USAID extend the existing Business Consulting contract to buy time to pursue one of the strategic alternatives. This will provide continuity for the program and continued support for enterprise managers and indigenous professionals being developed through BC's programs. Most important, it will permit turnaround and restructuring to continue. Indeed, this should be substantially enhanced during the interim, and at the same time, BF should immediately reduce its exposure to marginal agent banks, begin to issue new loans on entirely new loan packaging criteria, and position itself to work under a revised BDP mandate.

Business Consulting would partially demobilize in the sense of cutting back to core activities under its scope of work, but manage the interim turnaround effort. During this period, USAID would also have access to several important reports soon to be completed in conjunction with privatization, loan portfolio audits, bank supervision, and capital markets development. Coupled with the bridge in time for Bosnia's elections, the "breathing period" of five or six months may bring out important information for USAID's decisions. Unfortunately, this is a very brief period of time, and redesign or contracting would require an immediate commitment to reposition the program. Specific actions to consider are:

a) Extend the BC project through the end of 1998, but consolidate task requirements to buy time for a thorough redesign effort.

b) Mandate a substantial reduction in BC activities, but ensure continuity for core tasks.

c) Restructure BC on an industry basis, perhaps in concert with BF sector-specific activities, but in any event positioned on high-growth industries.

d) Immediately commit to depth of assistance whereby industry specialists, including PVO consultants, are placed with enterprises to comprehensively address development problems.

e) Substantially enhance the turnaround/restructuring effort with resources, and during the extension period position this as a coordinated BC/BF activity under BDP.

f) Review BC management for appropriate leadership style, and make changes as necessary in the structure and staff. The management and staff must be reviewed along hard leadership criteria.

g) Immediately require all new loans to be unbundled and to reflect criteria for credit, timing of disbursements, and appropriate repayment schedules. Avoid adding to the list of questionable loans.

h) Immediately begin to cull out agent banks, with the objective to consider ten good banks. Develop a rigorous profile of banks most likely to survive and to perform during a bank consolidation era.

i) Pursue the strategic alternative to **Redesign the Business Development Program with Three Components**. With what we know now, a separate turnaround & restructuring unit is essential, and all loans in the USAID portfolio should be reviewed under a direct line of authority to the Mission. The actual design, which must incorporate the operational changes and project consolidation, would be subject to information and circumstance brought forward during the interim extension period.

II. BACKGROUND OF THE BUSINESS DEVELOPMENT PROGRAM

1. INTRODUCTION

Bosnia and Herzegovina (BiH, or Bosnia) declared its independence from the former Socialist Federal Republic of Yugoslavia (SFRY) in March 1992, and war broke out almost immediately when the Yugoslav National Army challenged the succession. Bosnia's problems became acute when the Croat Defense Forces (HVO) entered the fray, which was not ended until the signing of the Washington Agreement in March 1994. The broader conflict that has severed the country along ethnic lines was not ended until the Dayton Treaty of December 1995 and subsequent deployment of international peace keeping forces to enforce a constitutional government created by the Dayton Accords.

The resulting State of Bosnia and Herzegovina is officially a central government with two Entities, each self-governing with constitutional mandates and elected representatives. The State has limited responsibilities for external debt service, foreign trade and customs, foreign policy, and various international regulations pertaining to air traffic, citizenship, refugee and asylum policy, and criminal law enforcement. State powers for monetary policy and currency board arrangements, and for inter-entity border issues are critical, but most decisions require a consensus among the tripartite heads of state. The Entities include the Federation of Bosnia and Herzegovina, which is a political union of Bosniac- and Croat-majority regions, and the Republika Srpska (RS), which is the Serb-majority union. Both Entities are part of the international Reconstruction Program that constitutes an umbrella post-war recovery effort, and the civilian dimension of the Dayton Agreement.

The U.S. assistance program was established under this umbrella with a pledge of $600 million in SEED funds over a three year period between 1996 and 1999. USAID has implemented this program with the goal of ***striving for a stable post-war Bosnia with a functioning and dynamic free-market economy and a democratic society.*** This goal is articulated through four strategic objectives:

1. Restoring private sector productive capacity to restart production quickly and to create immediate, self-sustaining employment.

2. Establishing a policy and institutional framework conductive to the emergence of a market economy, by supporting rapid privatization, critical macroeconomic reforms, sound fiscal policies, viable banking supervision, and a professional customs system.

3. Repairing war-damaged infrastructure to facilitate refugee return and reactivate the local economy.

4. Strengthen democratic institutions that promote a multi-ethnic society and political pluralism, by fostering an independent media, free and fair elections, a responsive and transparent government, citizen advocacy, and a professional, independent judiciary.

The fundamental premise of U.S. assistance to Bosnia is economic revitalization, specifically the generation of new employment and recapture of national income levels. Consequently, USAID has a number of component activities to address the strategic objectives, including the ***Private Sector Reactivitation and Development Program*** (known simply as the ***Business Development Program***). This is the focus of the evaluation, and although most other component activities are vital to private enterprise development, it is the BDP program elements that constitute the most visible aspect of USAID assistance in Bosnia.

This report will be limited to the Business Development Program, however related international donor programs will be identified and issues of complementarity pursued. In addition, other relevant USAID projects will be addressed when appropriate to the evaluation. Following this initial section that provides a framework for the evaluation, the report will explore economic and legislative issues in Bosnia as they relate to business development initiatives. Subsequent sections will expand on the specific projects of USAID Business Finance (BF) and USAID Business Consulting (BC), and these will be evaluated in conjunction with the Enterprise Survey and various interviews conducted by the team with a broad range of constituents.

2. ROLE OF BDP IN BOSNIA AND HERZEGOVINA

The Business Development Program was implemented under a $278 million budget in 1996 to accomplish two tasks. First, the Bosnian Reconstruction Finance Facility (BRFF) was to provide quick-disbursing loans to Bosnian businesses that would help jump-start economic recovery and "restart" war-shattered enterprises. Second, the Bosnia Business Assistance Center (BBAC) was charged with providing technical assistance and training to a wide range of enterprises and emerging local support organizations in support of private enterprise development. These are broad descriptions of rather complex projects, and the initial objectives and tasks of each activity have changed substantially during the two years since they were implemented. The specific activities and how they have changed are described in detail under separate sections in the report, but there is a prevailing framework under the Reconstruction Program that explains the purpose of the finance and consulting projects.

2.1 Reconstruction Environment

Prior to the war, Bosnia was a relatively low-income republic of the former Yugoslavia. GDP at the end of 1991 was barely US $8.7 billion, or roughly $2,000 per capita. This was slightly better than the Yugoslav republic of Macedonia, but far below the other republics, and the economy was contracting as the industrial base was shifting toward other regions. The present state of Bosnia, then a republic, had a diversified economy, but during the so-called Soviet era, more than half of the country's output was generated by large-scale industrial complexes established in proximity to raw materials and energy resources. The banking sector was unusual among the eastern-bloc countries with ownership based in enterprise shares. Each of the Yugoslav republics also had a major state-owned bank with foreign currency operations and certain credit capabilities. Consequently, although the former Yugoslavia was a centralized regime, it was based on a modified form of market socialism, and each republic had a history of entrepreneurial development, self-managed enterprises, and ties with trading partners in western Europe and former-Soviet republics.

By the end of the war, in 1995, Bosnia's economy had collapsed, declining from its pre-war republic levels by nearly 70 percent. Per capital GDP was barely $400 on $2.5 billion total, and employment was barely 20 percent of that registered in 1991. Monthly wages were estimated at DM 20 (about US $14) in 1995, and analysts from the World Bank estimated that reconstruction to pre-war levels would require a massive inflow of perhaps $20 billion over a five year period. Much of this could be generated through IMF tranches and various international debt structures, but at least $5 billion of direct assistance was estimated to jump start the economy and address fundamental infrastructure and humanity issues. As part of the Dayton Agreement, a consortium of international donors pledged $5.1 billion for a three-year Priority Reconstruction Program, which, to date, has been supplemented by a 1998 round of extended pledges. Through the first two years, to June 1998, $3.2 billion has been committed. The European Commission is the largest donor at $690 million, with 70 percent focused on humanitarian needs, relief, and infrastructure projects. The United States is the second-largest donor with $524 million. This is approximately 10 percent of the total need and 16 percent of commitment pledges among the 48 nations involved. More than half of this commitment is directly tied to the Business Development Program, with lending and technical assistance for enterprise development.

This background sketch of assistance indicates the direction of U.S. policies toward economic recovery in concert with other donor activities. Several of the largest donors have lending or financial grant components that are described later, but the U.S. Business Development Program has become the primary vehicle for enterprise capital recovery efforts, and under the Business Consulting component, the largest and most visible project of direct technical assistance for private enterprise development. With that said, the U.S. BDP carries tremendous responsibility for spearheading the revitalization objectives of the International Reconstruction Program.

2.2 Economic Priorities and DBP Relationships

Although Bosnia's economic recovery depends heavily on the success of donor activities, and in particular on the commercial credit and technical assistance of the BDP, it is not the responsibility of the donors or USAID to set economic priorities for the country. Indeed, the sovereign rights of the State prevail, and both economic priorities and institutions in Bosnia must reside with the people of Bosnia and their leaders. Consequently, donor activities may substantially influence economic priorities, and the *de facto* political power of the Office of the High Representative (OHR) created under the Dayton Accords may mandate certain decisions for the next several years, but it is the evolution of Bosnia's Entity governments and State macoeconomic policies that must ultimately prevail.

Economic priorities are linked closely to political issues, and there are fundamental differences in political leadership. The Serb and Coat leaders prefer a weak central government and entity-specific control over economics. In contrast the Bosniac leaders seek to strengthen the State central government and generate core economic policies for the entire country. Consequently, Federation and RS political decisions are very independent, yet many economic initiatives tend to parallel one another. For example, both entities are now pursuing compatible privatization laws, introducing similar business licensing laws, and establishing similar title registries, among other initiatives. Many are pending enactment. This line of inquiry is beyond the scope of this report, yet the political environment is crucial for economic progress, and both entities recognize a pressing need to harmonize key economic institutions such as tax administration, bank transaction and payments systems, customs administration, and privatization.

The first significant step in harmonization is the creation of, and support for, an effective Central Bank. Officially, the State and OHR instituted the Central Bank in August 1997 under a currency board arrangement with severely restricted operations – mainly to print currency and oversee foreign currency and external debt transactions. Entity "national" banking must be liquidated before the Central Bank can evolve toward a true arm of monetary policy, and this has not yet occurred. In addition, the three transaction clearing systems (ZPPs) must be reconciled (i.e., regulated, coordinated, collapsed into one system, or eliminated). These monetary and banking issues aside, the major policy reforms defined at the State level for the country and the Entities include:

- Compatible and widespread privatization in both entities, completed as rapidly as feasible.
- Creation of a commercial legal code that is conducive to private sector growth and congruent with international laws, thus attractive to foreign investors.
- Joint banking, transaction, and customs administration defined in the Dayton accord to be clarified at law and implemented.
- Initiation of tax administrations and enforcement procedures for Entities that ensure level playing fields and consistent applications of relevant fiscal policies.
- Mobilizing domestic resources through a fair and transparent intergovernment finance system.
- Compliance at the State and Entity levels for conditions under the IMF Stand-By Agreement, Paris Club creditors, and London Club accords, specifically for normalizing external arrears and restructuring external debt.

In concert with Federation and RS governments, USAID has responded to a number of specific economic priorities under the broad reach of the economic objectives noted above. These include greater involvement in the Community Rehabilitation Projects (CIRPs), implementing the Municipal Infrastructure and Services (MIS) project, working with the UNHCR for re-employment of refugees with complementary development efforts in the "Open Cities" initiative, working through a system of coordinated Task Forces to systematically orchestrate donor assistance, and linking development support by USAID with SFOR missions such as the Tuzla-Brcko Rail Rehabilitation project. USAID has responsibility for coordinating the Industry Task Force, which is positioned under the Business Consulting scope of work.

Many of USAID's activities are outside the BDP mandate, yet in many ways, they are integral parts of the total development process and cannot be neatly compartmentalized. Specifically, the legal and regulatory aspects of both Federation and RS entities require reforms through their governments, and these are being addressed in part through US-funded projects. In addition, banking supervision, bank regulations, and enforcement of international accounting standards on banks and enterprise transactions are initiatives pursued through a separate USAID project. These activities include drafting by US experts new laws on collateral, property registration, deposit insurance systems, foreign exchange rules, and bank insolvency procedures. Also, activities focus on judicial reforms for appointing and removing judges, enforcing judicial rulings, and a significant effort to provide training for the State's judicial. The privatization efforts are very visible and are addressed through contractual assistance, but other projects impact on privatization through legislation on bankruptcy, liquidation, trustee systems, and establishing domestic and international arbitration procedures. Not least of all, several USAID activities have cross-linked purposes, such as improving enterprise accounting systems, providing commercial regulations and enterprise laws to ensure basic property rights, reconcile restitution problems, and improve corporate governance. In conjunction with these effort (and in close association with the business development component), USAID has created activities aimed at establishing viable securities regulations and a foundation for capital markets.

These associated activities and projects are not inclusive of US assistance in Bosnia, but together they represent a wide span of interests, all aimed in the same direction: to meet the Mission's major objectives noted earlier for private enterprise development with sustainable democratic institutions. The effectiveness of any one project or component activity cannot be isolated from results attained in others, nor can they be explained apart from the economic realities of Bosnia and its Entities. With that said, the Business Development Program's role is far from insular. For example, to the extent that privatization occurs, BDP financial opportunities will reach a greater number of private companies with growth incentives and demand for capital. Privatization of existing BF clients will most probably alter their entire organizational structure and the priority of loans, performance expectations, and repayment options. To the extent that privatization fails to meet expectations, a number of BF clients may present more difficult problems for loan administration and subsequent demand for technical consulting intervention that would be in the interest of all parties. Similar scenarios could be written for nearly all assistance efforts; success of any program is interwoven with success of others.

2.3 Duality of BDP Technical and Leadership Roles

The size and potential impact of BDP activities on other USAID and international donor programs must be recognized as a vital dimension of the Reconstruction Program. As the primary-- and in many instances -- only source of commercial credit available to enterprises, the BDP may be the single most important engine for financial growth in the private enterprise sector. Privatized firms and new start-up companies simply may vanish in certain instances without this support, but most Bosnians are probably resilient enough to overcome these difficulties if BDP did not exist. Without foreign assistance of the type BF and BC provide, economic recovery would be stalled or take a very long time to regenerate. More important, without assistance, many of the companies would not readily reposition themselves along market dynamics and western business practices, but "regenerate" along familiar lines and management techniques common to the old regime. These are pre-war practices that, at that time, were inept, and at the moment, would not help Bosnia to sustain itself as a competitive nation in the European region.

Against this backdrop, the BDP components fulfill two vital strategic roles. The first role is the implementation of actual tasks under the specific scopes of work for Business Finance and Business Consulting. These are the core issues of this evaluation and are addressed under separate parts of this report. The second role is one of development leadership among the donors and within the fragmented nation itself. This role cannot be assessed or measured, yet it is crucial. Specifically, if BDP fails to meet its expectations, the United States could be chided for failing to uphold its commitment under the Dayton Accords. If the shortfall in results is serious, USAID (and everyone involved) may be subject to ridicule at home, in Bosnia, and among the ranks of international donors. BDP is highly visible, and the U.S. is expected to be the leader in both private enterprise development and support for democratic institutions; Americans carry the torch for both roles.

There are practical implications for even a small distortion in results. Assume that a few noticeable BF loans default or need serious restructuring, the shining image of US assistance gathers a bit of tarnish. Subsequently, other donors such as EBRD and the IFC sense a potential hole in the dam and raise their risk profile. Perhaps reporting analysts such as those for the Economist Intelligence Unit or the IMF discover the problems, and USAID gains unwanted attention by the outside world. Even if BF reconciles the loans and the vast majority of activities are successful, an image emerges in the press (and perhaps in London or Washington) that the U.S. is in trouble in Bosnia. Under this scenario, donors may revise their own risk assessments and clamp down on their own lending initiatives. Also, foreign banks that may have considered coming to Bosnia might be influenced to look elsewhere for investments. And potential foreign investors contracted through USAID may be less likely to favor opportunities in Bosnia. These may not be significant issues, but a tarnished image (even if unjustified) could produce a knee-jerk effect to replace contractors, limit funding, or look for scapegoats in an otherwise very successful program. A small distortion, therefore, could have ripple effects. This may not be an issue in smaller and less visible programs elsewhere, but with the commitment that USAID has in Bosnia and the sensitivity of its leadership position, anything less than full achievement of objectives could snowball, thus wounding other activities and affecting other donor programs.

3. MANAGEMENT STRATEGIES AND BDP OBJECTIVES

The duality of roles noted above, and the interrelated nature of USAID activities in Bosnia, set this USAID Mission apart from most others. From the perspective of the Business Development Program, the strategies of assistance and the specific objectives of program components are subsequently affected by external circumstances, domestic political priorities, economic developments within the State and its Entities, and Mission priorities. In turn, Mission priorities are in part hostage to external events and to U.S. foreign assistance priorities emanating from Washington and among other donor constituents in Bosnia. It is no wonder, then, that whatever strategies were initially adopted would not be entirely viable for long under a constantly changing development scenario. Objectives and performance expectations would be subsequently modified. Of course, this is precisely what has happened in Bosnia with the Business Development Program activities, but it has not always happened proactively. Indeed, most changes have occurred in hindsight as events outpaced the ability to manage change.

3.1 Management Issues

The evaluation team was introduced to events and information upon arrival that indicated a certain degree of animosity, and perhaps some finger-pointing, at mistakes in judgment and misdirection in management. This is history, and assuming that past events have been addressed or individual problems resolved, it would not be constructive to dwell on individuals or management issues that occurred earlier in the program. However, it is important to note that there has been redirection and reorganization that often detracted from a keen focus on primary objectives, and some of these problems persist today. There has been a relatively stable management structure at the Mission and both BF and BC projects after several initial changes as the program started.

Business Consulting has had a continuity of leadership since inception, although internal reorganization and changes in responsibilities have created some confusion. The BF leadership had a rocky beginning with significant changes, but it has solidified into a predictable management structure, and more recently, has refined its organizational responsibilities internally to greatly enhance leadership priorities. Some changes at the Mission level for persons involved in the program have temporarily disrupted communications, but the changes seem to have been important and constructive. The number of changes in activity mandates have been more difficult issues, and in many instances, they were not well managed at the project level. BF seems to have been very responsive to these issues over the past year or more, but BC seems to have responded less constructively, and this behavior is symptomatic of inconsistent management. The issues are not personified in this report, but there are two statements that the evaluation report should include before looking closely at BDP's specific strategies and objectives:

1. Management turnover at the program and activity level has relatively minor for such a complex environment, yet they also have been associated with rather abrupt changes in direction for activities and performance expectations within the projects themselves. The perception is that turnover of several key people was warranted by events, and that perhaps wrongly recruited persons were in these positions at the outset. On the other hand, many of the consultants and several Mission officers felt that management and its decision-making process, particularly at BC, has not consistently addressed priority problems. Consequently, at the operational level of the projects (BC in particular), there is a degree of uncertainty about Mission expectations and project performance requirements.

2. There is a general viewpoint held by contractors, consultants, and several observers from other donor organizations that USAID was given an impossible mandate of tasks, and subsequently sought to micro-manage BDP to force through results. The perception is that key people may have been burnt

out and BDP project management was emasculated to the point that many activities became marginally effective. Some objectives apparently were sidetracked.

3.2 Strategies and Objectives

The fundamental objective of the Business Development Program is to address the first strategic objective of USAID's reconstruction assistance: ***To restore private sector productive capacity, thus providing immediate employment growth and medium-term sustainable economic growth.*** The strategy to accomplish this objective is to provide a dual-activity program that ***provides commercial credit in the form of quick-disbursing loans to private Bosnian businesses in concert with business consulting services to improve financial management, marketing, and business plan development skills.***

This strategic foundation has not changed, yet the initial scope of activities for each component of the program included flawed design elements that were formally altered in 1997, and periodically "redirected" through the Mission or BDP management. Specifically, the initial requirements for the BF component outlined a total budget for loans and a projected number of disbursed loans over the life of the project. These were also linked to organizations that could be rapidly "restarted," and more specifically to those that could be expected to increase employment once successful in their plans. The quality of loans, therefore, rested on assumptions about what enterprises might be quickly re-energized through infusions of credits, and about what companies could employ new people. Both assumptions were shaky, and in retrospect, erroneous on several counts. First, state-owned companies were the primary candidates with a track record to suggest "restart" support, but SOEs notoriously hold too many people on their payrolls or have commitments to people on waiting lists to return to work. Consequently, an SOE may recover, but not necessarily employ people productively. Indeed, they may contract. A loan made in good faith may do little more than perpetuate an inefficient SOE. Second, companies may have had promising markets in pre-war days, but with many domestic and regional changes, those markets often no longer exist. Therefore, a wonderfully prepared business plan may have no effective demand behind the projections, and a "restart" only helps to reposition a company in a losing situation.

Without a doubt, early assumptions about circumstances in Bosnia were in error, or perhaps more accurately, events in Bosnia did not unfold as expected. Economic and political issues aside, assumptions about the likelihood of privatization have yet to be realized. The assumption about viable banking to emerge during this transition era has not only failed to materialize, but most banks in Bosnia are insolvent. One emerging view is that banks are conduits for donor-related money or transaction vehicles for proprietary shareholders; many state banks may be little more than accounting centers for monetarized state assets and liabilities that provide no commercial liquidity. Consequently, using the banks as agents for loan disbursements, while necessary, does not guarantee that those banks will actually supervise the loans or provide the due diligence required for normal lending activities. Indeed, as events have shown, some banks are capable of fraud or manipulation of funds that can raise the risk of commercial lending.

Perhaps the biggest gap between assumptions and reality existed is the belief that company managers could readily accept new techniques for financial planning or marketing with relatively little technical assistance, and subsequently transform their enterprises into viable fast-growing businesses. In fact, the initial mandate of the Business Consulting component to focus on marketing, financial, and business planning assistance grossly understated the depth of assistance needed for operational management, production, quality process controls, export development, purchasing, and many other industry-specific technical requirements. The result was a separate consulting scope of work, meant not only to support the Business Finance lending activities with business and financial planning, but to become a crucial partner in the lending review and approval process. In addition, a greater role for direct consulting, turnaround, data management, industry research, support for privatization, and indigenous training and development were written in the project objectives.

When these early events are taken as a whole, both Business Finance and Business Consulting components were faced with far more work than originally envisioned, more sensitive decisions with relatively sparse resources, and greater expectations for processing and monitoring loans. The primary objectives, quantified in numbers of loans to be approved and disbursed coupled with expectations for increased enterprise performance and employment, became even more complicated. New expectations emerged periodically as the scope of USAID interests evolved. These included the use of PVOs to provide depth of consulting to targeted industries, extensive bank training, standardized intervention tools for various aspects of enterprise management, and enterprise management training. In addition, there was an explicit requirement to develop indigenous capabilities for business support organizations, and to branch out geographically. Also, there was an expectation to increase the rate of loan disbursements exempting state-owned enterprises. More changes occurred with joint NATO interests to address development issues in the Republika Srpska and the city of Brcko. Recent modifications include expectations for smaller loans to more entrepreneurial enterprises, utilizing more agent banks across a wider girth of the country.

Several obvious difficulties emerge from these scenarios. Making more loans in smaller amounts, for example, places greater pressure on qualifying applicants and monitoring loans. Meanwhile, the level of total disbursements remains high, thus spreading responsibilities further among fixed resources and a corps of consultants that is already stretched. Greater expectations for restructuring loans and turning around enterprise operations places added responsibilities for indepth consulting on existing capabilities for both Business Finance and Business Consulting. Moving entirely away from state-owned enterprises may actually enhance the employment results as smaller private firms typically make greater strides in early expansion efforts than larger SOEs that often retrench before repositioning themselves for growth. However, there is an existing requirement for the BDP to support privatization measures, including lending activities and consulting support. It is not clear how this expectation is to be achieved when dealing with SOEs listed for privatization, or those that are in a process of restructuring.

Finally, there are added responsibilities written into the revised tasks for contractors to cooperate with international donor activities, to coordinate assistance, to provide research support and industry studies related to Industry Task Force objectives, and quickly mount an effort to transfer responsibilities for commercial lending and business consulting to Bosnian organizations. Perhaps there was no explicit expectation for a "rapid or thorough transfer" of responsibilities, but the program itself was expected to aggressively pursue a systematic transition. With that said, there have been a number of operational changes for monitoring enterprise progress, developing data bases, establishing standardized methods of consulting intervention, managing the PVO initiatives, and performing loan diagnostics and subsequent turnaround activities. Many of these changes have improved the management of each component, but they do not necessarily reduce the level of effort required or alleviate the burden of disbursements. Many of the positive changes have been implemented during the most recent quarter prior to the evaluation, but the existing project contracts are coming to an end. The Finance component may be awarded to a new contractor under a revised SOW that, in itself, may be further modified with recent changes noted above. Meanwhile, the existing Finance component has been subject to short-term extensions and significant modifications during the previous year – several unofficially pressed forward in recent months. The Consulting component will close on September 30, perhaps to be revised, activities transferred to another USAID program, or a new configuration of activities designed.

As a general statement, as these component activities of BDP come to a critical stage of change, they are finally beginning to solidify into compatible operational patterns. Their management structures have begun to gel, and they have begun to realistically understand how to pursue their objectives. The pending contractual changes may introduce a degree of uncertainty back into the projects, and new contractors (regardless of the configuration of objectives or redesign of the program) will require a rapid learning curve by staff consultants unfamiliar with Bosnia. These are important concerns for the evaluation, and they will be addressed appropriately. Meanwhile, USAID must also be concerned with the strategic thrust of the Business Development Program and how it relates to activities of other international donors. In the following section, the status of donor assistance programs related to industry and finance are summarized as a prelude to the following sections of this report.

4. RELATED INTERNATIONAL DONOR ACTIVITIES

During interviews by the evaluation team with other donors in Saravejo, three patterns of response emerged. First, representatives of the World Bank, EBRD, IFC, and others indicated that USAID's BDP activities were the foremost in Bosnia with respect to both commercial credits and enterprise consulting. Second, they felt that among them, including USAID, there was not sufficient coordination of technical assistance or lending activities, and consequently, there was evidence of duplication of services. This duplication may not be significant, but it apparently occurs in bank training, certain aspects of lending to key sectors, and legal reforms. Third, all donors expressed an interest in combining forces on loans and technical assistance, but admitted to maintaining some distance from one another. There may be good reasons for this distance as lending requirements and technical assistance differ among donors, and there are fundamental differences in the way loans are structured and monitored by each donor. The following is a brief summary of the primary programs that exist with respect to business development.

1. **World Bank ERP IBF credit line.** This part of the World Bank program represents approximately DM 112 million to date and is a fold-over program from the World Bank PCU and GTZ joint banking project. Under the original project design, approximately 300 loans were disbursed totaling DM 57 million. An additional 250 loans have been considered, with 55 tentatively approved. The largest number of loans have been in the food processing industry, followed by loans to the timber and wood industry, and then building materials enterprises. This pattern, in part, reflects the World Bank's focus on reconstruction more than on industry or manufacturing, yet 31 credits have found their way into industry. There is a sense that World Bank lending and USAID lending for client companies in food processing and the wood sector have some duplication. Indeed, some credit line proceeds may have been used to meet USAID payments, but this cannot be confirmed.

2. **World Bank TAC IBF credit line.** This activity of the World Bank is directed toward Federation redevelopment projects implemented through the Ministry of Finance with approximately 130 loans for a total of DM 48 million. There may be some controversy about credit line management, and although fully subscribed and subject to expansion, current activities are limited to re-flows with no new loans under consideration.

3. **World Bank Local Initiatives.** A widely dispersed system of small "microcredit" lending was implemented by the World Bank in 1996 with more than 6,000 loans totaling DM19 million disbursed. There is a sense of high risk and a high cost of monitoring these loans, and subsequently, an expectation for higher-than-average nonperformance. Consequently, the World Bank has not fully funded the activity and may not be able to pursue it further under the existing design.

4. **World Bank Investment Guarantee Agency.** The IGA has a target of DM80 million but has raised less than DM5 million, mainly from the Netherlands and Japan, but expects a significant input from the British side. This is a political risk guarantee facility, which the World Bank representative in Saravejo indicated was a vital program for attracting foreign investors. Without the IGA and commensurate backing by other agencies, the prospects for FDI growth will remain clouded. Interviews with World Bank representatives in Saravejo prompted several suggestions regarding guarantee and lending activities. The World Bank felt that USAID has taken an important lead in commercial credit, but also created a somewhat risky portfolio and image of "impatient lending" rather that financial activities based on sound analyses. Nevertheless, it was believed that the World Bank, EBRD, and USAID could collectively perform better with more compatible data-sharing and better coordinated assistance.

5. **IFC Business Support.** Under separate funding of approximately DM20 million, the IFC has established a credit line for the timber and wood industry, and a proposal for establishing enterprise incubators targeted for high-growth companies in exportable wood and textile products. Interviews with IFC representatives in Sarajevo indicate that both programs will expand, but that the direct lending activity is something new for the IFC and will involve four agent banks for disbursing loans between DM300,000 and DM1.0 million. The terms of loans are expected to vary between six months for specific projects and 7-to-8 years for reconstruction or equipment expansion. In this regard, the IFC has a different structure of loans than USAID, yet the representative suggests that World Bank, IFC, EBRD, and USAID could leverage their interests much better if they coordinated lending and capital investment activities.

6. **EBRD/IFC Microcredit Bank Project.** This joint project to launch a bank specifically directed toward very small loans to microenterprises was initiated in late 1997. It has made nearly 400 loans for a total disbursement of slightly more than DM3 million, or an average loan size of approximately DM7,600. More than half of the loans have gone to proprietorships and service businesses in wholesale and retail trades, more than half to women-owned enterprises, and smaller numbers to rural and municipal enterprise projects. These are almost entirely working capital loans and very short term. There is a sense that some proceeds went to service other loans, and perhaps to meet USAID payments, but this cannot be verified. To the degree that loans are made to aspiring entrepreneurs, there is a "seed capital" element to credits that, in some cases, may end up being swapped out if repayment schedules cannot be enforced.

7. **ERBD Horizonte Fund.** This is an investment vehicle for equity capital launched in late 1997 with DM31 million. Together with several other capital investment projects under EBRD (i.e., BH Bank Investment and the BH Reconstruction Equity Fund), an equity investment base is expected to reach DM110 million by the end of 1998 with twinning contracts with two Irish banks, and eight regional development projects. Investment requirements preclude greenfield projects and narrowly defined working capital requirements but instead focus on companies with expansion capabilities in need of specific capital equipment or plant capacity. Interviews with EBRD representatives indicated an interest in working more closely with USAID on loans, monitoring, and agent bank evaluations.

8. **GTZ Tuzla Development Corporation.** This is a partial grant and partial credit line project of DM10 million directed toward enterprise development that can absorb refugees. This stand-alone effort does not have reported results, but GTZ contractors have apparently allocated DM1 million for technical assistance in support of grant applications by refugees seeking to start new businesses, and in that sense, it is one of the few "seed capital" projects in the country.

9. **EU Industrial Development Program.** The European Union has a number of projects under this program that are partially directed toward capacity building and partially directed toward grants for business development. With DM34 million, the EU activities include support for Bosnia Chambers of Commerce, grants to women entrepreneurs, research and development for business connections in the wood sector, and marketing/business connections for any enterprise with EU trade potential. To a significant degree, these activities are closely associated with USAID BC activities concerned with business connections and capacity building.

10. **EU Regional Development and Village Employment Projects.** These two projects operate separately with DM 6.6 million and DM 12 million respectively with a combined 18 activities. Many of the activities are concerned with refugees and environmental planning (issues not directly related to BDP efforts), yet at least five component activities are very closely related to BDP. These include development planning for business trade, training and development for professional self-help organizations (NGOs or specifically BSOs), training for technical and management competencies for private enterprises, rehabilitation programs, and infrastructure/environmental initiatives.

11. **UNIDO.** Although the UN has a number of social programs and is involved in refugee and humanitarian issues, it has relatively little business-related activity. Nevertheless, UNIDO does has a Business Assistance project in several remote locations that seems to duplicate activities being pursued by USAID Business Consulting. UNIDO offers seminars and enterprise training on business plans, loan applications, sourcing credits, starting new businesses, managing small businesses, and marketing. It also has committed funds to develop a database for lenders and enterprise registrations, and apparently has established small business centers in Zenica and Bihac. The evaluation team has not investigated these activities to make any further comments.

12. **Other Donor Interests.** With 48 donor nations involved in Bosnia, there are many more active initiatives and more planned than indicated above. Italy has been active in its Counterpart Fund, financing through various forms of convertible credits or equity some 43 projects for a total of DM 13 million. The British Know-How Fund has focused on coordinating technical assistance and privatization support to the Republika Srpska. The GTZ component includes a significant effort to assist in reform legislation and enterprise training activities. Turkey reportedly has issued direct credits for approximately $5 million and indirect in-kind credits of $20 million over more than 20 private enterprise projects. The ILO as approved a credit line for small enterprises and has plans for business planning assistance. Germany has at least five programs involving credit lines to SMEs, reforms to tax administration in the RS, support for commercial and judicial training with RS ministries, and foreign bank linkage initiatives. However, information about German activities was not verified in this report. Finally, coalitions of development loan/equity packages have been generated for specific companies by multi-donor ventures or Bosnian-foreign joint venture contracts. There are very few of these, but apparently notable contracts exist with a refinery/brewery, a steel plant in Zenica, an energy company underwritten by Kuwait and Saudi Arabia, and four Swedish ventures with direct investment in Bosnian subcontractors.

III. LEGAL AND ECONOMIC REFORM ENVIRONMENT

1. INTRODUCTION

This section will summarize recent developments in the State and Entity governments, economic changes and a review of the most recent initiatives for legislation, privatization, and commercial reforms. This is not meant to be a comprehensive economic or legal reform analysis but to provide a foundation for the evaluations of USAID Business Finance and USAID Business Consulting components that follow in separate sections. Statistical data is sparse and subject to interpretation, and although a concerted effort was made to cross-check information from the primary sources with World Bank or IMF information, it is clear that substantial disparities exist. This is particularly true for Republika Srpska were much data is unreported or simply missing.

As an overview, the economy in the Federation has been recovering at a more rapid pace than in the RS. There have been greater income and employment gains, less evidence of stalled industries, better efforts to improve infrastructure, and more meaningful reforms with respect to commercial laws and private enterprise development. At the same time, RS laws have been more quickly implemented in several instances, reflecting less political infighting within the Entity. A false start (and one being reversed) for privatization in the RS has created difficulties, and foreign assistance to the RS has been relatively weak compared to the Federation. Nevertheless, assistance has begun to shift to effect a better balance in development. USAID in particular has expanded into the RS, recognizing that continued emphasis on the Federation will, in due course, polarize the Entities even further and subsequently weaken the broader reconstruction program for the State of Bosnia and Herzegovina.

Perhaps it is crucial to emphasize at the outset of this section (and before BF and BC sections) that United States assistance came to Bosnia literally with the troop transports deployed here to effect the Dayton Accords. At that time, the country was at its lowest economic point, far worse than pre-war conditions with more than 200,000 dead or missing, an uneasy truce, devastated industry, and a shattered social structure. The U.S. in conjunction with other donors had a single focus – to reverse this devastation through commercial and industrial revitalization. Since that time, everyone has been involved in the rapid and often dramatic changes in the country, and the USAID projects have been in constant evolution from that first severe "emergency" situation to a point now that people have opportunities to rebuild their businesses and their societies. At the same time, the State and its Entities have a protective umbrella that buys time to create the institutional fabric necessary for a market economy. The economic data that follow do not reflect a market economy or a nation with the fundamental capacity for self-determined growth. To the contrary, economy recovery exists primarily through extensive foreign assistance support bolstered by military oversight.

It is equally important to recognize that USAID programs exist within this fragile framework of political and economic instability, an in many instance, provide the essential leadership required for Bosnia to recover. The economic and legal review that follows is essential to a basic understanding of the environment in which USAID contractors operate. Any assessment of the BF and BC components that follow will attempt to bear in mind the constraints and challenges facing them, and any judgments of the activities, individuals, managers, or Mission officers must be diligently presented within the severity of this dynamic environment.

2. ECONOMIC ENVIRONMENT

The State economy grew rapidly during 1996 and 1997 with continued growth expected in 1998. According to entity estimates by the Federal Institute of Statistics and the Republic Institute of Statistics, and including preliminary data from the World Bank, the combined State GDP rose in 1996 by 37 percent, 35 percent in 1997, and is projected at 35 percent in 1998. Federation growth in GDP may have reached 55 percent in 1996 while RS GDP growth hovered at 19 percent. There is no clear data for RS in 1997, and even the World Bank only has rough estimates to support the projections. State industrial output rose 22 percent in 1996 and 19 percent in 1997, with similar disparities in Federation and RS results. The Federation's industrial growth in 1996 and 1997 may have reached annual rates of 35 percent while RS growth rates were recorded at roughly 26 percent (but with four sectors negative and not reported in the data).

Statistics belie the fact that Bosnia's overall economy is dichotomous and also growing from a level that, at the beginning of 1996, probably was no more than 20 percent of pre-war capacity in terms of employment an industrial activity. Even at the end of 1997 with somewhat optimistic estimates, the level of economic activity is no more than 40 percent of pre-war levels, fueled by international infusions of donor assistance and spending outside domestic data indices.

The State population shrank from a pre-war level of approximately 4.4 million persons to a year-end 1996 level of approximately 3.6 million, but this may be inflated from early 1996 post-war data by registered refugees and errors in relocation. Overall, Bosnia lost nearly a million people through the war or out-migration between 1991 and the end of 1995 (20 percent of households and 24 percent of the total population. Point estimates in 1997 by CIET (the latest reliable data) indicates that these estimates error on the high side. Actual population levels for the Federation and RS may have dwindled further, particularly as youth aged 18-25, and people with monetary resources aged 35-45, departed the country. Those of pensionable ages increased by at least five percent in 1996 and 1997. At the end of 1997, the Federal Employment Bureau reported 208,203 unemployed persons. Following ILO conventions, this was 29.8 percent of the 697, 607 eligible adult population in the Federation. The RS has not published employment data since 1996, but at the time, official labor force stood at 315,478 with 121,904 persons unemployed (38.6 percent).

Bosnia does not have acceptable wage and price data for the country as a whole, in part due to unpublished and unreported data by RS, and in part due to an estimated 41 percent of the total economy remaining unregistered (shadow or gray). However, the average net monthly wage in the Federation for 1996 was approximately DM 184, and in 1997, DM 266 – up 57 percent on the year. The service sector paid an average of DM 347 while industry reported DM 234 in 1997, which generated a huge disparity in registered incomes, but the World Bank cautions that all wage data is, at best, a loose judgment based on officially reported wage earners that are likely to be extremely biased by the use of "hidden books," unreported paid hours, non-monetary barter, and a cash-and-carry economy. A better breakdown of sector data is also missing, but a general trend is defensible: wages have increased rapidly for those in the official economy, and the production sector generally lags those of trades and services.

Meanwhile, prices may be rising at a rate of less than 1.0 percent a month, adjusted for seasonality, about 0.9 percent on average or, in 1997, roughly 10.2 percent annually.. Industrial production prices in 1997 showed no change over 1996, which was only mildly questioned by World Bank analysts. IMF estimates for retail price inflation refines the data slightly, noting that prices rose in the Federation in 1997 by an estimated 10.8 percent and 1.4 percent in RS. The weighted average may therefore be closer to 9.1 percent for the State in that year. The Economist Intelligence Unit suggested that Federation inflation for 1996 went negative (-20% annualized) and was up dramatically in RS (+60%), then in each entity was abruptly reversed in 1997; the EIU has estimated State inflation for 1998 to stay slightly above 10 percent, and higher for the Federation than for the Republika Srpska. Overall, inflation is not a significant problem for either producer or consumer sectors.

Although these data are highly selective, they are important to the evaluation in several ways. Growth in GDP is a consistent indicator of progressive job creation and incremental new national income. This is particularly important when noting that Bosnia's current account has been negative and the deficit rising exceptionally into early 1998. External debt is no longer reported due to various World Bank and IMF balancing account transactions, a revised Paris Agreement, and a current requirement to reconcile the old national bank accounts with new Central Bank (currency board) cash issues. Nevertheless, the point remains that the economy has expanded, and when prices and wages are factored in, the growth has been in real terms. Unemployment does not seem to have been significantly addressed, but that is misleading. Private sector employment has increased in all Federation sectors and in four of the five main RS sectors (agriculture and forestry may have declined). This is further clouded by the gray economy and unreliable data on incomes, tax reporting, and business receipts. The private sector, however, is having an apparent marked effect coupled with international programs of assistance that absorb employment among certain professions and services, and together, prompt rises in associated government services, transport, and construction.

3. LEGAL AND REGULATORY ENVIRONMENT

A complete review of the legal and regulatory environment is beyond this evaluation report, but there are several critical legislative issues that directly affect the Business Development Program. The Central Bank Law, passed in 1997, has been slow to be implemented with snags in reconciliation of Central Bank and national entity bank accounts. The transactions procedures for clearing accounts remains an issue, and bank supervision regulations have been written and proposed, but not substantially passed without emasculation by parliamentary procedures. The Budget Law, passed each year, continues to be controversial and often delayed within each entity so that the State and Entity budgets cloud the nation's ability to address payments required for external debt. Coupled with this is an ineffective Treasury function, which is being addressed by a consortium of donors who seek to introduce legislation and a Treasury process capable of stabilizing fiscal operations at the state level. In effect, the BiH State cannot effectively negotiate international debt without significant intervention by the IMF or OHR, and according to IMF reports, until the Presidency of the State and the entities harmonize their fiscal mandates, Bosnia will continue to be pressured by the international community for reforms.

The Council of Ministers adopted a new Foreign Trade Law in 1997, written through a cooperative EU and WB program. This was enacted in November 1997, but sections relating to foreign investment were reportedly amended to the point of ineffectiveness. Subsequently, a separate Foreign Investment Law was written in conjunction with the EU an OHR, and in effect "imposed" through OHR in March 1998. The law was ratified by parliament on May 18, 1998. Unfortunately, Bosnia politicians apparently reinforced so-called Special Trade Agreements that directly affect customs regulations when, in fact, these laws were supposed to be nullified by the Foreign Trade Law. The result has been a persistent confusion of laws and customs regulations that, according to the European Commission, have weakened the efforts of the international community to attract investment to Bosnia. Representatives from the OHR say that government ministers have continued to "tinker" with these and other laws vital to harmonizing trade initiatives. In fact, there were 142 proposals drafted for consideration through (or by) the Council of Ministers during the first quarter 1998, half of which related to trade and investment, yet only four pressed to parliament and passed. Legislation crucial to the country's stabilization efforts has not yet surfaced, and Bosnia is apparently far from ready to be considered as a member of the World Customs Organization, the World Trade Organization, or any of the international trade conventions.

Fiscal laws under the Federation and its canton system of government remain oblique. While there has been a positive effort to decentralize fiscal power, thus devolving authority to the cantons, the administrative infrastructure remains weak. Consequently, tax administration, collection, and revenue sharing requirements cannot be enforced with regularity. Some cantons have addressed their regulatory responsibilities with a genuine effort to reform local laws and fiscal procedures, yet others are virtually inept (or politically opposed) to the direction government is taking. Incidentally, many of these reforms are mandated by the Dayton accords, but implementation often flies in the face of reality. In any event, tax laws and administration must be reconciled before the State or its Entities can solidify their budgets and pursue meaningful fiscal policies.

Corporate and personal income tax laws are vastly different in the Federation and RS, and within each entity, they are complicated. Wage and social contribution taxes are extremely high, VAT laws are under reform proposals, and custom duties are difficult to determine and nearly impossible to enforce. This composite profile has serious effects on private sector development, employment, continued growth of the gray market, and off-budget gymnastics by politicians, state-owned enterprises, and many in the private sector.

Both Federation and RS governments are faced with major reforms in pension and unemployment laws. These are complicated by obligations in both Entities to war veterans, refugees, and displaced persons, but also by unmanageable public pension programs and disability laws. Several very recent initiatives (now pending in both houses of the Federation Parliament) could help clarify pension and veteran liabilities, but several are interrelated with privatization issues and a need to harmonize new laws with RS proposals. Development work is hampered by conflicting interests in which many people expect state support and systems of entitlements similar to those that existed in the pre-war socialist economy. Among the SOEs, a psyche prevails of keeping people employed and shifted the burden to state resources (or creating arrears with no intention of reconciliation). Those in the private sector have no particular desire to employ people with the burden of wage and social contribution taxes. Meanwhile, USAID and others seek to establish an active labor community.

Bank reforms present a further complication to USAIDs efforts, and will directly affect future lending programs. In February 1998, a law on Bank Privatization was passed in the Federation that will eventually restructure, privatize, or liquidate all "socially" owned banks (state-owned). This will require a number of complication steps, starting with another law on Opening Balance Sheets to first make al bank assets and liabilities transparent. The Federation Banking Agency has begun to solidify its mandate to pursue commercial banking laws, various prudential regulations, and a Payments System Reform. The picture is one of a number of parallel and interwoven achievements that must be attained before bank privatization can actually occur. Meanwhile, separate work is being pursued by the MOF, Word Bank, and others to facilitate the privatization process, establish auditing processes, and strengthen bank supervision. USAID is very much involved in many of these initiatives and in bank training, licensing, supervision, drafting of commercial banking laws, and so on. Similar and parallel efforts exist to reform the RS banking system, but legislative progress is stalled. With this said, the forecast is for dramatic changes in both Federation and RS state-backed (social) banking systems in 1999 and 2000 with major shake-out effects, consolidation, and a roll-on effect for private banks.

At the end of this section, a brief commentary will address the "enabling environment" for private enterprise development, but this environment is substantially dependent on passage of fiscal and banking legislation, privatization laws, and a complex assortment of reforms aimed at the commercial sector. Some initiatives have been enacted, several are in draft form, and many are now before parliament. These are very positive indicators that at least the Federation government is moving in the right direction to establish the groundwork for a market economy. The RS has actually been ahead of the Federation on some points, but generally behind in most. USAID, GTZ, WB, and the OHR are very much involved in drafting and supporting a vast amount of essential legislation. Property laws are among the most pressing to reconcile real property rights, privatization of apartments or abandoned sites, and to address pressing housing needs across the country. Several have been passed but require concerted efforts to pass privatization issues to become effective. Collateral laws are in draft form, and USAID has sponsored legislation for establishing land and title registries, and thereby creating a collateral registry to support commercial credits and capital accumulation. Accounting and auditing laws are in process, a commercial code is possible within the next two years if contracts and agency laws can be adopted, and at least 14 initiatives are in various stages of reading or review concerning corporation and securities regulations an capital markets development.

4. PRIVATIZATION

Enterprise privatization presents an immediate challenge for implementing laws that have been adopted, and for passed legislation required for the entire program to go forward. Clearly, there is a range of activities essential for privatization of state-owned enterprises (exempting banks) to occur. There is a great deal of optimism that privatization will occur with a pervasive effect once launched, and USAID will continue to play a major role in the process.

The Federation Law on Privatization of Enterprises was introduced in June 1997, passed with amendments in March 1998, and expected to take effect by June 1998. A Federation Privatization Agency was also established and has been under USAID support for training and procedural structuring. These two factors provide the foundation for enterprise privatization, but because privatization will occur through four methodologies, and with four constituent bases, there are two accompanying bodies of legislation required for the entire program to go forward. Essentially, privatization will be accomplished through a system of denominated certificate rights (accounting rights, not hard vouchers) which will be issued to four claimants: 1) individuals who lost foreign currency deposits or hard currency assets during the move toward independence and subsequent war; 2) individuals with work records and longevity rights to a portion of the certificates; 3) certificates issued based on land title rights emanating through a separate law on Restitution; and 4) government liabilities to veterans and war survivors, including pay arrears and disability claims.

Privatization will be stratified, with Federation jurisdiction under the FDA, and cantonal jurisdiction for local industries, properties, and assets under the restitution laws. In addition, it will occur in stages. Initially, the government envisioned a first-stage privatization of residential claims on apartments and titled lands, then mass privatization of small enterprises and converted assets (e.g., equipment or vehicles from a restructured large SOE), and finally a major privatization effort for large enterprises. Some cash buying for residences has begun to occur, but a Land Restitution Law has become bogged down, creating a bottleneck for privatization plans. Small enterprise/asset privatization has been moved ahead, scheduled to take place toward the end of 1998. Essentially all laws are in place to proceed, but there are controversies about voucher rights that may delay implementation. Specifically, government cannot clearly determine benchmark dates on which to base land and title claims (such as a date in 1919, 1931, or 1945, when historic events occurred to establish residency rights). Second, veterans' arrears and claims for militia or specific military service are extremely ambiguous, often without records or documentation to support privatization certificate issues. And third, refugee rights are not clearly articulated when, in fact, perhaps several hundred thousand people may have legitimate claims for certificate or property titles.

From a practical standpoint, privatization will occur through outcry auctions, tenders, strategic negotiations for certain industrial holdings, management-employee buyout rights, and combinations of voucher and cash sales. It appears that everyone is determined to effect a comprehensive privatization, resorting to Dutch auctions and final liquidations when all else fails. Even if the process is delayed, this is likely to occur. However, legal requirements for a regulatory framework of investment funds and capital markets are also required, including laws on securities, share registry, and trading. These are fundamental to attract strategic investors or to facilitate tenders on commercialized firms. In addition, laws on accounting standards have been passed, but companies must convert assets to comply with EU standards, revise their books, and develop fully articulated privatization plans. These issues represent a huge requirement for technical assistance through USAID, both in terms of capital market and commercial law areas, and in direct assistance to enterprises for restructuring, training, accounting, and developing privatization plans. Indeed, this represents an enormous consulting intervention mandate.

Privatization in the RS requires a comprehensive abolishment of existing laws, and enactment of a new slate of privatization legislation. The previous RS government privatized industry en masse prior to the end of 1997, but there were so many inconsistencies (and potential fraud) that the authorities have nullified nearly everything that took place. A commission was appointed in January 1998 to begin this rebuilding process in accord with the Dayton Agreement, and for the most part, everything is currently pending new draft proposals for privatization legislation. At the same time, restitution laws, claim rights, title registration laws, housing, securities, and capital market initiatives are only in the development stage and may require extraordinary efforts by international donors and the new government to complete.

5. ENABLING ENVIRONMENT FOR PRIVATE ENTERPRISE DEVELOPMENT

The enabling environment for private enterprise development has evolved rapidly since 1996, and although legislative initiatives are often confusing, ineffective, and slow to be implemented, the Federation government in particular has positioned itself in the right direction. An interesting metaphor was offered by an astute Federation minister who told the evaluation team to think of Bosnia as a giant American freeway or German autobahn with many lanes. All the "vehicles" (i.e., donors, government agencies, ministers, and leading citizens) are driving in the correct direction. Some had to turn around to prevent head-on-collisions, but they are now on course. However, some (such as USAID) are high-speed expensive cars racing down the road in the fast lane, wondering why others cannot keep pace. Others (such as a few leading businessmen and several dedicated politicians) are driving new or late model cars in another lane, sometimes getting in one another's way, but generally driving sanely. A few more are in the slow lane driving clunkers, unable to keep pace, and in some instances a danger to other traffic. Nevertheless, they are headed in the right direction. Then there are a few still stalled on the road side. They present no danger, but they are simply not headed anywhere for the moment. Fortunately, this minister said, the majority of the cars on the road are headed correctly.

Perhaps that sums up much of the difficulty with intentions among the constituents, their capabilities, and with expectations for performance. Government is not enacting sufficient or effectively legislation at a pace that USAID and other donors might wish, yet they are making substantial progress and are "right minded" about the direction that laws, justice, capital markets, and policies must take. Meanwhile the politicians may get in one another's way (still too often), and there are some clunkers blocking traffic. Those that are stalled may need emergency help. In the end, everyone is likely to arrive at a similar destination.

More to the point, however, commercial laws lag behind the growth in private enterprise. Most enterprise managers are somewhat frustrated by a fiscal system that cannot meet state of entity demands let alone encourage business development. The tax burdens are oppressive and lead to more gray market activity, or for properly registered firms, stiffer competition on cost/price relationships by those who operate in the gray markets. The justice system is not well trained and in most village or rural areas has little power to enforce commercial laws that do exist. A bankruptcy law was recently enacted, but it is almost too rigorous in permitting a justice to declare an individual or firm insolvent on testimony of creditors rather than legally determined facts, and there is no clear option for reorganization. Banks simply are not yet prepared to engage in commercial credit operations to the extent needed for private enterprise support, and few if any small business initiatives exist. Entrepreneurs have no place to go for seed capital other than a few international donors, where loans or equity positions generally are targeted to more substantial enterprises. There are signs of change, such as the microcredit bank (IFC/EBRD), the rural small business development initiative (World Bank), and the small-package lending activity (USAID/BF). Few investment vehicles exist, and the legislation needed for grounding a solid capital markets program has yet to emerge.

The nation as a whole has not harmonized its fiscal or monetary policies, reconciled customs and cross-entity trade relations, or resolved restitution issues. Consequently, strategic investors will remain distant until land and enterprise title procedures are clear, capital markets develop, and cross-border policies, debt issues, and credit banking/investment regulations are reconciling. Inconsistencies in private and public accounting, claims on arrears, various agency controls over licenses and permits, an many other minor (yet debilitating) issues stand in the way of enterprise growth, yet for the most part, private managers are fighting through or around most of these problems. There are obvious infrastructure constraints, physical and administrative, that are being addressed through joint government and donor efforts, and in due course these will be resolved. As a conclusive statement, Bosnia should have every reason to be optimistic about the reforms and developments taking place, but in the meantime, most of the aggressive fast-growth enterprises will face a difficult period of transition in which foreign assistance can continue to play a crucial role.

IV. USAID BUSINESS FINANCE

1. STATEMENT OF WORK AND OBJECTIVES

Formally known as the Bosnia Reconstruction Finance Facility, the USAID Business Finance component (BF) has completed its second year, fulfilling the 1996 contract with 1997 and 1998 amendments July 1998. The primary objective of the program is to increase sustainable employment in Bosnia and Herzegovina. In doing this, the purpose is to stimulate the economy and facilitate economic and political stability in accord with the principles established by the Dayton Agreement. This process will support a successful transition to a market based economy.

1.1 Design Of The Business Finance Program

The program is to provide ongoing lending services to Bosnian enterprises and facilitate the transition from USAID to Bosnian management of the associated activities. With modifications from the initial contract the program is now designed to directly address a majority of needs of most business for financing and other forms of assistance. If Business Finance (BF) cannot provide it, the intent is to seek and source it from other places. The program is thus intended to be a one stop shop for a company with real growth potential but lacking elements in such areas as plant and equipment, working capital, marketing channels, information systems, production technology and business connections.

The program will also target high return industrial or agricultural sub-sectors where Bosnia has a competitive advantage. Some of these are forestry and wood products, machinery and certain segments of the agribusiness industry.

Another key aspect is the integration within the institutional framework and policy guidance provided by the Industry Task Force (ITF) and the complementary assistance activities dedicated to economic policy and institutional development such as that provided to the banking sector and its supervisory apparatus.

A stated objective of the program had been that in early 1998 there would commence lending through banks as intermediaries with the Bosnian banks assuming portions of credit risk. A pilot program was to be the initial step with the volumes increasing as warranted by the capacity of the banks to do so (i.e. skills, policies, procedures, capital bases). This objective has been delayed to a future date but is still the intention of the program. This delay will be incorporated with the transfer of management of the program from USAID to Bosnian counterpart authorities.

BF will process all lending recommendations to USAID but only after a strong consultative process. This will include consulting with Business Consulting (BC) and the Agent Bank (AB) involved with each loan request. No loan is to be presented without an initial assessment by BC. For awhile this assessment took the form of a "diagnostic study" but this process has been shortened to an "initial company assessment."

In addition to commercial viability and employment impact, borrowing companies must further be able to demonstrate other characteristics such as reactivation of existing local productive potential, high value added, use of local raw materials, ability to start or restart quickly, generation of foreign exchange earnings or substitution for imports. At the beginning of the program state owned enterprises were eligible for financing but at the present they are not. All lending activities are to be carried out to support the privatization efforts currently underway by the Bosnian government.

Geographic coverage of the program is determined by the USAID Mission. It started with the focus on Federation territory within the US SFOR Sector and Middle Bosnia. It has been extended to the Republika Srpska in Banja Luka and Brcko.

Initial lending maturities were for three years but now can go to five years. Interest rates are set at the DM LIBOR rate plus 4%. The agent bank (AB) receives an origination fee for each loan approved, The AB also receives a quarterly monitoring fee on submission of call reports and a collection fee for repayments of loans within ten days of due date. AB's can charge normal market fees for related services such as payments, transfers and letters of credit. Compensating balance requirements are not allowed. As a matter of note repayments of loans are recycled for further on-lending during the life of the program.

The initial requirement was that BF produce $10 million in new credit recommendations each month. This has been amended to the requirement that the new credit recommendations must average $10 million a month over a 4 month period. The lending operations include all the usual functions of bank lending, including development of credit policies, accounting systems, loan collateral agreements and documentation, agreements with local banks, and capacity to workout, restructure and collect problem loans.

BF is required to maintain an adequate environmental monitoring system so as to provide adequate review of all on-lending proposals, especially those proposing industrial or commercial activities that could pose serious environmental health risks such as contamination of water supplies, hazardous waste release incidents, and release of airborne pollutants into the atmosphere.

At any time a loan approval calls for the purchase of equipment in excess of $100,000, U.S. firms that are potential suppliers of such equipment must be given appropriate advance notice through the U.S. Department of Commerce.

1.2 Technical Assessment

To accomplish the objectives of the program requires an extensive training effort. This includes: (1) training of the local Bosnian staff of BF to administer the lending program, (2) prepare banks in both the Federation and Republika Srpska to provide a range of credit and other market-oriented financial services to private sector companies, (3) prepare a select group of banks to take responsibility for a portion of the lending activity of the program on an ongoing basis, and (4) prepare Bosnian counterpart authorities to assume responsibility for continuing management of the program upon departure of BF.

This training will entail not only strengthening commercial term lending practices but will include extensive training in procedures and systems development, management, and specialized technical assistance. It will involve extensive executive training of intermediary bank management and senior officers on how to oversee portfolios of the nature contemplated and deal with typical problems and constraints to be faced in prudent management of such activity.

2. ORGANIZATION AND COORDINATION WITH BUSINESS CONSULTING

2.1 Background

BF and BC have gone through an evolutionary process with regard to their relationship. At the outset in 1996, BF saw the role of BC as that of assisting in the credit approval process but with little definition as to what that meant. After awhile it was determined that no credit request could go forward unless BC had completed a "diagnostic study" on the applicant borrower. The up-front work has now been changed to an "initial company assessment" but still serves as part of the initial loan approval process. While introspective, the initial company assessment is not as exhaustive as the diagnostic survey as it was determined some aspects of the diagnostic survey were repetitive of the credit work performed by BF.

Early in the program BC also had a strategy of attracting clients that were not part of the BF loan process. This is no longer part of the BC activity. What has evolved into a growing part of the BC program is turnaround consulting which is focused on companies under cash flow pressure leading to difficulty repaying BF loans. This turnaround consulting coupled with performance improvement projects for performing BF loan clients provides the basis for the relationship between BC and BF beyond the initial company assessments for new loan clients.

2.2 Initial Company Assessment

The initial company assessment is where BC first meets the BF prospective borrower. To give BC and BF a starting point with each new borrower, BC uses a practice called the Best Practices Rating (BPR). The purpose of the initial company assessment is to establish this BPR for each new borrower. BPR is a summary of total quality management. It becomes a central gauge for management improvement. Ten factors covering five areas are given a numerical rating. The ten factors are business planning, management organization, employees, customer focus, marketing, production operations and product quality, MIS, business costs, working capital, and a continuos improvement system. Having reviewed all ten of these factors within a company, the ratings for each are totaled and a composite numerical rating for each company is achieved.

This rating assessment is a very recent refinement of BC's approach to evaluating companies. In fact, it has not yet been implemented. Conceptually, BC intends to determine whether a new borrower is an A or B-list company to stratify its program of assistance. A-list companies are those which mean the following criteria: 1) capable of relatively greater income and employment growth, (2) have a management commitment to performance improvement, and (3) have a loan in size in excess of DM 1 million. A-list companies will receive focused in-company consulting. Each company will be viewed from the five areas of strategic action planning, financial management, marketing management, manufacturing process and quality management. Follow-up visits on each company will continue to evaluate the company's operations from these five vantage points.

The plan for B-list companies is to provide "batch-consulting" using a seminar approach based on a series of modules that can be pulled from the shelf and delivered. The B-firms are naturally smaller, simpler operations with smaller loans, and although seminars and other assistance covers the same five areas mentioned for A-list companies, the delivery process is intended to be standardized with a narrower focus on the fundamentals of business. In effect, the BC packaging consists of brief functional topical coverage of general skill applications.

2.3 Performance Improvements

Having completed the initial company assessment with the BPR and having determined whether the company is an A or B list BC will monitor performance improvement for each BF loan client. The intent is to cause performance improvements that will be reflected in an increase in BPR. These performance improvements represent the second area of support by BC for BF loan clients. As mentioned above the in-company consulting views each company from five areas. Three modules are utilized by BC to achieve this objective and they include modules for financial planning, strategic action planning and marketing planning.

2.4 Turnaround Consulting

The third area of coordination between BF and BC is turnaround consulting. This activity was not specifically designed into the project, yet through an evolution of intervention by several key consultants at BC and BF, it has become an extremely effective tool. At its core, the turnaround approach is to help a company develop a systematic plan to generate positive operating cash flow to not only service debt, but to underwrite future growth. Indeed, it is "consulting" in the best sense of the word where experts work closely with enterprise managers to purposely improve every key aspect of operations that can influence costs and cash flow. This can range from product line costing and profitability analysis, to market development, competitive positioning, or product/service development. It typically requires a restructuring of enterprise finances, persistent hands-on expatriate help to implement plans, and a tough follow-up procedure that ensures accountability by the enterprise executives.

3. RELATIONSHIPS WITH BANKS

3.1 Background

Included in the BF program, there are 31 Bosnian banks of which 2 have dropped from participation. Of the remaining number, 22 have produced at least 1 loan with 7 banks having produced approximately 70% of the total loan volume. BF is now in the process of renewing the participation agreements with the banks and it was anticipated 29 banks would apply. However as of July 24, 1998, 33 banks had applied. It is anticipated that perhaps 15 banks will sign new contracts which is actually a larger number than BF would prefer. The preferred number would be in the area of 10 banks, but the higher number will be acceptable due to required geographic coverage and other aspects of the program.

A major consideration with such a large number of banks is what will happen to the BF loan program when the expected bank consolidation takes place in Bosnia. This consolidation will likely involve failures as well as mergers and to the extent banks involved in the BF program fail a major question is who will assume the loan portfolios. Would BF be able to transfer loans from the banks of failed institutions? This is an area which will have to be carefully researched.

3.2 Renewal Critieria

In viewing the renewal of participation by banks BF is looking at criteria in three areas. The first is the bank performance in the program thus far. Some banks have been slow to disburse loan funds and just sat on the proceeds. In one case the bank used the funds to make short term loans to other borrowers. The performance of banks in the program thus far has not correlated with the financial quality of the banks. The states banks have generally performed well. BF is reviewing the quality of loan applications submitted by each bank. How well the loan analysis is conducted is a review factor. The quality of loan monitoring and the associated monitoring reports is being reviewed.

The second of the review criteria is the information contained in the AB's application form. The salient information provided here includes the following:

(1) Current market strategy.
(2) Lending experience of the bank to include volumes, delinquencies, accounting standard for delinquencies, loan write off.
(3) Geographic territory served by the bank's lending program.
(4) Business sectors to which the bank is currently lending.
(5) Percentage of loans to private vs. state-owned enterprises.
(6) Outreach to market bank would undertake to expand BF lending.
(7) Volume of loans bank could produce for BF.
(8) Systems of accounting and financial controls used by bank.
(9) Internal control systems in bank.
(10) Accounting standard used by bank (U.S. GAAP, etc.)
(11) Independent financial audit of bank.
(12) Correspondent bank relationships with other banks.
(13) List and background of key personnel.
(14) List and background of directors.
(15) List and background of owners.

The third area of review is the financial data each bank must submit regarding its institution. The quality of this information will vary from one institution to another. Once all of this data has been compiled a list of the banks BF wishes to utilize will be shown to the Barents Group representatives here. While Barents cannot comment on specific banks, they can provide general observations on the banks being accepted into the program.

3.3 Operating Conditions

The participation agreement for the banks has been amended for the renewal program. It toughens conditions for the banks and some have shown reticence towards it. For example, the banks now have some liability for errors and omissions. More responsibilities for the monitoring of loans will be shifted to the banks.

Loan disbursements have been an ongoing problem for BF and the quality of documentation provided by the banks is a major source of this problem. Missing, inaccurate, and incomplete documents represent these problems. Some of the reason for this resides in lack of legal structure in Bosnia. Other aspects of the problem come from the newness of some of this documentation and the unfamiliarity of the banks with processing such documents. It would appear that only time and increasing familiarity with this process will improve the disbursement process.

As can be expected, the quality of loan submissions from the banks varies considerably. All the banks have sent people for credit training but the ability to use that training varies across the banks. Some are doing the job while others remain in various states of competency. Likewise some banks do a better job of loan monitoring then others. All submit the quarterly monitoring reports, but the quality the overall monitoring work is not uniform.

Meetings were held with nine of the major banks participating in the BF program and finding of these meetings will be presented later in the report.

4. BF LENDING ACTIVITY

4.1 Background

BF was established in 1996 with volume as a major goal. This goal from the outset has been $10 million per month in credit recommendations. As of June 30, 1998, DM148.5 million loans had been disbursed. Total commitments as of that date were DM138.0 million, DM135.0 million outstanding.

The pace of loan activity has varied over the two years with the volume picking up in the fourth quarter of 1997 and continuing into 1998. At the end of the first quarter of 1998, a developing problem with loan quality was noted in the quarterly report. In this regard, the first part of the year saw the creation of a "turnaround" unit at BC to support in the solving of the problem loan situation. The position of the Field Associate was created in BF to assist with the solving of problem loans as well as to improve the overall monitoring of the loan portfolio. One of the major reasons noted for the increase of the problem loans was the structure of the loan tenors from the beginning of the program which had been set at three years. Such tenors whether for working capital, equipment or real estate construction was noted as being too inflexible and restrictive for the cash flows of the Bosnian companies.

April, 1998, saw the volume of new approvals continue but reflected a growing bottleneck of loan disbursements. This disbursement problem was a result of several factors in addition to increased volumes, including;

(1) errors in setting up procedures for implementing, BF's new centralized documentation and disbursement procedures;

(2) the addition of a requirement to post public notice of collateral in newspapers;

(3) borrower delays in securing properly registered collateral for mortgage; and

(4) increased and more complex demands on borrowers for pre-disbursement conditions. While every offer has been made to alleviate these problems, and with some success, much of this cannot be shortened if BF is to have proper documentation and at the same time meet volume objectives.

May, 1998, saw loan volume continue with 47 loans approved by BF and forwarded to the Mission. Greater efforts were also placed on loan restructuring as the turnaround unit at BC began to take effect. Agreements with several borrowers regarding restructuring were submitted to USAID.

4.2 Current Operating Environment

By June, 1998, there were a large number of credit approvals in the pipeline from the 47 forwarded by BF. With this backlog of activities, there were no new loan approvals by BF in the month of June. However, USAID approved 41 loans from the backlog totally DM18 million in June. During July, BF made nine new loan approvals forwarded to USAID. The major program change involved switching form loan quantity to loan quality. For example, loan production achievements were dropped to 20% of the total contract performance target. Also loan production is now measured on a graduated scale of from $5 million to $10 million as opposed to the previous $7million to $10 million. In addition the $10 million monthly target can be averaged over four months.

In June, 1998, BF also began to prepare for going "down market" to borrowers requiring loans as little as DM 30,000. At this juncture, BF was concerned about the effort required to meet volume goals with smaller loans, but it clear to the Mission and BF managers that the program had been viewed by some constituents as "elitist" (making large loans to high-profile companies) while ignoring smaller enterprises and those in rural areas. Smaller loans will create a greater credit management burden, but the priority of the development program is to reach as many capable enterprises as possible in need of assistance, and the smaller loan profile is clearly important.

At this juncture, BF reorganized its staff into four newly constituted lending teams. Each team is assigned the task of recommending new loans, managing existing portfolio, and disbursing approved loans. The BF loan workout team was also expanded and procedures introduced to accelerate the resolution of problem loans.

4.3 Managing Problem Loans

At this time considerable effort is being exerted towards solving the growth of the problem loan situation. Given that only a major restructuring could solve the problem of loans being underwritten with repayment terms that do not fit the underlying purposes of the loans, other remedial effects are taking place. A new loan grading system will begin in August that will help identify early warning signals of problem loans. The new grading system looks at the industry risk, business risk and financial risk. Business risk looks at management, business strategy, production and marketing. A new credit policy manual is also being put in place. All of these factors are coupled with a focus on relationship banking leading from the BF team leader to the Lending Associate to the Field Associate and to the agent bank. Overall better portfolio management is expected to result from these actions.

The emphasis placed on the Lending Associate and the Field Associate in the loan-monitoring phase should be emphasized. With the advent of the Field Associate earlier this year, a new dimension began to form. Considerably more contact was maintained with Agent Banks and borrowers. Field Associates maintain portfolio logs which indicate visits, past due experience and all actions or comments necessary plus other information about the loan. A separate ledger on past due loans is maintained. This process assists with loan monitoring and the early identification of problem loans. Problems are brought to the attention of Lending Associates and Team Leaders quicker. This also helps identify which of the Agent Banks is performing a better loan monitoring function.

5. LOAN ASSESSMENTS AND WORKOUT ACITIVITIES

5.1 Credit Audit As Of May 29, 1998

On July 23, 1998 the results of a Credit Audit on the BF portfolio was presented to USAID. The audit was a review of the portfolio as of May 29, 1998. Certain highlights from that review form the basis for this section of the report.

As of that date, the BF portfolio consisted of 187 approved distributed borrowers with a total outstanding principal balance of DM 127, 268, 123. Approved but undisbursed loans would bring this balance to more than DM 200 million. All 187 active borrowers were reviewed for the purpose of the audit. Special Assets comprised 29,718,903 DM while total delinquent loans were 47,273,903 DM. As a note, there are 32 borrowers in the Special Assets category for either delinquency or restructuring.

For each borrower, the audit reviewed credit, documentation, collateral/appraisal, and loan monitoring report files. A write-up was performed on each borrower who gave general information on the loan and its terms. This was then followed by a summary discussion of the company and its operations. The ability of the borrower to repay the loan was discussed in this section. A performance section was also included that discussed the financial statements of the borrower, compliance with loan covenants and several other issues. This was followed by a discussion of specific credit issues or extraordinary events if such existed. The risk rating was then reviewed and changed if appropriate.

5.2 Problem Loans

With regard to Special Assets the same review was completed plus the audit reviewed current status of borrower/BF negotiations, work-out/restructuring strategy, prospects for repayment, and involvement of the Turnaround Team from BC. For delinquencies the same primary review took place plus the audit reviewed current status of BF follow-up with borrower, including Field Associates undertakings, recent meetings, telephone follow-up and site visits. Some site visits by the audit team took place also.

Of the total 187 loans reviewed, the audit team recommended risk rating downgrades for 84 borrowers. Of these downgrades 23 were of two risk ratings or more. During the course of the audit 12 borrowers were classified as Risk Rating 8 (Loss) with DM 9,583,600 outstanding equal to 7.5% of total outstanding. Further, 43 borrowers were classified as Risk Rating 7 or 8 (Doubtful/ Loss) with DM 36, 119, 064 of outstanding equal to 28.2% of the total outstanding.

5.3 Portfolio Managment

In June 1998, BF created four new portfolio management teams. The teams are responsible for the entire spectrum of credit risks. This was part of the shift from the primary focus being loan origination to that of loan monitoring. The full implementation of teams and creation of the Field Associates position, which began to occur in early February, reflects a positive adjustment to BF's organization. The audit recognized this shift in priorities and commented the existing portfolio conforms to BF Credit Policy guidelines, credit files are in order detailing the loan decision process, and that certifications of Agent Banks and borrowers are complete. The audit commented that the move to Relationship Management under the new portfolio management system is consistent with USAID's desire for enhanced portfolio monitoring efforts.

Industry specializations have been included in the new team structure. The most significant of these are teams are concerned with lumber and wood products, food processing, and construction. The audit commented on the creation of the Field Associates position commenting it has moved from under Credit Management to the BF Lending Team. The audit report said that the Field Associates appear to be taking the appropriate course with regard to collections of past due loans.

The audit included a number of recommendations which need not be commented upon here with one exception. It was noted that loans had been made for fixed periods (3,4 or 5 years) with multiple purposes (working capital, equipment and building/rebuilding of facilities). The recommendation was to structure loans for these three purposes with separate repayment terms depending upon the purpose of the financing. This is an important point and will be commented upon further in the Findings and Recommendations sections of this report.

The audit summarized seven primary reasons for borrower non-performance and these points are appropriate to mention here. They are:

(1) Company operations are hampered by the absence of management goals and/or the strategy to achieve those goals.
(2) The general macro environment is affected by a still weak national economy and it's illiquidity.
(3) Loan repayment terms do not match the purpose of the loans and/or the cash flows of the borrowers.
(4) Management lacks depth, particularly in the financial area, but also in the areas of marketing, production, and distribution.
(5) Marketing is based on traditional personal contacts, is unplanned, and unfocused.
(6) The need to import new machinery hampers initial production start up because of the sometimes lengthy delays in the delivery of required equipment.
(7) Seasonality of products, combined with delays in delivery are misjudged or just not considered when equipment and raw materials are ordered.

Before turning to the subject of workout activities one comment regarding risk ratings is in order. The majority of the ratings determined by the audit were in the 5 or 6 category with a smaller number given a 4 rating and a couple given a 3. Those receiving a 7 or 8 were mentioned earlier.

5.4 Workouts

Workout activities of the BF portfolios are extensive. Resources devoted to resolving problem loan situations have increased in 1998. Part of the reason for changing focus to loan monitoring is the increase in problem loans. One of the major reasons for these problem loans has been the initial structuring of the repayment terms. As of June 30, 1998, the delinquency report of the BF portfolio showed the following tabulation:

Borrowers	30 to 60 days past due	DM 22,409,754
"	60 to 90 days past due	DM 7,941,450
"	90 to 120 days past due	DM 6,631,114
"	over 120 days past due	DM 16,687,097
"	On Non-Accrual	DM 2,500,000
	TOTAL	DM 56,169,415

These numbers comprise 41.62%of the total portfolio. This number has been growing and is of concern to all involved. A number of remedial efforts are underway to improve the situation. Field Associates are being more aggressive with borrowers to collect past dues. Lending Associates are being more aggressive with Agent Banks to assist in the collection effort. The Special Assets group now has 35 borrowers in its portfolio. A Turnaround Unit has been formed at BC and as a result of their efforts the first group of restructured credits has just been approved by USAID.

It is anticipated by all involved with the lending process at BF that the number of delinquencies and resulting workouts will increase. The disagreement is by how much. Some believe that due to the restructuring of the loan portfolio management process and all the above indicated efforts the increase will be small and the peak near. Others are not as optimistic. What no one can predict is the potential or ultimate loss that may be in the portfolio.

What is given is the current position is not good, but strong corrective measures are being undertaken. The turnaround function being performed primarily by BC must continue under the current or a redesigned program, and there are current pressing needs for expanding these activities. Whether the turnaround process could be folded into BF is a subject of conjecture. The question that needs to be addressed is whether BF should become more proactive in restructuring loans. By this is meant should BF go to loan clients still current in payments and offer to restructure their loans based upon use of proceeds, i.e. working capital, equipment purchases, and/or building construction. To look at a major proactive restructuring of the entire loan portfolio would require more human resources and/or reordering of priorities. It potentially could result in a restatement of a scope of work for the BF contractor. This subject will be further addressed in the Findings and Recommendations sections.

6. TRAINING

6.1 Background

BF maintains a training function in Bosnia which has been very positively received by all the Agent Banks. The compliments from the banks are numerous. Several banks have suggested that advanced courses be offered in certain of the subjects. They suggested perhaps evening courses so broader attendance could be achieved by the banks. Several banks also suggested having shorter versions of some subjects so again more bank personnel could benefit from the training.

The Training Department at BF offers a curriculum of eight courses including Financing the Small Business, Advanced Credit Seminar, Financing the Agro-enterprises, International Accounting Standards for Lenders, Counting on Your Banker, Managing the Problem Loan, Lowering Credit Risk: An Environmental Assessment, and Bank Exec Simulation. This last course is an excellent course for all bank executives including senior management. It uses a computer simulation program which allows the decision-makers the opportunity to discover how certain organizational decisions (such as deposit pricing and loan policies/pricing) affect profitability. The computer model forecasts future activity providing the participants with the financial results of their decisions determining the success or failure of the bank. Working in teams the participants compete against the other teams.

6.2 Attendance

Along with eight core courses other subjects have been presented since June, 1996, resulting in close to fifty banks attending over 100 seminars and training courses. As of July 17, 1998, the total number of individual participants was 2,673, with women representing 1,570 of the total and men 1,256.

The Bosnian staff of BF benefit from the courses as well, as 32 members of the staff have thus far attended with many attending multiple courses. One of the staff has attended six courses and a number of them have attended five. With regard to the Bosnian staff, the Lending Associates have also benefited from an in-house program conducted by a consultant to address the full range of activities necessary to prepare a Credit Recommendation. The exercises combine classroom work, role plays, analysis of actual borrowers under consideration, and full credit write-ups presented to recommending authorities. Those exercises have been designed to ensure a full transfer of credit responsibilities to the Lending Associates in preparation for the day expatriate bankers will be in a more advisory role at BF.

V. USAID BUSINESS CONSULTING

1. STATEMENT OF WORK AND OBJECTIVES

Under the initial 1996 statement of work, USAID Business Consulting (BC) was known as the Bosnia Business Assistance Center (BBAC). Both terms with modifications slip into reports, but since August 1997, the BC format, complete with revised task orders and substantive changes to performance objectives, has prevailed. At the point of this evaluation, the BC component of the USAID Business Development Program (BDP) has an end-of-project date of September 30, 1998. Since inception, there have been at least two major task order modifications and several redefined mandates for project activities. These include new benchmarks, different requirements for tangible results, and extended budgets and staff allocations. At its core, the strategic purpose of BC is to deliver a broad range of business services to Bosnian enterprises while fulfilling a complementary role in conjunction with USAID Business Finance (BF) to implement a major commercial credit program of quick-disbursing loans. These components were structured under one of the strategic objectives of ENI, but clearly were part of the broader scope of USAID's consolidated development program launched in 1996.

1.1 Design of the Business Development Program

The Business Development Program (BDP) was designed under ENI Bureau Strategic Objective 3.1, broadly stated as support to enterprise development. In turn, the BDP was part of the USAID Bosnia Reconstruction Program, and a component of the Enterprise Recovery Revitalization Support Program. The twin-project components (BF and BC) were designed to "restart" pre-war Bosnian industry, to "regain" pre-war employment levels, and to "re-establish" pre-war markets. Further, these tasks were to be achieved while helping Bosnia to transform to a market economy. Operative tasks for the Business Consulting component under the SOW called for immediate and rapid implementation of commercial credit, creation of standardized methodologies for technical assistance to a broad range of enterprises, and "indepth consulting" to ensure sustainable performance by Bosnian enterprises, thus also transferring skills and capabilities to local national personnel and indigenous consulting firms. In addition, leadership for the Industry Task Force would fall under this program component. These activities were subsequently expected to achieve a rather extensive list of results within an extremely short period of time.

The design of the original program (BF and BC components) may have been flawed through assumptions that, in hindsight, did not hold up over time. Many of these surfaced through the inevitable learning process of coming into an economy devastated by war and riddled with ethnic tensions, and one overlaid with a history of command economics. Specifically, the ability to "restart" enterprises and to "recapture" employment assumed that the industrial sector could achieve similar pre-war status domestically, and that the economy could, in due course, reposition itself in the region for trade and international relations. Today, the industrial base is substantially different than in the pre-war era, the resources are substantially different, the national infrastructure is inadequate to support sustained growth, and international relations and trade exist within the constraints of the Dayton Agreement.

A second assumption that growth and re-employment would occur through a vibrant free enterprise system was (and is) theoretically sound, but in Bosnia, progress toward these ends rested on successful privatization of both industry and banking, neither of which have yet occurred. The capacity to regain market position was flawed by the reality that Bosnia no longer had a competitive advantage in the region (or among pre-war eastern markets), and there is little to suggest that it will compete successfully in markets that it once enjoyed. Indeed, there is no clear idea of what the country's potential markets where (or might be), and no sense of a comparative advantage other than temporary and typical low-wage costs common to many transition economies.

There are many other constraints, but a third category important to the business programs is that Bosnia has not yet generated a legal, commercial, or judicial enabling environment. A Rule of Man prevails moreso than Rule of Law, fiscal policies cannot be adequately enforced (e.g., taxes or social insurance contributions cannot be properly collected), and customs controls at the state level are only now beginning to be rationalized. Meanwhile, Entity practices differ and nearly all international borders are soft. In addition, a substantial gray market exists that undermines registered business activities and government efforts to control budgets, and in the absence of a securities market (or any formal equity market), the commercial banking sector is generally insolvent. Indeed, there is neither an enabling environment to support the tasks of the business development program nor a prevailing psyche within Bosnia to endorse reforms required to establish a sustainable market economy.

These points are elaborated elsewhere in this report, and by other reports of USAID, the World Bank, and the IMF. Clearly, all international donors, and more importantly, the political and commercial leaders of Bosnia, have been part of a dramatic change process. This change process has not bypassed USAID or the activities under the BDP. Consequently, the apparent adjustments by USAID, including mid-stream modifications of task orders put forward by the contractor, have often been unsettling to those involved. They have occasionally resulted in dissension between project leaders, and required substantial "redirection" of task activities by the Mission, but in most instances the changes were necessary and constructive. It is not clear that management has implemented these changes in a timely fashion, nor communicated new priorities to staff consultants and client companies.

Most important, the objectives of both BF and BC components have changed, both by evolution of activities and, when necessary, by edict through USAID. These changes have been expensive and time-consuming, yet they also have pushed program managers to continuously seek improvements. With that said, the current status of the Business Consulting component is framed by its expanded objectives and implicit expectations for performance reviewed in the following passages.

1.2 Business Consulting Objectives and Expectations

The primary objectives (A, B, and C below) were outlined in the original statement of work, but each has been adapted to circumstances. The additional objectives (D, E, F, G, and H) under the 1997 task order modification represent a major expansion of business consulting responsibilities, and they have also been adapted under the direction of USAID Sarajevo. The objectives for which Business Consulting is accountable today can be stated as follows:

A) Support for lending activities through BF and other donor credit programs through preparation of business plans, loan applications, and various diagnostics that assist viable enterprises in obtaining loans, and that assist USAID is making informed decisions about loan applicants.

B) Assist enterprises to establish initial viability and to support those seeking to revitalize their operations, thus strengthening their operations, providing them with capabilities to complete, and supporting their training needs. These activities are directed toward establishing self-sustained businesses and, in the long term, to enhance the market-orientation of all Bosnian enterprises.

C) Provide the leadership and coordination for the Industrial Task Force, which is one of eight task forces under multi-donor control for a broad-based program of long-term economic recovery in the state of Bosnia and its entities. The ITF will coordinate with other donors to ensure policies are consistent with one another, that gaps or barriers to recovery do not emerge unattended, and that multi-level activities (programs, projects, and special initiatives) are efficiently implemented. The ITF also acts as a channel of communications with Bosnian government officials, with other donors, and with constituent interests as appropriate.

D) Institute a comprehensive business consulting activity in support of all enterprises being considered for loans under Business Finance, thus providing initial diagnostics and action plans for candidate enterprises. The essential thrust of this objective is to introduce a consistent and durable method of evaluating loan applicants, to provide documented evaluations of candidate viability, and to reduce the risks associated with development lending activities.

E) Provide technical assistance to improve the performance of Bosnia enterprises through direct business consulting, expert intervention, training, and various activities contracted through PVOs, domestic consultants, or other donor assistance encompassed under the umbrella of the Enterprise Recovery and Revitalization Support Program.

F) Develop local capacity in the areas of western management skills, replete with enhanced domestic consulting competencies, sustainable intervention techniques, and both enterprise management methods and business support institutions that can flourish after assistance has ended.

G) Develop international linkages for trade and investment, materials sourcing, technology transfer as appropriate, and cross-border relations that can enhance the industrial development and sustained economic growth of private enterprise in Bosnia.

H) Provide business development advisory support for the Office of the High Representative through a Business Consulting specialist who can work closely with OHR of the President's representative for Bosnia and Herzegovina with respect to economic revitalization and private enterprise development.

1.3 Expanded Expectations and Benchmarks

Under the modified task order, a number of general expectations were articulated, and earlier performance requirements were refined. In many ways, these changes helped to clarify activities and to provide a better focus of BC activities, but they also resulted in a "fully loaded" field component. The following is a list of general expectations:

- Research and target companies with the greatest potential for effective use of financial assistance to pursue reactivation an employment goals.
- Research opportunities for reaching enterprises lower on the economic scale, specifically those that could benefit from financing of smaller loans and smaller, perhaps more geographically dispersed enterprises, with credits as low as DM 30,000.
- Perform diagnostic exercises for all BF applicants and extend additional assistance to any company to improve loan performance downstream for the BF portfolio.

- Provide a package of direct consulting services as required in the form of intense assistance to portfolio enterprises (also known as "Foundations of Success" program).

- In concert with the "foundations" activities above, assist other USAID contractors with privatization.

- In concert with the "foundations" activities above, provide unique technical skills required to BF clients and other Bosnian enterprises through volunteers (CDC, IESC, FCVC, and others).

- In concert with BF, BC, and other Mission contractors, provide a rapid-response form of technical assistance to small, medium, and large scale enterprises as needs and expectations change.

- Generate an apprenticeship program for approximately 60 qualified Bosnian consultants through the end of project date (according to monthly reports, later amended to a minimum of 40 apprentices).

- Assist Bosnian enterprises to establish key business connections with suppliers, buyers, potential investors, trade associations, and others to enhance sales, technology, or trade markets.

- Initiate a fee structure to recapture costs of seminars, training, grants to local business associations, local publications, or contingencies to support future program activities.

- Strengthen the advisory support to the OHR with research and publications vital to USAID interests and the various trade, investment, and market initiatives under USAID and other donor programs.

These general expectations are further refined in terms of ***tangible results***, and BC was charged with generating a database for enterprise performance as well as a measurement methodology for assessing consulting effectiveness. Tangible results included several specific task-related items, such as developing a business planning workbook (and other models) that could be provided to enterprises, providing written action plans together with recommendations for loan applicants, and generating promotional items (articles, case studies, and educational media) for general circulation. On a broader plane, BC was tasked to transfer skills and knowledge to Bosnian professionals capable of sustaining their own consulting organizations, to generate a business consulting strategy for Bosnia, to support other donor initiatives, and to create a workplan for measuring sustainability. Many of these expectations existed at the outset of the project but lagged behind in BC's development progress.

The performance criteria may be "tangible results," but they are extremely difficult to define or to measure. Consequently, the BC contractor and USAID stated ***quantity*** objectives called **Benchmarks**. These are noted below and form the primary criteria on which BC activities are reported and evaluated:

- ♦ Complete the study of opportunities for smaller enterprise assistance by BF and BC, and **complete 100-150 projects** by the end-of-project (10-13 per month minimum beginning October 1997).

- ♦ Initiate the apprenticeship program for a minimum of **40 consulting candidates** by late Fall 1997, and subsequently attain the skill-and-knowledge outcomes expected by end-of-project.

    -- Initial enrollment of 3 persons per month was later modified for cohort groups of 20 persons in a formal joint educational program and on-the-job training.

    -- Graduation of 60 persons was modified to graduation of 40 by EOP.

- Completion of a minimum of **250 diagnostic studies** in support of BF applications over a 15-month period, thus compiling a total of 300-400 total studies for the entire project life. The "diagnostic" effort subsequently was replaced by more meaningful company assessment tools and the current emphasis on the Best Practices Rating system, which is an extremely good consulting asset.

- Completion of a minimum of **100 rapid-response diagnostic exercises** of newer and smaller companies requiring DM 30,000 to 300,000 financial assistance.

- Completion of **100 comprehensive company consulting engagements** by completion date, including those requiring remedial assistance or turnaround work through the BF contractor. What is not clear in the modifications of the statement of work is that under this category (previously called the "four component" activity), four specific outcomes were expected:

    -- Installation of financial planning software in **270 companies;**
    -- Organization development for **100 companies;**
    -- Development of marketing plans for **150 companies;**
    -- Installation of MIS/Accounting systems in **150 companies.**

- Generate a minimum of **60 business connections** between Bosnian enterprises and potential foreign buyers or partners by the completion date.

- Generate **35 serious investment inquiries** from potential foreign investors by completion date.

2. ANALYIS OF BENCHMARK OBJECTIVES AND EXPECTATIONS

The eight major objectives written into the modified statement of work are clear and feasible. However, they are described broadly with few measurable criteria. This is acceptable for most strategic objectives with similar behavioral characteristics, but the evolution of the Business Development Program has mandated quantifiable criteria. Consequently, in several instances, there has been an attempt to put numbers onto behavioral outcomes from consulting. This may be well-intentioned, but it will always be controversial.

2.1 Accountability and Assessment

The test of a good measure is the ability of the contractor to be held accountable for results. Specifically, the contractor must be able to measure criteria, the criteria must be relevant, and the events that influence results must be controllable by the contractor. The more specific expectations and benchmarks can therefore be evaluated according to these three factors.

- Implementing a database for BC and BF client companies is appropriate and necessary, and it is under the control of BC with apparent resources capable of implementing the activity.

- Researching feasible opportunities for intervention assistance with smaller enterprises is clear, appropriate, and within the capabilities of BC. Holding BC accountable for a specific number of projects must be a "soft" expectation because such intervention is typically demand driven. Consequently, companies must come forward with applications, and in turn, be judged as viable candidates for assistance. BC can only partially influence this process.

- Completing the diagnostic studies for all BF applicants is unambiguous simply because there is no clear definition for what is meant by "diagnostic exercises." Consequently, BC may be held accountable for a *specific quantity* of BF related activities, but these could be trivial or extremely complicated consulting assignments. Performance other than reaching quotas by BC is therefore subject to interpretation, and, indeed, survey evidence and interviews conducted during the evaluation suggest that diagnostic procedures were often "paper exercises" rather than effective due diligence reports. Recent changes in this assessment process have greatly improved the accuracy and relevance of enterprise information.

- Providing direct assistance "as needed" in rapid response to enterprise needs is too broad to be very useful, but it could be explained through descriptive reports. Whether BC can be held accountable for specific outcomes can only be determined by similar descriptive evaluations.

- Providing assistance for privatization is an ambiguous objective. Even if this is further defined by specific services during a privatization program, the role of BC is vague. Accountability must reside with defined and budgeted activities, perhaps under a separate contract or under a separate USAID contractor.

- BC is clearly expected to make use of PVOs to implement highly intense activities within specific contracts for services. PVO activities are typically demand driven, often require some form of financial participation by client companies, and require volunteers to complete well-articulated workplans. This form of assistance is highly regarded and typically measurable. Consequently, BC should be able to explain the opportunities for PVO assistance and track their performance.

- Direct consulting and the Foundations of Success program should be explained through fundamental business results (sales, employment, costs, quality improvement, productivity, and profits), and BC can be held accountable, but only to the extent that consultants can affect enterprise activities.

- Initiating an apprenticeship program with a target enrollment of 60 persons (or 40 graduates) is clear and feasible, but it depends on the success of expatriate consultants to deliver educational modules and to generate professional educational materials appropriate to the training effort. In this regard, BC should be fully accountable for curriculum design, teaching, and course work, and the budgets exist to support the highest quality apprenticeship training effort. There is room for reasonable adaptation, however, as BC must arrange for facilities and local staff support.

- Transferring skills and technologies to Bosnian consultants capable of sustained self-generating business activities is not measurable, nor can BC be held accountable any more than educational institutions can be held accountable for performance of their graduates. This all depends on the capabilities of the candidates, economic conditions, demand for their services, and many other factors beyond individual controls.

- Completion of the 250 diagnostic studies is a very clear requirement linked directly to BF applicants and the decisions by the Mission of the number of enterprise loans to pursue. If the nature of the diagnostic studies is equally clear, there should be no ambiguity about BC performance results.

- Completion of 100 rapid-response interventions for smaller enterprises or those pursuing smaller amounts of loans is unambiguous if tied directly to BF applications.

- Completion of 100 comprehensive consulting projects in remedial, turnaround of other follow-up activities with BF clientele is unambiguous. However, the nature of "comprehensive" consulting is not well defined in the statement of work. Accountability rests with descriptive measures acceptable by the contractor and Mission if appropriate resources are also available to implement the program.

- Completion of the "four component" activities (e.g., financial software, marketing plans, organizational development, and MIS installation) is problematic. The quantified targets appear to be somewhat arbitrary, and they do not define activities required for each component. Specifically, the target of installing 150 FinPro packages (as later developed by BC) could be little more than handing out software with an hour or two of instructions on using the materials. In contrast, the FinPro may require many days of training, and the software may be ignored (or not useful to) many companies. Accountability is clear, but quality of performance and usefulness of assistance are questionable.

- Creating 60 business connections or 35 serious investment opportunities through Bosnian enterprises and foreign constituents is substantially beyond the control of BC. Whatever numbers could be applied would depend to a very significant degree on political and economic circumstances in Bosnia, and on foreign interests. BC could not be accountable for these factors. At best, BC could direct "some effort" toward linkages, but results would depend largely on externalities, not specific BC performance.

2.2 Implications for Accountability

Holding a contractor accountable for performance beyond the ability to influence outcomes is a common management mistake, and perhaps one that rests with the Mission in this program. Criteria must be measurable and appropriate, the contractor must have the necessary resources, and results must be attributable to intervention activities. Based on the preceding arguments in 2.1 above, a few of the performance mandates are clear, and BC should be fully accountable. Many are relatively clear, but they require interpretation for performance expectations. The remainder fail to meet at least one of the tests for accountability. There are three implications to consider:

- First, the **project design** is still not refined to the degree that the contractor and the Mission can consistently expect to agree on performance, and if there were changes in either contractor or Mission officers, the "expectations" that evolve beyond the formal SOW could lead to further ambiguities or misunderstandings. This is not a win-win situation, nevertheless, managing such situations is where highly paid professionals earn their money.

- Second, BC efforts could be misdirected and more **valuable time and resources wasted** as the project parameters change with circumstances.

- Third, **without quality measures** (even if only descriptive), the quantity measures could force a "quota mentality" that **emasculates substantive consulting efforts**. This could do more harm than good by fostering trivial consulting activities or superficial training, and subsequently bring ridicule on the program by Bosnian enterprise managers, political leaders, and constituent U.S. interests.

These implications are addressed in the *Findings and Recommendations* of this report, but the results associated with Business Consulting are summarized and further evaluated below. These are followed by a section that describes responses from enterprises surveyed by the evaluation team with specific attention to perceptions by Bosnian managers and agent bankers about BF and BC assistance.

3. MAINSTREAM CONSULTING ACTIVITIES AND RESULTS

Activities and results are briefly summarized here based on the latest progress reports and verifications through interviews with BC staff consultants. Overall, through the end of June 1998, ***Business Consulting has substantially met its primary task objectives*** with some weak points in performance expectations on secondary and extended task responsibilities. The following points reflect July 15, 1998 BC Project Progress reports and information from interviews.

- Diagnostics. More than two months prior to the end-of-project, BC reported that it had essentially achieved the numerical quota required for ***Diagnostics***. This is not entirely accurate, but a reasonable conclusion is that BC has completed 351 diagnostic consultancies against a benchmark of 360 for the life of project (actual task requirements in SOW state between 300 and 400 diagnostics). There is every reason to believe BC will exceed the 360 quota, perhaps by as much as 20 percent, when the contract is concluded September 30, 1998. Two comments capture the response from agent banks and enterprise managers regarding early evaluations of loan applicants:

    - Early diagnostic exercises were not always systematic, and they were usually brief (a matter of several hours on site, and for more complex situations, several half-day visits by BC or BF staff) resulting in verification of company performance (as far as the data would allow), but generally based on impressions of the consultants.

    - More recent diagnostics are still relatively brief, but standardized investigations by experienced BC staff coupled with baseline data collection (e.g., the initial Best Practices outline) provides a consistent model with better verification of performance.

- Technical Assistance Consulting. The project was expected to complete 400 total Consulting Projects, and to date, it has completed 369 direct technical intervention projects. Exactly how the 400 quota was derived is not clear, but expectations stated in the revised task orders could be taken as a range between 250 (excluding new small-loan assessment studies) and 450 (including the four-component targets). Nevertheless, from a strictly numerical perspective, BC is on track to exceed the full quota by end of project.

- Building Indigenous Business Consulting Capabilities. The Consulting Apprenticeship Program will meet its revised objective of graduating 40 persons by the end of project as the second group of 21 local apprentices will complete formal coursework by August 21, 1998, and many will have been involved in team field work. With no clear understanding of whether the BC project will be continued or reconfigured, the formal training program cannot presume to launch a third group, yet the program is now well founded and easily capable of supporting new classes. There are many reservations about the program's ability to prepare local consultants for self-sustaining business support organizations. Several observations from interviews are enlightening:

    - Enterprise managers interviewed during the course of the evaluation had high praise for local staff that participated in projects, but few of the managers indicated that they would purposely pay for services from local organizations without expatriate involvement. They felt that local consultants and staff were severely limited by lack of experience in companies other than domestic situations which may have little value.

    - Interviews from BC expatriate consultants suggest that only a few of the apprentices and a few of the local professionals have significantly grasped the knowledge and understanding behind most western management concepts. Nevertheless, the majority have keen abilities to implement technical modules or to carry out consulting tasks that do not require abstract thinking (e.g., innovative problem solving or strategic conceptualization of commerce).

- The general viewpoint of expatriate managers involved in team consulting is that a few local professionals will emerge with the requisite skills, but the majority will be limited by their lack of experience to operational implementation capabilities. Indeed, a strong opinion has emerged from several primary consultants which is consistent with consulting services throughout the world, that a competent consultant needs to have the educational skills and at least ten years of relevant experience to be effective in strategic and sensitive projects. Most do not acquire these skills (even in the best U.S. firms) without years of mentorship, and then, most consulting organizations cull out 80 percent of there apprentices or aspiring young managers within several years. In this situation, local staff are being fully integrated into the team programs, few are being culled out, and none will have significant experience domestically (and no experience with western organizations) in the foreseeable future.

- <u>Training and Development</u>. There are two dimensions to BC training and development, but no quantitative measures for performance. The first concerns training and support for apprentices and local staff consultants toward fulfilling the requirement of transferring BC activities to indigenous organizations. The second concerns direct support for client companies and enterprise managers, either through seminars or on-site training with BC modules for financial planning and marketing. Both efforts have been extensive and widely subscribed. Thus:

  - Training local professional consultants have proceeded according to a well-planned model of on-job-training and mentoring through the client-service teams and by involving individuals from the early support-grant programs and apprenticeship in projects where they can sharpen their skills. There is little to fault this process, but it was not necessarily well organized until after the mid-term task modifications, and better refined during the past several months. The effort has no particular measurement of results other than subjective assessments.

  - Training for clients has had more measurable results in the sense of approximately 130 intense seminars on specific business topics for a total of more than 1,900 participants from assisted enterprises. This does not include the hands-on training for FinPro programs when installed in companies or the benefits managers receive when working with expatriate consultants on case exercises, business plans, or marketing models. Enterprise performance can always be attributed to training, yet throughout history, people have tried to find a direct linkage or proxies for the effectiveness of training; most efforts have failed, yet no one denies that education builds the intellectual capital required for any successful firm. In this instance, perhaps the appropriate measurements are the scope of participation coupled with the quality of the curricula. On those criteria, there are only several points to consider:

    ⇒ Respondent managers almost unanimously applauded the training seminars and on-site assistance; nearly all said they were able to apply the lessons to their organizations in useful ways.

    ⇒ Respondent managers also had some reservations. First, some were overwhelmed by the scope of certain tools (e.g., early versions of FinPro) and the depth of topics that were at times beyond their understanding (e.g., use of brand images in a society were consumer marketing techniques have never existed).

⇒ Respondents felt that local seminar leaders or trainers were technically capable, but that they lacked foreign experience and could not provide the insights that expatriates could.

⇒ Gaps in training or lack of practicality were mentioned occasionally, such as simple applications of cost controls or use of "standardized" models requiring adaptation to be useful in a specialized company.

- **Expert Intervention Using PVOs**. The revised task order expected BC to use PVOs for extensive in-depth consulting, but this has not been well managed. Until the most recent quarter, no formal work order for a PVO contract had been pursued. However, PVO activity has suddenly begun to emerge with a reported 42 projects under various stages of development. There were three volunteers in Bosnia by the end of June 1998 (two from CDC and one IESC), with 20 volunteer work plans approved for contracting with four PVOs. If these materialize, BC will be able to report at least 24 intervention contracts by the end of project. If the full count of 42 PVO contracts are initiated, BC will have demonstrated a belated but important utilization of these resources. The fact remains, however, that throughout the early seven quarters of this project, PVOs were generally ignored even though explicitly designed into the consulting program.

- **Pursuit of Trade and Investment Linkages**. Several initiatives exist for business connections. Only recently staffed with individuals experienced in trade and investment linkages, BC now has a portfolio of 23 companies positioned for export and trade promotion activities with at least ten candidates for future investment activities. However, little was accomplished in this area prior to April 1998, and most current activities are concerned with creating company profiles, establishing network connections, and simply creating a viable program that could (in due course) be a valuable asset to USAID's trade and investment objectives.

- **Performance Improvement Consulting**. Each month the method of reporting activities seems to change, and with recent reorganizations for client/service teams, there are no clear expectations for BC interventions. However, results can be collectively viewed in the sense of a consulting portfolio where direct technical assistance was provided, or where financial, marketing, or management "modules" were introduced to client firms. Business Consulting has made several innovative changes in consulting activities and introduced measurement techniques that are very promising in this area. Most of these initiatives, however, have been recently introduced, and only during the past several months has progress been systematically tracked. Briefly, the results are:

  ♦ Total BC portfolio through June 1998 of 584 companies in 11 industry sectors, geographically concentrated in Sarajevo according to Congressional mandates, but with 17.5 percent of work among companies outside the immediate SFOR area and in the RS. This "quantity" measure is impressive and is supported by evaluation interviews, but there is a sense of providing too narrowly defined work for an ever-increasing number of companies.

  ♦ Companies with loans receiving financial, marketing or management modules as of June 1998 numbered 308, and in addition, 88 companies without BF credits were assisted. This is a direct accountability measure of required intervention with BF loan clients during loan application process or after disbursement as support and follow-up activities.

- Of the total, 356 are continuing under consulting assistance with 40 more in periodic monitoring stages. In addition, 188 companies no longer receive assistance and have essentially graduated from BC support; several were terminated. Actual numbers do not measure success, and operational results provided in a following section are more revealing. Overall, an argument could be made that so many companies in the consulting portfolio could stretch resources too thinly to have a significant impact.

- There were 154 companies included in the new "Best Practices Rating" system by the end of June 1998. This is an extremely useful and innovative tool for tracking ten categories of performance and stratifying types of assistance required in an overall rating scale that concurrently indexes performance changes. The BPR system could become a vital tool in development in Bosnia and elsewhere, but it is a very recent addition to the BC tool chest, and to cite results from BC data would be inappropriate. Indeed, it is probably a long-term tool requiring benchmarks and a significant sample over time to provide trend analysis with some degree of reliability.

4. CURRENT ORGANIZATION AND RESPONSIBILITIES

Business Consulting currently is comprised of five departments each of which is led by expatriates and supported by Bosnian staff: Client Service Teams (CSTs); Consulting Practice Teams (CPTs); Business Connections; Training; Statistics and Reports. Industry Task Force Coordination is contractually assigned to BC but is operationally independent and directly responsible to USAID. This is the third iteration of BC's organizational structure resulting from task order revisions during the project's two year contract and represents a substantial expansion of both local and expatriate staff in the past 4-6 months. The original SOW required two departments with focal activities: loan application support (LAS) which liaised with BF, and enterprise recovery and revitalization support (ERS) which was was concerned with capacity development and skills transfer delivered through consulting and training. In the first six months of the project, ERS was clearly subjugated to the LAS function and in essence appropriated by LAS.

In the second task order revision effective September 23, 1997, the consulting function was given priority with the incorporation of the Diagnostic and Performance Improvement Program mandate which replaced the LAS and ERS activities respectively. The task order increased the level of training and technical assistance to Bosnian companies and increased the use of short-time advisors and PVOs with a commensurate budget increase. In the third iteration effective June 1998, the BDP pre-loan approval diagnostic phase requirement was eliminated and replaced with initial company assessment via a joint BF/BC company pre-loan visit. The BC focus is now clearly to provide consulting support through the CSTs with particular emphasis place on BC's financial planning program (Fin-Pro), marketing planning, and appropriate action planning. Consequently, BC has an organization of services and activities vastly different from inception. These are described below.

4.1 Consulting Services

The Consulting Services department is the core of BC comprised of the Client Service Teams and Consulting Practice Teams. Previously there were only CSTs led by expatriates who assumed a "generalist" advisory role. The new format has been formally in place for three weeks preceding this evaluation. In practically, however, it was a natural evolution reflecting the "specialist" functional expertise of the expatriates together with requirements for focused client intervention; it has been operational among most of the CST's for some time.

4.1.1 Client Service Teams (CST). A key change resulting from the recent reorganization is the reduction of CSTs from 12 to 9 spread among 4 branch offices (Sarajevo, Tuzla, Banja Luka and Brcko). Essentially the weaker teams were folded into the stronger teams. Each CST branch office is managed by an expatriate. The teams are all Bosnians and led by Bosnians. The CST's responsibilities are: relationship management of company portfolios (40-60/month); assessment of client consulting needs; scheduling of consulting support; and follow-up consulting. Another change is the classification of portfolio clients into A and B company lists with the latter defined as small or new enterprises representing significantly lower growth potential than A companies. The key role of the CST team leaders is portfolio management: assessing and identifying the client needs; identifying team members' strengths and allocating them according among the client portfolio; requesting the support required from the CPT's, PVOs, other external resources. Based on interviews with the various BC staff members, the Bosnians feel that they are fully capable of managing these responsibilities and more but the expatriate staff do not agree. In their view, Bosnians can manage well defined processes but are not strong in conceptualizing, innovating, planning and overall management consulting skills.

4.1.2 Consulting Practice Teams (CPT). The Consulting Practice Teams (CPTs) are led and supported by expatriates; Bosnian counterparts from the various CSTs are members. There are 8 CPTs organized according to functional specialties: financial management; marketing planning; action planning; turnaround; best practices rating; manufacturing process improvement; quality management; and follow-up monitoring. The first three practices have been developed into standardized modules and actively implemented for several months. The manufacturing and quality modules are still under development, although consulting support occurs in these areas when a client need is identified. Turnaround consulting is driven by BF's problem loan portfolios. The Best Practices Rating (BPR) review process was created in July 1998 as a "practice" within the CPT and will be implemented in August 1998 with weekly review sessions rotating among the BC branch offices. Originally the BPR, which has been utilized since January 1998 as a performance measurement tool by the CSTs with client firms, was based on a rating system of 10 factors. That has now been refined with the addition of 5 sub-factors for each of the 10 main ones for a total of 50 elements rated. The intent is to simplify the application/institution of the BPR system with clients by each CST. The objectives of the BPR review team are to: create a common understanding of the BPR process and achieve consistency in their application to portfolios by each CST and; rate the progress of BC services and the BPR system impact on companies' performance improvement.

The CPTs' primary role is to provide specialized functional consulting support. Their intervention is activated by a direct request of the CSTs based on a clearly substantiated client need. The team system also provides a training vehicle for the Bosnian members in functional skills development through weekly meetings and workshops. Of the eight groups, the market planning CPT appears to be the strongest. This is attributed in part to the manager's leadership abilities, and in-part to the interest level among the Bosnians within the team.

4.2 Business Connections

Although some functions had existed previously, the Business Connections department was really activated in February-March 1998 when new staff arrived with a mandate to achieve its objectives. It is comprised of three units: Market Connections; Specialized Skills Improvement (PVO program); and Investor Connections. Each unit is managed by an expatriate and supported by Bosnian staff.

Operationally, Business Connections is a staff function supporting the CSTs. Their services are primarily activated at the specific request of a CST based on client needs. They may also be engaged to support industry sectors as a group in addition to individual firms. Essentially Business Connections acts as an outreach marketing and trade development vehicle for Bosnian firms and commercial attaches. Results are often soft, and there is a lengthy process of building knowledge and skills among the participants.

4.2.1 Market (Trade) Connections. Primary responsibilities of this unit are: export promotion including trade show participation or representation; sourcing of equipment, used and new, including pricing and purchase facilitation; sourcing of raw materials including assistance with negotiations; support to specific industry targets for export market development – apparel, shoes, food processors; data searches. Additional activities include: overseas investor liaison (identifying and facilitating contacts) and information development/communication between the parties – more reactive than proactive due to limited resources; basic information dissemination which entails providing data to potential foreign investors who seek liaisons through Bosnia-based commercial attaches; and informal collaboration with other international organizations on an ad-hoc basis. Identified opportunities for future consideration include: development of firm-specific marketing web sites for which clients could pay a monthly service fee, and formalized interaction at the project-level with other international donor organizations providing direct firm-level support to initiate and jointly develop projects (e.g., SFOR, UMCOR).

4.2.2 Specialized Skills Improvement (PVO Program).This unit is responsible for provision of in-firm specialized expatriate short-term technical assistance at the request of the CST and client firm. This entails the identification, sourcing, scheduling, budgeting, and back-up of the short-term advisor through a PVO. The PVO Program is one of the most important and requested services of client firms. To date, it has been one of the most underdeveloped by BC, as noted earlier, with only three PVO contracts in place and approximately 22 in process. A total of 46 are being researched, but any assignments contracted at this time could require completion schedules beyond the end of project for BC (September 30, 1998). Nevertheless, these could be assigned, staffed, and completed by October if management resources are provided.

4.2.3 Investor Connections. This unit is primarily responsible for development and distribution of publications concerned with marketing and promotion. They include company profiles, newsletters, and brochures about the BDP, BF, and BC components. The overall purpose of these publications is to create a positive image of and interest in Bosnia and client firms among potential investors, official constituents, and the interested public which will lead to potential investments or strategic alliances at both the firm and macroeconomic levels. They may also play a part in creating favorable bilateral trade agreements and continued foreign support for the development of Bosnia. This unit has just become fully operational in June 1998 with the arrival of an expatriate having the requisite expertise. Information for the company profiles and newsletters is provided by CSTs, and through company research supported by team evaluations and industry studies. Success is dependent on the active and timely involvement of BC teams and cooperation by CST staff.

4.3 Statistics and Reports/MIS

This department is responsible for gathering, verification, and compilation of all data related to the BC component activity. This also includes design of reports, data analysis, presentation, and distribution of reports. The MIS department is responsible for maintenance of client database. While these activities have been addressed since the project's beginning, the contractor brought to Bosnia a staff expert from its home office in April 1998 to specifically implement a full database system. This was partially in response to pressure from the Mission to generate the statistical capability for monitoring consulting clients and BC activities, and to fulfill an overdue obligation of establishing an Impact Report System. Consequently, the MIS staff have generated a reliable process of data collection, implemented a statistical reporting system, and produced comprehensive reports for May and June 1998. Thee include an Impact Journal, Quantitative Economic Indicators, and Plan vs. Actual main Economic Indicators (overall and by company). The database and report design process has been complicated, but the program is now very flexible, apparently allowing data to be cut and analyzed multiple ways, and the base of client organizations can be expanded easily. Nonetheless, a major drawback is that the BC and BF systems are completely incompatible with BC using ACCESS and BF using Lotus/TAMIS. This has become an issue as both systems are expected to be integrated and, indeed, shared information could be extremely valuable.

A second responsibility of the department is the development of a market matrix to provide BF and USAID with information about industry sectors and client profiles to improve credit decisions. Its development is a recent USAID priority, and BC has been collaborating with BF since the end of May 1998 to design the matrix with the help of a TDY expert. In addition, BF has developed a new risk rating system that will be incorporated into the matrix. Industries will be classified by SICs, and information will include labor statistics, industry sector data, and various trade data. Information derived from reports generated through Fin-Pro will be used as a source for company data. The matrix must identify and quantify domestic markets by sector performance as a derived index (in simple terms, production + imports – exports = domestic market). Clearly, there are many opportunities for expanding the matrix once completed, and then for providing statistical data for the overall Business Development Program. USAID has not yet defined precisely what is expected of the matrix, but its development could be a rather substantial effort that would exceed BC resources.

5. TRAINING AND DEVELOPMENT

Because training and development activities are a pervasive dimension to BC's overall project success, a more extensive review of those activities are provided here than discussed earlier. The original training unit encompassed both internal BC staff training and external seminar based training for enterprise managers in the form of one-day programs focused on specific functional skill areas. In early November 1997, the internal training was expanded to include the Consulting Apprentice Program. In May, 1998 with the arrival of an experienced expatriate manager, the training unit was expanded further both in the areas of external (firm-level) management training and seminar-based consulting for smaller clientele. A brief summary of the training components follows.

5.1 Consulting Apprentice Program

The Consulting Apprentice Program was launched as a direct result of the 1997 task order revision to enhance the development of local consulting capacity. An intensive 18 week schedule which alternates, in two week segments, classroom instruction with on-the-job apprenticeship to a BC CST was implemented with 20 participants from Sarajevo and Tuzla. The program was designed like a mini-MBA program by a TDY training coordinator and senior BC professional staff. The first class commenced in November 1997, and it graduated in April 1998. The second class of 21 participants followed later in April and will graduate in late August 1998. Apprentices are selected from a variety of firms and backgrounds. At the end of the Apprenticeship Program, the participants are ready to return to, or enter, the private sector either as consultants or direct hires; 25% of the first graduating class was hired by BC. This is the only program of its type in Bosnia at present and is very highly regarded by the private sector.

5.2 Internal Staff Training

Since early May 1998, formal weekly in-house training for the CSTs has been held in which local staff and apprentices participate in a variety of structured exercises. The sessions last between approximately 90 minutes and 2 hours, and the alternate every week between seminars on specific functional skill areas delivered by BC expatriates, and case study presentations related to the BC practice modules given by the Bosnian staff. In reality, the in-house training has existed from early in the project with intense mentoring and regularly scheduled brief seminars for nearly all local staff. Without a doubt, a strength of BC has been the intense cooperation among expatriates to help local staff raise their skills levels and, in some instances, to pursue projects with in-depth case analyses or new applications.

5.3 External Management Training

External Management Training comprises two programs: Core Competency Development an Functional Skills Development. The Core Competency programs are one-day, eight-hour seminars focused on a single subject and geared to the responsible enterprise manager. There are a total of eight subjects within the program, each of which is presented by an expatriate experienced in the subject. The goal is practical implementation within the firm of the ideas learned in the seminar. To promote this program, there are two follow-up sessions to each seminar. The first follow-up occurs 30 days after the seminar (the trainer and group remain the same throughout), and requires participants to focus on three ideas which they had found most valuable. The second follow-up occurs 90 days later and provides more in-depth exposure to areas of interest to the enterprise managers at the practical level. The program commenced in late May 1998, and the latest follow-up was completed in mid-July. A total of 288 trainees representing 151 firms participated in three locations – Sarajevo, Banja Luka and Tuzla. Additionally two "trainers" were trained per seminar to ensure local capacity development and sustainability.

The Functional Skills Program is a much more intensive five-day, eight-hour/day training activity that targets both client firm managers and local educational institutions. There are three managerial functional skill areas addressed: production, organization, and finance. Each of the three areas is contracted to a different institute and utilizes a mentoring approach which pairs one expatriate specialist with each skill and institute. Again the long-term goal is capacity development and sustainability. The Functional Skills Program is being offered in Sarajevo, Zenica, Banja Luka and Tuzla. The first program rolled out in late May 1998, and the last is expected to finish toward the end of September, concurrent with the end of the project. A total of 111 trainees representing 15 firms are expected to complete this program. At the conclusion of the program in September, the firms will be asked to identify *What future consulting assistance they want,* and *What services would they be willing to pay for.* This is a psychologically important bridge between the diagnostic driven consulting assistance offered to date and the enterprise manager's own assessment and understanding of individual needs.

5.4 Foundation of Success Training

This training was first started in spring 1998, stopped for awhile, then restarted in June 1998. It is a two day seminar that is designed to prepare potential BF clients to complete the application forms and required financial and marketing plans associated with loans. The program is targeted to geographic areas that are considered politically sensitive or multi-ethnically diverse. The delivery assumes an almost town meeting approach which encourages the participants to actively interact and exchange information in a non-threatening, non-political venue. The program is psychologically powerful in that it breaks down long held barriers and perceptions about ethnic diversity, commercial credit requirements, and various misinformed ideas about assistance.

5.5 "B" Company Batch Training

In August 1998, a training program tailored just for "B" companies will be launched focusing on financial management, marketing, and action planning. "B" companies are small or new enterprises which are not expected to achieve significant growth, but which nonetheless need assistance in skills required by entrepreneurs and smaller, independent businesses. Participation of 15 trainees from eleven or twelve firms in expected in each of five cities for the introductory seminars that will last for one day. Each seminar is scheduled for eight hours, and the long-term view of this program is to deliver very focused packages of practical skill-based information to groups, and that each module can be repeated often and consistently to a wide variety of owners and managers with diverse interests.

6. EXTENDED TASK RESPONSIBILITIES

Periodically throughout the Business Development Program, there have been expanded responsibilities given to BC with expectations for repositioning resources. In several instances, these were formally written into task order modifications, but not necessarily clear concerning management or accountability of activities. In other instances, the expanded tasks were not formal aspects of the contract but either implied or urged through the Bosnia Mission. A few of the main points are reviewed below:

- Industry Task Force. As a formal responsibility, BC was charged with coordination of one of OHR's integrated task force groups, officially headed by the Mission. The SOW did not specific management or performance expectations other than behavior descriptions. These were probably quite appropriate as the Industry Task Force coordinator's role seems to have evolved at an advisory level to the Mission. The results on industry studies, task group meetings, communications with other donors and members of the Federation government are sound. Indeed, the coordinator has received high marks from representatives of the Ministry of Finance, leading agent bankers, the World Bank, and EBRD for his research, outreach, cooperation, and ability to address protocol.

- Privatization Support. Although specifically written into the extended task orders, support for privatization has yet to materialize with verifiable results. This task looms in the background and clearly depends on progress by other USAID contractors and government legislation. There is "no call" on events or activities related to privatization, but BC management is keenly aware that the project could be suddenly asked to shoulder additional responsibilities that might stretch beyond BC capabilities. Indeed, a systematic approach to enterprise restructuring, or the associated tasks to commercialize a firm in preparation for privatization, could overwhelm an experienced contractor. If these are part of the intentions for privatization support, they could be undeliverable. Even support for firms after privatization occurs requires persistent long-term intervention, and this would suggest a major redesign and funding effort by USAID.

- Data Base Management. The Business Consulting effort probably should have had a firm grip on data and client baseline information early in the program. Apparently this was not the case, and until March or April 1998, a dedicated effort was not made to solidify BC data into a systematic process useful for tracking client activities or results of intervention consulting. A problem remains in that the existing data base was developed specifically for consulting needs and on a software platform that is substantially different from the Business Finance system. BF has had a different set of priorities and software history, an consequently, the two data bases are unlikely to be easily merged or the data itself entirely useful to one system or the other. Nevertheless, BC has now completed the core elements of programming required for an effective data base with a range of statistical capabilities that could be a genuine asset for future development work.

- **Brcko Projects**. Not designed into the task activities but one of the most visible extended responsibilities has been to branch out into the troubled city of Brcko. BC responded to this during the past several months with more than 60 consulting projects in conjunction with BF activities and independent demand for services. The rationale for consulting intervention, and the nature of assistance, is not clear, but it must be assumed that the decision was politically motivated and appropriate at the time. More recently, BC has been purposely constrained from expanding activities in Brcko, and this has apparently has created some confusion among assisted firms and the consultants involved. In any event, it has been one of several diversions of BC time and resources that can only be judged for appropriateness by the Mission.

- **Business Connections**. As noted earlier, the BC component had explicit expectations for establishing business connections and serious potential investors which have not been met, but a number of implicit activities have recently evolved. These do not seem entirely justified unless the BC project has time and resources to devote to a systematic program. Specifically, building a comprehensive promotional program for BC trade connections at a time when demobilization is a possibility seems ill-timed; rewards of promotions are likely to come only with persistent efforts over time. Second, building company profiles at this late date certainly will have some benefits for the companies as promotional pieces, if they can use them or if USAID can develop channels to reach potential investors. This seems to require a long-term commitment that includes careful research, portfolio building, and very solid networking with foreign markets and investors.

- **Other Training**. The BC scope of work explicitly required formal training, but the nature of training other than specific objectives for the apprenticeship program were not clearly developed. BC went forward with an aggressive Core Competencies Development program that was described earlier as a series of very successful seminars for client company managers and staff. In addition, the Function Skills Program was developed independently as an innovative series of intense five-day courses taught almost entirely by Bosnian university professors and professional educators under the mentorship of an expatriate. Participants have not been limited to client companies, but has been community based reaching out to a variety of geographic centers in the Federation. Like other education programs, measuring results is difficult, and in this case, not as important as the fact that important joint efforts were made with U.S. and Bosnian interests to pursue a common objective of delivering western business practices with appropriate U.S. materials and models.

7. IMPACT AND PERFORMANCE RESULTS

The *Best Practices Rating* scale may be too new to use in this evaluation, but to the extent that BC has tracked a large number of companies, it provides a solid base of information. The overall rating index for 154 firms in the database suggests slightly more than a 9 percent improvement. This is a composite proxy for the degree to which enterprises employ management techniques, and working backward over the prior year, the direction of change has been consistently positive. Also, there is a direct casual relationship between the index and consulting activities because the scale measures, by proxy, behavioral changes that simply would not occur without the accountability of periodic monitoring and feedback.

Quantitative measures reveal a similar consistent pattern of positive results, and to the extent that they can be compared against BiH statistics (or Federation or RS data), the BC client portfolio has outperformed the economy by a significant margin. Several key points are provided below from monthly reports for the 154 companies tracked. Comments derived from similar lines of questioning of enterprise managers during the evaluation are included when appropriate:

- Sales. Among the 154 firms tracked, sales expanded by 70.8 percent in 1997 over 1996. The expected growth in 1998 over 1997 is likely to be much less, perhaps 24 percent according to BC data. Enterprise managers seemed to indicate a higher rate of sales growth than reported, although data cannot be verified, and they project far more optimistic results for 1998. Discounting the emotion of managers' responses, there is reason to believe that sales will continue to grow well above the projected 24 percent rate, but less dramatic than the 1997 results. This is probably due to the initial jolt of assistance that opened new opportunities, and the same jolt will not occur for these companies in 1998 or 1999. The real test will be whether they can sustain above-average results for several more years. Nevertheless, BC intervention appears to have helped companies, and most are quick to point to enhanced sales and marketing capabilities.

- Exports. The BC client firms generated a 78.4 percent increase in exports in 1997 over 1996, and expect a 39 percent growth in 1998. This sounds impressive, and against the national trends, export performance is four-times stronger. Two arguments can be made about export performance. First, it could be said that because many client firms had few export sales to start with, their sudden increase distorts the statistics. Indeed, a small change in export sales could represent a huge percentage increase for a company new to the export market. Second, it could be argued that any significant increase in exports may be remarkable in an economy that is desperate for trade opportunities. The truth is somewhere between the extremes, but in any event, BC intervention is cited as a substantial factor in creating new foreign markets. In contrast, enterprise managers interviewed also felt that "promised" market linkages by some consultants never materialized. They also say that although consultants were able to make major changes in their enterprises by educating clients about export techniques, most advice was not extremely useful; overall, the companies surveyed sold into close-at-hand markets (such as Croatia) where they had had previous market connections.

- Employment. The number of active registered employees among the BC client portfolio increased by 30.7 percent in 1997 over 1996, and it was expected to increase by approximately 10 percent in 1998. This measure presents a conflict in arguments and results. First, the 154 companies being tracked do not represent a true proportion of all companies assisted. Specifically, many of the early state-owned enterprises are not included, and there are a number of "troubled" accounts on the active watch list that are only partially represented in the data base. Consequently, employment data is probably biased in favor of active and growing companies with continued intervention consulting. On the other hand, the data does not account for proper rationalization of productivity processes or labor-replacement; indeed, those now employed may represent more appropriate configurations than in the past, even in situations where jobs have been reduced. Nevertheless, the positive direction of change suggests that BC intervention has been a benefit, and enterprise managers interviewed generally stated that BC programs enhanced employment opportunities.

- Productivity. BC reported a 24 percent increase in productivity for 1997 and a projected 19 percent increase for 1998. This is a derived measure based on labor efficiency and sales, and although it is a good thumbnail indicator of improved output capability, it isn't very useful. A better measurement may not be available at this time for companies without good cost controls and reliable output records. In many instances, companies simply do not yet know how to track costs, quality indicators such as waste or scrap rates, direct/indirect labor costs, or procurement costs. Interviews with BC consultants and enterprise managers reveal a serious gap in performance assistance regarding cost measures, yet there have been recent initiatives to pursue quality training. In most instances, the gaps occur precisely where PVO specialization could have made a difference, such as expert advice on operating technology, equipment or plant layout, process systems, and so on.

- Working Capital. A complementary measure to productivity that sheds a bit more light on performance is the change in inventory levels. For the 154 client enterprises, inventory stock in 1997 dropped to 114 days in 1997 versus 142 days in 1996. This is a tidy impact measure, representing a 20 percent improvement and, by definition, a comparable increase in working capital efficiency. However, a cause-and-effect linkage is not revealed by the measure. The result could be from a higher sales turnover whereby inventory is retained for a shorter period of time rather than the company producing more efficiently to match supply and demand (and consequently purchasing materials more realistically). The inventory data of 114 days still suggests a substantial problem in inventory management – either bulk buying and warehousing, or producing to inventory rather to meet demand. Either way, a significant amount of working capital is tied up in inventory. Receivables improved slightly, but in a transactions-based economy, little change would be expected except through better decisions about accepting customers capable of paying. Still, a 64-day average on receivables seems relatively high on western standards, particularly when a large number of enterprises deal in rapid-to-market seasonal items and processed foods.

- Profitability. Enterprise profitability improved nearly 75 percent in 1997 over 1996 based on gross margins, while net income inched positive to about 2.1 percent based on sales (ROS). Once again the direction of change is positive and reflects substantial improvements that can be attributed to BF and BC assistance given the general economic performance of reported income in the Federation as not yet profitable as a whole. Without reliable statistics, it would be a stretch to suggest cause-and-effect, but the body of evidence that exists strongly suggests the U.S. efforts have made an exceptional impact on client company performance. Enterprise interviews and anecdotes emphatically support this conclusion. Several companies had not been profitable and even with loans probably had little chance of going positive without consulting help to implement new production techniques, generate new markets, or manage finances. On the other hand, the statistics will be lopsided in the sense that loss-making firms going into the black would distort the percentages. An adjunct measure would be to track the number of firms with losses separate from those that have stabilized, and report turnaround data. BC could then track costs and output to link potential causal factors to results.

8. CLOSING COMMENTS ON BUSINESS CONSULTING

A general assessment of Business Consulting is that, overall, the contractor ***has performed very well under difficult circumstances***. The entire program has been involved in a dynamic change environment where task objectives, Mission expectations, and emphasis given to particular activities have been complex and, at times, confusing. As the BC component nears the point of demobilization, it seems that it has finally begun to gel into a cohesive unit with a foundation of objectives and consulting services that are appropriately structured. In most instances, BC has hit its primary performance objectives while scrambling to meet secondary objectives that have either evolved from necessity or been imposed.

The BC organization has been transformed and redirected several times, and it is not clear that the current organizational structure is appropriate. Yet as noted above, it may have finally reached a stage where some degree of stability and predictability could be expected. Individually, the managers and consultants are very well equipped for their tasks and perform very well under stressful circumstances, but there is a ***sense of discontinuity in leadership.*** Perhaps this is part of the early history of the entire Business Development Program or a legacy of prior management in the project, but clearly there continues to be a ***sense that management could have been stronger.*** Difficult decisions may not have been taken regarding consulting efforts or control over staff functions, and from the contract consultants' viewpoint, there has not been strength in leadership to advocate on their behalf with the Mission. There also is a sense that the Mission overrides project management, interjecting a degree of uncertainty and redirection, yet these perceptions may be justified if the project management has not been able to exert the control required.

On a more objective level, performance indicators for BC clientele suggest a very strong record of cause-and-effect impact from technical assistance, training, and combined BF/BC activities. The direction, if not the magnitude, of sales, exports, profits, and efficiency of working capital is admirably strong under the circumstances. However, there are gaps in performance and questionable measurements of results that are symptomatic of several problems. First, in a "fully loaded" program, management may not have had the resources needed to fulfill all expectations in a timely manner. Alternatively, if resources were adequate, then management may have not focused activities sufficiently to provide the depth of results desired. Consequently, some activities may have suffered from attention to higher priorities. The latter viewpoint may include deference to Mission prerogatives that may or may not be constructive when resources are redirected. One insight to this contradictory situation may be the budget status of the project. As shown in Appendix D, Business Consulting apparently is well under budget for the accumulated expenditures to date, but there may be hidden obligations for employee costs accrued and due prior to end of project. In any event, a noticeable level of funding remains unobligated, and even if this was not the case, if the project required greater financial resources in the pursuit of expanded tasks, it is hard to believe that the Mission could not reconcile the problem.

Slack has occurred in effective use of PVOs, in-depth consulting to many companies that could benefit from a consistent and thorough program of consulting assistance, and from missing elements such as quality management, cost control, process technology, and business connections. Third, there appears to be activities taking place that, at the end of the contract, may have little effect unless long-term support continues (e.g., trade and investment promotions, new turnaround initiatives, and development of more extensive standardized consulting tools). Finally, there is a sense of frustration by consultants unable to provide the time or expertise to genuinely treat enterprise problems and to stick with their projects long enough to ensure sustainable performance. In effect, there is a range of "mile-wide-and-inch-deep" activities that satisfy quotas for technical assistance, diagnostics, or training, but no assurance that the depth of effort is provided to sustain performance. This may be particularly acute for preparing local professionals to become self-sustaining consultants in Bosnia.

VI. BDP EVALUATION AND SURVEY OF ENTERPRISES

1. BACKGROUND

A survey of 23 enterprises was conducted by the evaluation team, either jointly or individually, to determine the client assessment of the Business Finance and Business Consulting interventions received to date as well as their perceptions of future needs both at the firm-level and macro-economic/political level. The survey provided a representative sampling of the BDP client profile in terms of: geographic location, 20 cities in the three sectors; industry, 14 different sectors; ownership, 78% private, 13% state, 9% mixed; loan risk; and agent banks, 15 or 48% of the BF roster. Collectively the sample represented DM 25,902,050 dispersed or 17.4% of total loan disbursements as of June 30, 1998.

The senior management of each firm was interviewed and queried regarding specifics of the BF loan (terms, procedure, time frame start to finish, requirements, etc.) and the BC support and actual services received vis-à-vis requests and needs. The responses were quite homogeneous and candid regarding assessment of the two BDP components and major macro issues impacting the overall enabling environment for private sector development in which USAID and other donors can play a critical role.

2. SURVEY ASSESSMENT OF THE BUSINESS FINANCE COMPONENT

Overall the BF loan process, terms, timing delays/scheduling missteps and agent bank problems were strongly criticized and detailed at length. Nonetheless, most of the firms were appreciative of the loans and determined to repay them on schedule. There were, however, at least 4 firms or 17% of the survey that stated unequivocally that they wouldn't take the credit if offered it again because it had put them in a financial "straight jacket" and seriously jeopardized their solvency. Many others also echoed those sentiments although they were still happy to have the loans. Following is a summary of the key points.

2.1 The Loan Process

<u>The loan process from initiation to disbursement is too long, burdensome and confusing.</u> From loan application to disbursement of funds is often 10-12 months, and within that time frame there is often a lag of 2-3 months from approval notification to disbursement. The procedure and requirements are often not well communicated or understood between and among the client, agent bank, BF and BC. Absence of harmonized reporting forms, business plans, etc. results in duplication of data collection, further time delays and inefficiencies at all levels. The roles and responsibilities of each party are not clear to the client or among the supporting actors themselves.

2.2 The Timing of Loan Disbursements

<u>The timing and scheduling of loan disbursements are not rationally planned and synchronized with client needs, leadtimes, seasonality.</u> The absence of this has been problematic, sometimes in the extreme, for the clients and often results in creating a financial straight jacket for the firms. Specifically 10 firms or 43% of sample were faced with interest repayment before they could even use the loan for its intended purpose due to the delays and timing. Again the lack of clear, consistent communication and coordination among the AB, BF and client were critical factors. From the clients' perspective, there

didn't appear to exist either a recognition or understanding of the need to mutually develop and adhere to a disbursement timetable reflective of the loan's purpose and expectations for repayment.

2.3 The Loan Terms

The loan terms are considered onerous particularly given the actual disbursement delays vs. contractual agreements. The terms for the survey sample ranged from: grace period of 0-12 months with an average of 6 months; repayment period of 1.5-4 years with an average of 3 years; interest of 7-8% with an average of libor+4%. Average loan disbursement occurred 10-12 months from application submission. Loans were primarily used for equipment purchase, building construction/repair and working capital. Most firms stated that they had identified costs, timing, specifications prior to loan disbursal. However the long delays often forced them to restart the process. The firms often didn't know the reason for or source of the delays i.e. whether it was the agent bank, correspondent bank, BF, USAID or BC (when diagnostics were involved).

As previously stated, interest payments often commenced prior to receipt of the loan disbursement or before the purpose for which it was intended had been executed. The lead times between client needs and loan receipt were completely uncoordinated. For example, several firms (Rose, Holding Stanic, Hidro Inzinjering, Dukat) had to begin interest repayments before they were able to purchase equipment and commence production from which the sales and cash flow for repayment would be generated. They made repayment from other resources which sometimes included assuming another loan at more favorable terms from which to pay their USAID obligation.

Cash flow/working capital repayment places severe limits on the firms' ability to operate efficiently and reinvest for further growth. The majority of firms suggested loan terms of: 12 months grace period; 5 year repayment period (apparel manufacturers desired 10 years due to low margins from primarily lohn work); interest rates determined by sales, margins, turnover.

2.4 Agent Banks

Unscrupulous and insolvent agent banks were often a serious impediment in the BF loan process and should be removed from the program. Several firms (Rose, Hidro Inzinjering, Lady A, Legno) encountered significant problems with actual receipt of funds once the loan had been dispersed because of the agent bank's insolvency or calculated miscommunication regarding the loan dispersal status. For example, the Rose enterprise was informed by Privredna Banka Travnik that it received and could release only 100,000DM of the total 711,000DM approved loan from the correspondent bank when in fact it had received and was earning interest on the entire disbursement. When Rose requested BF's intervention, the AB told BF that Rose was not performing to the loan conditions and hence disbursement was on hold. BF assumed the agent bank was correct until Rose insisted on a personal meeting with BF in which they presented complete documentation substantiating their compliance at every step. BF then directly intervened on their behalf and negotiated a settlement. Nonetheless, equipment supplier requirements and payment were not met by Rose due to these delays, and trust was breached on all sides. This scenario apparently is not uncommon among agent bank relationships.

2.5 The Loan Amount Awarded

Firms were often encouraged to assume more debt than they needed or were able to repay resulting in several current restructure/turnaround loan portfolios and the probability of more. This was particularly the case for the early SOE loans and for those firms which didn't undergo the pre-approval

BC diagnostic review. The absence of an agent bank risk stake in the loan was certainly a contributing factor coupled with the monthly quantity disbursement requirements given to BF. Some firms, such as Lasvanska, recognized the situation and accepted substantially less than the approved loan amount (900,000 vs. 1,600,000DM). It is important going forward to recognize the role of BF and the agent banks in perpetrating the impending loan defaults/turnarounds and consider this in any restructuring of the loan terms/portfolios.

2.6 Business Finance Long-Term Commitment Needed Going Forward

A longer term vision and commitment is needed by the donor community, government, banks and all involved parties to fully achieve political, economic, social stabilization and create the foundation for a lasting peace. The unanimous opinion was that at least an additional 5 years involvement in and facilitation of the macro issues evolution/resolution is necessary before the international community can withdraw its support. The past two years of USAID assistance has been critical to establishing the basic security and fundamental elements upon which to build the political, legal/regulatory, economic and commercial systems essential to the future. USAID's leadership in enforcing the Dayton Accords, influencing the direction of the macro process, providing the training, technical and financial assistance, demonstrating official and commercial commitment to Bosnia to the global community is essential to continuation of this process.

3. SURVEY ASSESSMENT OF BUSINESS CONSULTING

The Business Consulting support services and consultants were unanimously held in high regard and considered as valuable contributors, in fact partners, in the overall BDP delivery. A majority of firms felt that they would not have achieved the same results in the BDP time frame without BC's involvement, irrespective of when that commenced, or with the BF loan disbursement alone. Apart from specific BC tools and activities received, the ongoing professional advice and coaching provided by BC's staff was considered essential to the firm's long-term market-orientation and commercial success. The following summarizes the interventions/services received by the survey respondents and their assessment of these.

3.1 Business Consulting's Support Adds Value to the BDP

The majority of firms felt that BC's involvement prior to and as part of the BF loan process was beneficial to their preparation for and appropriate use of the loan. Those firms that had received such BC upfront intervention, either diagnostic or action planning support, believed they performed better than they would have without it. This seems to be supported by the loan portfolio ratings (verify this ??) Firms which had not received such support (such as Vitex and Sportform both SOEs and early loan recipients) felt their performance suffered and, consequently, are now restructure/turnaround candidates. Obviously these subjective perceptions are difficult to quantify but are important qualitatively and reflective of the management's acceptance of and commitment to attitudinal changes and adaptation of accepted Western management practices which will permeate throughout the organization to yield tangible long-term results.

3.2 Perception of Overall and Specific Activities

The single most valuable service provided by BC in the opinion of the surveyed managers was the exposure to and development of market-oriented Western management practices, planning and problem-solving skills. The managers viewed the aforementioned as critical to their long-term commercial viability and competitiveness and something they could not have achieved without the direct assistance of the BC expatriate staff. While this is a soft, indirect BC output based on subjective views, it is the very foundation upon which the Bosnian private sector must be built. And, importantly, it is an orientation which can not be delivered by Bosnian consultants alone since they have neither the experience nor direct practical expertise in Western management practices gained through hands-on industry work.

In terms of specific activities/programs received to date, they were in order of importance: business and/or action plans; marketing plans and new market development; deployment of specialized technical experts (PVOs); on-going support, advice and follow-up; seminar training of employees in specific functional skills. Many firms were able to cite specific action undertaken due to BC's advice which improved their efficiency, productivity, and control: Lady A apparel moved their accounting function in-house; Rose lumber purchased/installed computers; Vitex textile developed and implemented a detailed action plan which significantly reduced costs and increased cash flows; Lasvanko logging prepared a privatization plan and implemented it in one division; Dunolit entered the RS market after BC helped them develop a plan and identify buyers.

3.3 PVOs Are Valuable, Highly Requested Resources

The request for specialized expatriate expertise is strong and increasing as firms move through the BC program; BC's sourcing/deployment of PVOs should be accelerated. Limited use has been made of the PVOs to date although it has been a part of BC's program since the outset. Most firms feel that specialized industry and functional expertise is critical early in the support program so that mistakes are avoided and efficiencies can be realized at the outset. This activity should improve now that the correct manpower and mandate have been provided.

3.4 Financial Planning Needs

A simple, easy-to-use, standardized financial program such as Quicken should be developed and offered as an alternative or first step to Fin-Pro. While the majority of the survey had received and been trained in the Fin-Pro module, it was not frequently or extensively used. This was due to: complexity; lack of harmonization with internal financial systems and BiH reporting requirements thereby necessitating multiple efforts/time; insufficient understanding of its real value. A simplified, more user friendly financial model for cash flow, income statements and balance sheets which would also convert their accounting system into the GATT standards would be of more immediate benefit and an excellent training tool.

3.5 Improve Communication Among BDP Parties

Better coordination and sharing of data, information and BDP requirements among BC, BF and the agent bank are needed. Often the firms are tasked with providing the same information but in different formats. Due to limited resources and time demands this puts a real burden on the managers. Furthermore, there is not always a clear distinction between BC and BF components/staff particularly early on in the loan process. The relationship and procedures should be well defined and explained up-front and supported with umbrella leave-behind marketing brochures. Apparently the latter have just been developed within the past week and will be distributed albeit late in the program to really have an effect on the programs activities.

3.6 Attitude Towards Fee-Based Consulting Services

In principle, the surveyed firms are open to engaging fee-based consulting services with either all expatriates or mixed expatriate/Bosnian consultants. Willingness to pay for consulting is contingent on availability of funds, fee rates/schedule, type of service/expertise and perceived bottom line impact. To date, no fees have been charged for any of BC's services although voluntary donations of 20DM have been solicited for the training seminars and, apparently, readily given. A test market of fee-for- service structure should be developed and implemented to determine viable rates and market demand.

3.7 Attitude Towards Bosnian Vs. Expatriate Consulting Services

Expatriate expertise was, unanimously, considered essential to the viability of fee-for-service consulting. Expatriates (Americans especially) have the practical Western experience, cutting edge knowledge and level of specialization desired by the firms which, in turn, gives them the credibility essential to opening doors and achieving results. The Bosnian consultants lack that credibility and level of acceptance/respect due to the absence of the aforementioned. Furthermore there is often an initial attitude of suspicion/mistrust which the Bosnian consultant must overcome before they will gain access to the firm's management and data. A mixed team approach offers the advantage of Western knowledge/skills combined with the Bosnian understanding of inherent cultural/political/economic dynamics – in essence the best of both.

3.7 The Role For Market and Trade Development Assistance

The awareness and utilization of the Business Connections and Investor Relations departments should be developed and expanded. There is a definite interest in and need for both of these services. However at present, most managers either weren't aware of them or didn't understand the department's roles, value and procedures for engagement. A marketing brochure that clearly explains the organization, services, value, departmental interrelationships and procedures is really essential particularly if fee-based services are to succeed. However, this is just now being developed for distribution.

4. SURVEY ASSESSMENT OF ENABLING ENVIRONMENT

The following summarizes the key issues unanimously perceived by the survey sample as critical to their continued survival and ability to effectively compete, grow and expand their businesses profitably:

4.1 Legal and Judicial System

a) Uniform and transparent laws should be enacted throughout the Federation and uniformly enforced. Without this, private firms is at a distinct disadvantage vs. state-owned firms as well as from one state to the next within the Federation. Laws regarding taxation, licensing, export/import trade, etc. often penalize rather than encourage development of an ethical private sector. For example, many of the survey sample indicated that licenses are often awarded quickly to persons who make political contributions although they're unqualified to operate in the particular activity/business. However those companies that are qualified may be significantly delayed in receiving licenses due to their lack of political affiliation and monetary support thereof.

b) A properly functioning, independent court system with teeth to deliver results needs to be established. Currently companies do not have recourse to a viable judicial system that would enable them to pursue breached contracts, default on payments, etc. One BDP client has stopped selling in Bosnia due to his inability to collect payments and pursue litigation through the courts. He has been legally pursuing an 800,000DM account receivable since 1/97 through the Bosnian court without any progress, and furthermore he doesn't expect any. Nonetheless that 800,000DM would have allowed him to easily repay the BF loan whereas now he's stretched to meet his obligation.

4.2 Cross Border Trade

a) Regulation and control of cross border trade should be developed both for the benefit of the private sector as well as the government. Uncontrolled trade has lead to unfair competitive advantages, often in the form of black markets, that jeopardize the establishment and commercial viability of a struggling private sector. Furthermore the government also suffers from breach of its borders and loss of revenue sources.

b) Black market competition emanating from above would be severely reduced and eventually eliminated by protecting and enforcing all border and illegal trade activity. Black markets are prevalent throughout many industrial sectors and will only become more entrenched the longer they are left untouched. In some instances, the black markets are politically backed; in other situations, they are operated by organized individuals although not necessarily the mafia.

4.3 Privatization

a) The surveyed firms believe that broad-based privatization will help place all businesses on an even playing field with respect to legal requirements, enforcement, taxation, reporting, etc. Right now the privately owned firms are often unable to be competitive against the benefits given to state-owned firms.

b) Privatization would minimize or eliminate (political) corruption before it becomes further entrenched in the system i.e. state firms receive favorable treatment because of larger work force and contributions/support to political parties.

4.4 Private Foreign Investment and Venture Capital Inflows

a) The enactment and enforcement of laws protecting such investments from both a political risk and regulatory standpoint are essential to attracting foreign investment and strategic alliance partners. Availability of capital is critical to the development of the private sector but will not occur without adequate protective measures in place.

b) A proactive public relations and marketing media campaign should be launched to promote Bosnia and its investment advantages and to allay concerns regarding political and economic stability/security by creating a positive, investment friendly image. Targeting of the private business community as well as official circles is necessary to its success.

4.5 Banking and Insurance Systems

a) The development, implementation, training and enforcement of proper and internationally accepted procedures for both banking and insurance systems needs to be done to support a growing private sector.

b) The above must be accompanied by the creation and enactment of protective laws.

c) Insolvent banks should be closed or restructured; they should also be removed them from the BF program.

d) An educational and interactive dialogue should be promoted between banks, insurers, business and the government on their respective roles, relationships, and responsibilities, perhaps through USAID sponsored conferences and workshops tasked with developing recommendations for draft legislation.

4.6 Democracy

a) The foundation for a transparent, multi-party democratic political system must be established quickly while the "window of opportunity" still exists i.e. while there is still an international presence and support. This is critical to the overall continued well-being of Bosnia and its people and its ability to integrate into the global community.

b) It is the opinion of most survey respondents that known war criminals should be actively apprehended and prosecuted through the Hague to pave the way for creation of a true democratic system and political stability.

c) The above points are important underpinnings to attracting and keeping the younger, forward looking generation who have the necessary intellectual capital to turn this country around. They won't return/stay if the pre-war system is simply perpetuated. And that is critical to USAID's and the donor communities' ability to sustain programs through local Bosnians – individually and institutionally.

VII. FINDINGS AND RECOMMENDATIONS

1. STRATEGIES AND ORGANIZATION OF BDP

The focus of this evaluation has been on the Business Finance and Business Consulting components of the Business Development Program. The initial strategic objective of BDP was to ***restore private sector productive capacity to restart production quickly and to create immediate, self-sustaining employment.*** The BF and BC projects have substantially addressed this objective and, in large measure, met the operational goals of the Mission and the contractual requirements under each scope of work. With that said, there are several comments to consider regarding objectives and the evolution of the program.

The term "restart" has less meaning today than two years ago when productive capacity was devastated. Instead, many businesses in most sectors have the fundamental opportunities to regain a sustainable level of capacity. Several of the assisted enterprises have gone beyond their pre-war status to expand into new equipment, explore new markets, and understand an entire new way of competing in a market-driven world. Many have regained their profitability (as evidenced by the recent composite results of positive profitability for assisted clients). Many have regained their employment levels and several have exceeded their pre-war employment levels (again evidenced by the impact reports). Still a large number are merely on the verge of recovery and will require attention and support until they can stand tall as models of private enterprise success among their peers in Bosnia. These are ***vital assets*** to Bosnia and to USAID that cannot be abandoned at a crucial juncture of their evolution by a premature reduction in U.S. assistance. Specifically, most of the 584 companies currently in the BC portfolio can benefit from support, and in turn benefit this society by their successful examples. They are well beyond the "restart" phase, but not yet mature in their ability to be pervasively self-sustaining.

Equally important, the lending program has provided the intended rapid infusion of capital that was absolutely essential for this economy to begin to recover, but the structure of loans and expectations for repayment now presents a dangerous level of constraint on many enterprises. In effect, the extremely rapid initial infusion has become a liability to some firms. USAID may have a moral obligation to follow through with expertise in consulting, loan restructuring, and training required to complete what the BDP initially set out to accomplish. New loans will be required for more client enterprises to come up from the ashes. More enterprise managers will need the fundamental training and consulting required to start and succeed in their endeavors. More local candidates searching for support to become consultants or bankers will need USAID's expertise to help them prepare for the 21st century. More competitors in all industries will emerge through privatization, and the finance and consulting arms of USAID will play pivotal roles in the transition of Bosnia's commercial sector.

This does not mean an ever-expanding program of responsibilities for USAID or the Business Development Program, but it does mean a transition in priorities away from the raw "restart" concept and "rapid disbursing" infusion of credit toward a systematic revitalization of enterprises that have a toehold on success and need support to reach the next level of performance where they can sustain their progress. Credit should become a rational choice for capital as part of a broader growth plan, and therefore the purpose of loans together with the structure of credits and well-laid plans for underwriting realistic growth should replace the sense of rapid emergency infusions.

As USAID evolves, and as this country progresses toward a stable democratic entity, it will be the persistent development of a viable private enterprise economy that ultimately defeats ethnic biases, political misdirection, and a war mentality. When people have material goods, security, opportunity for growth, and prospects for their children, they have too much to risk by pointless armed conflict. A vibrant middle class of productively employed people, a growing national income, and a nation with personal savings and opportunities for investment is unlikely to pick up arms except in defence of those assets. Consequently, Bosnia's future rests very importantly on USAID's ability to provide actual assistance required as well as the leadership to effect change. Equally critical is the need to ensure that Bosnia's separate entities (or any particular ethnic groups) do not generate disparities in economy growth or the opportunities to share in a better way of life. With this in mind, the priorities of assistance with respect to the Federation and the Republika Srpska, and regions within the two entities, should be carefully reconsidered. Perhaps there are U.S. political constraints imposed on finance and consulting activities, but the fact is that rapid regeneration of one entity without an equal pace of development in the other will further polarize factions within the country along economic lines. If this occurs, inevitable comparisons will surface that have historically prompted a disadvantaged people to take by force what they cannot achieve through fair competition.

The evaluation team urges USAID to consider program objectives, strategies for assistance, and specific activities of component projects in the light of long term stability for the nation as a whole. The team urges those involved with repositioning (or redesigning) the component activities to endorse a philosophy of sustained support and rational lending for enterprises that are now (or can become) assets to further development as well as examples to others in Bosnia. Given this framework, the team has attempted to answer the specific evaluation questions posed in its scope of work, and to provide alternatives that USAID may consider for the Business Development Program. In the following sections, these mainly operational questions are stated in "findings," and the alternatives are stated as "recommendations." The report will conclude with a team viewpoint that is written with a certain degree of humility in the face of a huge and ambitious program of assistance.

2. FINDINGS SPECIFIC TO BUSINESS FINANCE

As explained in Section IV of this report, meetings were held with nine banks. A listing of banks and officers interviewed is contained in the appendix. The purpose of this section is to present the major findings from the BF evaluation as they relate to the lending and training activities of Business Finance. The findings are presented without being attributed to particular banks or BF consultants and staff to ensure confidentiality required to solicit their undiluted opinions and thoughts. A summary of these findings follows with a separate summary of recommendations specific to the BF component.

2.1 Findings of BF Evaluation and Bank Review

There is one critical finding that stands above all others and underscores recommendations that follow in this section. Specifically:

Many loans need restructuring as the cash flow capability of borrowers does not match the repayment terms. Loans made with the multiple purposes of working capital, equipment purchases and building construction have always been bundled into one repayment schedule. Some banks would even restructure loans that are current, foreseeing downstream difficulties by many borrowers who have yet to face cash flow crises.

Assuming that a form of the existing Business Finance project will continue under one of the contractors, there are a number of findings that can lead to operational improvements, and to enhanced Business Development Program success. These are categorized in the following sections.

2.1.1 Lending Activities

- Business Finance, whether constrained by its own procedures or by the due diligence and Mission requirements, takes too long to process loan application approvals.

- From the bank and client viewpoints, the document collection process is too slow, and in the past, it has often involved repeat visits and time-consuming accumulation of information.

- It is too early in the development of the Bosnian banking system for the banks to take credit risk under the BF program, although a few Bosnian banks are willing to consider greater participation in client lending programs.

- Bankers, representatives of the Federation ministries, and to some degree BF consultants recognize a geographic limitation of prior lending activity. Bankers and the ministries urge a broader outreach for BDP lending and consulting activities. There is a possibility of focusing so intensely on one area that development becomes lopsided, both within the State itself and among sectors served.

- The lending program has been narrowly focused on industry and manufacturing enterprises, and specifically on certain sectors such as food processing and wood & forestry. Other sectors, such as services, tourism, and consumer packaging may benefit from lending assistance.

- Most banks do not pursue smaller loans or accommodate smaller enterprises. BF has not encouraged banks to go down market, but in this economy, smaller loans to a broader range of clientele will be essential to towns and villages, and to the growing urban sector of entrepreneurial activity.

2.1.2 Agent Banks

- Bankers indicated that there was too much administrative work required for the small level of fees received for the work by an agent bank. From BF's perspective, the procedures and paperwork required early in the program have been substantially improved, and fees may reflect what an efficient agent bank should expect.

- From the agent bank perspective, the collection fee for repayment of loans should be payable if the borrower pays within 30 days; some controversy persists in this and other fee-related areas.

- Agent banks would like to work closer with Business Consulting, including having the use of its database. This may or may not be appropriate, but it emerges from a general feeling of having poor information resources concerning commercial activities and economic or industry data that could be important to credit activities.

- All banks need "relationship banking training," which is a method of establishing personal and intense accountability between the client and a personal bank representation. Relationship banking ensure rapid response to inquiries and potential problems, and continuity of loan monitoring, all of which are lacking at the moment.

- Too many agent banks are in the program, and with a near-term potential for bank industry consolidation, BF runs a continued risk and greater burden of management by working with them. BF should focus on fewer and more select agent banks.

- Banks lack support from BF in loan monitoring activities, perhaps due to stretched resources of BF consultants, but also due to additional burdens created by lack of "relationship banking" coupled with the quantity requirements of BF and its rotation of short-term staff.

- With the new BF contract for agent banks, more banks expect to put additional resources into their lending activities to complement the BF program. One bank said they would consider using their own funds to lend beside BF with certain borrowers, several indicated that they would participate more in lending, but many probably are reluctant to take on new risks. Some of the verbiage in the new Agency Agreement has caused the banks to believe BF does not trust them.

- Compared with western banking services, Bosnian banks are very limited in their bank products and services. Perhaps in the very near future, the leading banks will want to develop their range of products, and indeed, BF may need to address the product/service profile as an important evolution in the commercial bank sector development.

2.1.3 Training

- Based on the pattern of loan disbursements, structure of loans, and repayment schedules, bankers and many of the BF staff involved in lending activities need better training in cash flow lending.

- Bankers are generally not well trained in credit management or loan monitoring, and most agent banks would like more OJT training for their lending officers. Some indicated that internships at BF would be highly beneficial for specific requirements of the Business Development Program.

- Without exception, the banks are very satisfied with training under the BF program, and although this report indicates areas of improvement, BF has met expectations and performed well, often providing innovative approaches to bank training with very limited resources.

- Many banks do not have the depth of staff to allow officers to attend longer training courses offered by USAID and other donors. Consequently, some training courses could be shortened to encourage better attendance by a broader range of staff.

- Borrowers are rather naïve about banking processes and financial management. Most still need more training in how to deal with banks and with their own cash flow and credit management.

- Throughout the early stages of the BDP in Bosnia, fundamental banking skills have been provided through BF. This was appropriate, and it remains important, yet several banks may be ready for an advanced training curriculum, perhaps with in-bank programs or evening classes to raise the bar on bank capabilities.

2.1.4 Project Management

- Agent banks, client companies, and the evaluators agree that the program places too much emphasis on volume of activities rather than on quality of applications, structure of loans, and timing of both disbursements and repayment schedules.

- Agent banks and borrowers agree that client companies could have benefited from better guidance on how to use Business Consulting services; there is not a sufficient information sharing process for BF or agent banks to understand or recommend consulting intervention assistance.

- The entire relationship among BF, BC, agent bankers, and borrows needs greater coordination. This has improved substantially during the past few months, but persists as a problem requiring proactive management attention.

- Although BF and BC have worked with many borrowers to develop business plans, there continues to be a pressing need for improving and regularly updating business plans, and to include agent banks in this process.

- BF has experienced personnel changes which have made communications within the Business Development Program difficult at times. This was not viewed as a significant problem by the banks.

- The confirmation of identity process required by USAID is too slow. This may not be a solvable problem, but some account should be taken in the timing of activities between application and loan disbursement to best serve client needs.

- From the perspective of agent banks, BC has done an excellent job on marketing plans that have made a significant impact on the quality of their loan portfolios.

- Borrowers and bankers interviewed in conjunction with the BF aspect of the evaluation say that the FinPro software program is very useful, and most borrowers have installed it. However, some have considerable difficulty getting started with it, and most use it only for limited applications. Perhaps only 1-in-5 companies are fully versed in the application and can use it extensively.

- From the agent banks' viewpoints, BC has too many clients to provide the depth of assistance needed for their borrowers regarding operational management.

- Bankers and borrowers feel that USAID does not advertise its activities well enough, nor does it inform the public about loan opportunities. Consequently, BF (or an appropriate BDP component activity) should consider the importance of promotional activities and the benefits the public information could have for potential borrowers, agents banks, and the development effort in Bosnia.

- All bankers interviewed acknowledge the great value the BF program has brought to Bosnia, and aside from the operational and training suggestions (all meant to be constructive), the bank officers are in total agreement about the strategic purpose of USAID Business Finance, and even the most candid remarks did not detract from their perception that BF staff and consultants are highly committed and diligent individuals acting in Bosnia's best interests.

2.2 Recommendations Specific to Business Finance

The following is a summary of recommendations specific to the Business Finance component, assuming a continuation profile of existing contractual activities. This does not reflect recommendations that follow later regarding strategic program changes, but focuses on that aspect of the evaluation concerned with the range of BF activities under its scope of work.

2.2.1 Business Finance Project Management

- Lending, by and large, has been restricted to production and manufacturing enterprises, and although recent initiatives have broadened this scope slightly, potential high-growth sectors should be studied for inclusion in the overall BDP program. Service sectors such as tourism could meet this criteria.

- The geographic coverage of the BF program has only recently begun to expand. This may be a policy decision, but the reach and scope of activities should be carefully reviewed in any task modification.

- The performance objectives that exist under Business Consulting are clearly beyond the scope and capabilities of Business Finance. Difficulties with coordination and communication noted earlier often confuse constituents within the BDP and that participate in (or benefit from) BF and BC activities. These roles and responsibilities must be resolved and clearly articulated to everyone.

- Other recommendations reflect the summary of findings noted earlier. USAID should reconsider the assistance given to borrowers and determine if it is a consulting or financing function. The mission should encourage an active program of public relations. Improved monitoring techniques should be employed consistent with resource limitations. Select agent banks must become incrementally more involved with complementary lending and a deeper reach into small loan packaging.

2.2.2 Turnaround and Restructuring

- USAID must consider restructuring BF's portfolio as a primary component of its activities. The loan portfolio has been underwritten with the same repayment terms for loans for working capital, equipment purchases and building construction. Cash flows of businesses do not fit such terms as each of the three normally has a different repayment cycle. The Credit Audit just completed makes comments in this regard, and before more loans are approved under the existing scenario, changes should begin immediately to prevent difficult future loan structures or repayment difficulties.

- A major question is whether the entire loan portfolio should be reviewed or only problem credits should be restructured. It is most likely that a number of credits beyond those in the delinquency category would benefit from restructuring, and this will benefit the economy of Bosnia in the long run. It would seem to benefit all concerned if the whole portfolio were subject to review, if not restructuring, subject to constraints and policies of the USAID mission.

- The functions performed by the Turnaround Unit at BC are essential to the success of the BF program. Professional consultants capable of working with clients on their internal operating structure and financial management need to resolve enterprise problems before adjustments in credit structure can be considered. It would be possible to perform these functions under a BF umbrella, but it is probably better left to experts with the capabilities and resources separate from the BF component. The reason for this is an independent consulting arm may make recommendations to the borrower which BF might believe are against their short term interests. The survivability of the borrower may be better served following the consulting advice and thus the need for independence.

2.2.3 Agent Banks

- The banking industry in Bosnia will most likely go through a consolidation phase in the next two years which will result in mergers and failures. BF faces a degree of risk with loans generated through agent banks that fail during this consolidation phase. Therefore BF must take measures to focus on fewer Agent banks, and attempt to concentrate their efforts on the banks of higher quality with a better chance of survival. BF is conducting a review of its banks at this juncture and this review should lead to a more focused group of banks. Due to the start up of the program and the need for the geographical diversity of a wider pool of banks, this will be a difficult process, yet the pool of agent banks should definitely become as limited as possible now.

- Transfer of program management to Bosnian banks will likely be slow and difficult due to many legislative limitations, the state of the economy, and immaturity of the banking system. Not withstanding these impediments, certain banks in the program are further along the development curve than their competitors. These banks, such as "Market Banka," should be identified and given the utmost support in technical assistance. Discussions should also be held with them regarding risk sharing of credits, and perhaps in 1999, a group could be formed for a separate lending program involving risk sharing and greater overall participation by the selected Bosnian banks. If USAID waits for all the banks participating in the agent bank program to be ready for program transfer to take place, it could be well beyond 1999 before any significant progress could begin to occur.

- The program for banks to go down market and make smaller loans is a positive step for the Bosnian economy, but could cause operating problems at BF. With volume goals still in place, and smaller loans moving through the pipeline, the paper flow will expand. This could put pressure on the human resources at BF. This will also put pressure on BF to move more responsibility to the agent banks which means focusing on smaller more credit-worthy banks. It is evident that moving down market will put stress on the lending process at BF and require intense scrutiny and credit management from the outset.

- Functions of BC with respect to agent banks must be addressed with concern for cooperation and improved communication. Specifically, agent banks are not along the learning curve to the degree required to keep pace with BC activity and expectations for sustained performance.

- Loan monitoring is ambiguous, and there is a need for BF and agent banks to continue to generate more effective loan monitoring, follow-up, and review for intervention.

- The banks are not happy with the fee arrangements and they apparently have a case. It is recommended that the collection fee for loan repayments be given to the banks if the borrower pays within 30 days rather than 10 days. Adjustments in the loan origination fee and the monitoring fee could also be considered, particularly for banks BF believes are performing in the best manner.

- BF should consider what steps it might take to help banks develop new products. These efforts could focus only on those banks of the highest quality and best chance of survivability.

2.2.4 Training and Development

- As part of its evaluation process of participating banks, BF could undertake more intensive study of the management of those banks it believes are of the highest quality. It could then assist the management development in those banks through specialized programs through the BF Training Department.

- Agent banks have expressed an interest in greater hands-on training which may include OJT, mentoring, internships, or other intense training vehicles. BF will have a more important role in all aspects of bank training with progress toward viable commercial banking in Bosnia. Specifically, the

Training Department at BF should introduce a course on relationship banking, and develop a consistent profile of loan portfolio management that is accountable and sustainable.

- Some current courses may be offered in a abbreviated form in order to expand the number of employees a bank might send. Due to the work loads this would be of interest to the banks. The idea of providing some advanced courses for select bank employees should also be studied. A "needs analysis" may be valuable for future bank training efforts. There should also be more training provided to the banks on cash flow lending.

- The Training Department has a program entitled "Counting on your Banker" and the banks still believe their borrowing clients need more education on how to deal with the banks. The Training Departments at BF should push this program and also determine if additions to the syllabus for the course might be in order.

3. FINDINGS SPECIFIC TO BUSINESS CONSULTING

The following major findings are presented based on interviews conducted with BC professional staff, both expatriate and Bosnian, the survey sample of 23 firms, and other international/donor organizations. A list of individuals and enterprises interviewed is provided in Appendix A,. Recommendations specific to the BC component follow later in this section.

3.1 Summary of Findings

As an overview, the Business Consulting project has substantially met its primary objectives, yet it has not efficiently used its human or financial resources according to planned activities. This may be a function of management style or differences in priorities between the BC and USAID Mission leadership. Certainly there is an unsettled sense of reorganization and repositioning that recur periodically leaving observers and BC staff with questions about how BC will evolve.

3.1.1 Management and Organization

- BC has evolved into a large, overly complex and unfocused organization.

- Over the past two years, BC has evolved from a relatively small, focused, nimble structure into a large, complex organization with an expanding range of consulting activities and programs that provide a broad but necessarily superficial level of coverage.

- Program focus, in-depth consulting effectiveness and resource utilization efficiencies have given way in the face of constantly shifting priorities and a reactive management style to USAID directives. This situation is further exacerbated by the shear number of companies which BC must assist relative to their task order. This has resulted in confusion both internally and externally regarding BC's primary purpose and it's accomplishments.

- Strong managerial leadership and articulation of a clear vision are lacking. The impact of this finding has both internal and external ramifications. First, there is the appearance of a reactive approach to changing USAID directives resulting in frequently changing internal priorities. This leads to confusion and frustration. Second (and emanating in part from the first) within the BC organization, there is an overall feeling that inter and intra-departmental communication is often poor or unclear.

This results in the absence or minimization of shared information, cross-fertilization of ideas, improved or expanded linkages, and weakened follow-through. Externally (primarily within USAID, BF and perhaps agent banks) there is a lingering doubtfulness about the real value and contributions of BC and its continued importance. BC does not appear to have effectively and convincingly presented its accomplishments and usefulness to all of the key stakeholders.

- Improved coordination and collaboration among all active BDP parties is needed. The roles, responsibilities, expectations and interrelationships among the client enterprises, BC, BF and the agent banks need to be well defined, communicated and understood at the outset of any mutual engagements. This appears not to be the norm to date. To facilitate interactions, avoid duplications and increase efficiencies, BC, BF and the agent banks' activities should be harmonized, data collection forms standardized, and information shared with the client's agreement.

- Business Connections, as one recently enhanced dimension of the organization, is performing a role of information gathering and initial networking. Within the BC group, this could be an important activity for long term trade and investment initiatives. At this point in time, there seems to be no clear reason to build case studies and company profiles unless there is a likelihood of sustained support for promotional efforts and the time and resources to pursue foreign contacts.

3.1.2 Project Impact and Contributions

- BC makes a valuable, respected contribution to the overall BDP delivery through its primary support evaluations of BDP clientele and BF applicants. Assistance is simply spread too thin in many instances, and a standardized approach to the BF portfolio apparently did not work well. Nevertheless, BC adapted and reorganized, and perhaps today, the process is refined to the point of having significant future benefits. Certainly the Best Practices Rating system is an innovative tool that in fact "benchmarks" expectations, thus motivating improvements.

- BC is held in high regard by both its clients and other donor organizations and is viewed as adding important value to the USAID Business Development Program. Apart from specific activities, BC's most important contribution to its clients, as stated by them, is the development of market-oriented western management practices, planning, and problem-solving skills. These attitudes and behaviors would not have been gained without BC direct intervention.

- From an objective evaluation of project impact, the results shown in an earlier section reveal a consistent pattern of achievements with respect to fulfilling primary objectives of employment, expanding sales, enhancing profitability, and when relevant, adding to enterprise export profile.

- Based on a review of sample reports and diagnostics, the depth of evaluations may not have provided USAID with adequate information regarding loan applications.

- Companies widely appreciate intervention consulting but feel the BC has not provided the scope of support that is really needed, such as sustained production and operations help, well-developed cost and procurement processes, or industry-specific expertise. Perhaps this is part of the shortfall in not employing PVOs or approaching consulting from a functional viewpoint rather than a project viewpoint with comprehensive assistance.

- BC enhances enterprises' effective utilization of the BF loans. Based on surveyed enterprises, BC's support is critical to their effective use of the BF loan; their early involvement in the process is welcomed and important to placing the enterprise on the right track. All survey respondents felt strongly that their firms would not have achieved the same results as quickly without consulting intervention assistance, but as noted above, continued support and industry specialization is often needed to ensure a confident level of performance.

3.1.3 Technical Assistance

- There is a real need for firm-level specialized, in-depth technical assistance which, until recently, has been broadly based and shallow. It is recognized both by the firms themselves and BC that industry and functional-specific consulting expertise, particularly in production related areas, is critical to improving firms' ultimate performance. This can be effectively addressed through the use of PVOs which, to date, have been substantially underutilized by BC.

- Although standardization of intervention techniques can be very efficient and, in many situations, a wise way to leverage resources, this begs the problem for a large number of enterprises. Instead, they require specialized and industry-specific intervention assistance. Obviously, the core competencies that underpin standard modules are extremely useful, they simply do not go far enough to solve the problems faced by client companies.

- The functional approach to consulting (e.g., delivering marketing, financial management, accounting, or production assistance), assumes that one or two expatriates with functional skills can guide a team of local (and largely inexperienced) staff to handle intervention problems for a wide variety of enterprises in diversified industries. A team at BC typically has between 30 and 35 client companies in its portfolio, ranging from 3 to 5 different industries. That requires a breadth of knowledge by the expatriates and local staff that does not exist. As a result, financial management, for example, is presumed to work equally well for a sawmill as for a shoe manufacturer when in fact, the cost and operational structures are distinctly different.

- Technical assistance goes far beyond the functional business skills that describe BC's core staff of consultants. For example, one of the client companies, a sock manufacturer requiring equipment and factory renovation, had ample assistance with the FinPro program and an action plan to accompany the loan application, but no help with procuring equipment, costing the factory renovations, altering plant layout, or improving production techniques. Meanwhile, the main cost factors for this plant were the latter factors and need for industry expertise. Financial planning and a market plan (the focus of the action plan in this instance) certainly helped, but the company is not cost effective and cannot compete strongly on price and delivery terms.

- The turnaround and enterprise restructuring efforts have been somewhat grassroot, growing from the BF troubled loan portfolio, but instigated by independent consultants at BC and BF. This has been a huge success and demonstrates the capabilities of a good consulting organization to go into a firm and make a major difference. The nature of this assistance, however, is comprehensive and often requires specialists from relevant industries and consultants who have more than academic credentials, but real-time industrial experience.

- If there is one critical dimension of development consulting, it is to bring to an enterprise the "optimal technology" required in very specific circumstances. Optimal technology means the knowledge, equipment, and processes fitting to an enterprise according to the society, individual capabilities, cultural constraints, and local economic factors (costs, output needs, markets, etc.). This sense of optimality is sacrificed when "modular" delivery systems are used for a pervasive range of diverse enterprises in a complex society.

3.1.4 Developing Local Capabilities

- Market demand does not exist for Bosnian fee-based consulting services without the expatriate dimension of project supervision or problem-solving capabilities. Whether real or perceived, enterprise managers do not believe that local Bosnians have the experience of scope of understanding to address their problems.

- Bosnian consultants lack the practical western experience, cutting edge knowledge and level of specialization required by firms and, consequently, they do not have the credibility or image to establish commercially viable consulting businesses at this time. While surveyed firms are theoretically open to the fee-for-service concept, it is predicated upon the involvement of expatriates and is as yet untested.

- The BC project cannot be fully transferred to local organizations or consultants. Although local capacity development and program sustainability is being pursued through BC's consulting and training programs, there is not yet an institutionalized entity to whom BC could immediately transfer its primary activities. Obviously the BC internal and apprenticeship training programs are intended to qualify individuals for professional, commercial consulting, and the training/mentoring program with local educational institutes is successful, but they do not provide the experience level or depth required for self-sustained indigenous organizations.

3.1.5 Training and Development

- Training can effectively transfer knowledge and taught-skills to a broad based constituency, and the BC training organization has a thorough range of course offerings in both its functional skills and core competencies programs. These are excellent for fundamental business training, and for providing apprentices with the essence of mainstream business concepts. A survey of Saravejo trainees completing the most recent core competencies program showed that 49 percent ad begun or completed work on specific areas generated by their attendance.

- The BC training unit has expanded over the course of the contract to cover internal BC staff consultants, apprentices, and external firm-level management through the core competency and functional skills seminars. The training is considered beneficial by all recipients. Of the 519 managers trained to date, 81 percent said that they would attend more seminars. However due to time and personnel constraints, the firms are sometimes unable to fully avail themselves of the seminar training offerings. A needs assessment of firms' management could help identify and determine the optimal way to address these constraints to the delivery of employee focused training.

- Consulting modules used in the field applications are in part an extension of this educational effort, but they are limited to a narrow range of implementation techniques, not the abstract problem solving capabilities required of professional consultants.

- The modules provided to client enterprises have proven beneficial, but once again, these are limited by their *de facto* standardized approach to training (e.g., a standard FinPro or Marketing module for staff preparation).

3.1.6 Activity Support and Profile of Services

- BC has not defined its own market for services, and subsequently does not target benefits to high-growth sectors. This may be a limitation of the support requirement to the BF portfolio, and if this is the case, the project has not been designed effectively. In any event, an internal marketing function for BC itself does not seem apparent.

- Client enterprises are often not aware of or do not fully understand all of the available BC services, the engagement procedures and each party's responsibilities. This is also true of BF and the agent banks. The program should be explained during the initial joint visit and supplemented by a leave-behind BC marketing brochure which summarizes each support service activity, its purpose and procedures.

- BC has not promoted its services or opportunities for assistance, and often its accomplishments are known only to client companies. Other target audiences for potential public awareness and promotional programs include foreign investors, official communities, and the public, domestic and foreign, which ultimately supports continued foreign aid to Bosnia. This could reap important results not just for individual Bosnian firms, but USAID's efforts and the overall economic/political well-being of Bosnia. Both the Business Connections and Investor Relations Units of BC can contribute to this process and should be utilized more fully than either has been to date.

- BC does not maximize the efficient, productive use of staff resources. The geographic dispersion of BC's extensive client portfolio requires significant travel time for personal account servicing. This is an inefficient, unproductive use of resources if not carefully managed. Proper allocation of clients among the Client Service Teams (CSTs) both in Sarajevo and among branch offices is critical to alleviate this problem. BC has recognized this situation and is now addressing it through the classification of companies into A and B categories. Classification is based on the size, growth and potential for employment/sales impact of each firm.

- Presently, there are unrealized opportunities to collaborate with other donors and international organizations which would more effectively leverage potential strategic alliances at the program implementation level. While such coordination occurs at the macro policy level through the Industry Task Force Coordinator, it exists only on an ad-hoc basis within the BC project itself.

3.2 Recommendations Specific To Business Consulting

The following is a summary of recommendations specific to the Business Consulting component assuming a continuation of the current contractual scope of work. These recommendations focus on operational changes and do not reflect recommendations regarding strategic program changes.

3.2.1 Management and Organization

Business Consulting should build on its existing organizational structure without further major reorganizational changes to develop a streamlined and client-driven project. One option would be to reposition consulting services to become "action oriented," thus focused on client projects rather than a broad functional approach to delivery of modularized services. Several points are specific to this issue:

- BC cannot service every constituent and client from "beginning to end" with the same level of support and still be efficient and effective. The recent classification of firms into A and B groups according to their size and performance potential is a good step in that direction. The list could be further segmented to include C companies which would be those that are currently inactive (i.e. BC clients that no longer need help or that are non-performers; undoubtedly some A and B clients would fall in the C category).

- A further refinement would be to position clients under assistance by Client Service Teams (CSTs) on an industry sector basis rather than functional services. Each team would then focus on a comprehensive level of support for each enterprise, and bring to that enterprise the industry specialization required for effective and in-depth consulting. Firms are most interested in "specialization." The evolution to functional expertise delivery system could be retained and strengthened if led through expatriates professionals, and supplemented by CPTs and PVOs required for specialist applications.

- The chief of party must reconcile the number of reports and meetings he currently handles, thus reducing time with purse administrative work and systematically increasing his direct activities with consultants and staff. In effect, he must remove barriers that impinge on his ability to provide stronger, more focused leadership, and to reinforce priorities that fulfill the strategic vision of the project. Responsibilities should be delegated downward, and there should be a consolidation among direct reports at all levels with predictable and consistent requirements.

- Hold management accountable for strong leadership within the broader community and with external constituents. The chief of party, together with senior consultants, needs to provide both leadership and vision for the organization externally as well as internally. The critical role of USAID as a leading donor in Bosnia requires an outward-directed executive consultant. This is not a critique of the current BC senior staff, who are individually extremely good consultants and highly dedicated individuals. It is a critique of the management style and perhaps the corporate culture of the contractor where individuality is encouraged with little direct pressure for generating a high profile project within the community, or for generating a hard-line accountability process within the organization.

- In terms of external advocacy, strong leadership is important to managing BC's relationships with other BDP parties (USAID, BF, Agent Banks, other donors, the media, etc.) to ensure the proper focus, priorities, tasks are clearly maintained and understood. While flexibility and responsiveness to changing circumstances is necessary, there must also be a clear vision and direction to avoid the confusion and reorganizations resulting from a reactive management style. A firm leadership must advocate for BC's role and responsibilities vis-à-vis its scope of work. The leadership must also proactively promote the achievements and value of the BC program among its constituency. In essence the senior leadership must be BC's internal and external cheerleader.

- Confusion, frustration and inefficiencies result from the lack of a clearly communicated vision and priorities, both throughout the BC organization and among constituents. Although more meetings or reports are not encouraged, *more effective* interaction among consultants, teams, and the senior management is essential. Weekly intra-departmental meetings with clear agendas would be one way to improve communication, and these could include brief presentations regarding new activities of mutually interest, success stories, requests, etc. When there are significant changes made within BC for whatever reason, they should be articulated by the chief of party, perhaps through reguyar management meetings, but more importantly, through the highly visible presence of management "on the floor" and with consulting staff on a regular daily basis.

3.2.2 Technical Assistance

- Clearly focus on consulting which is the core activity and priority of the Mission. Essentially, BC needs to return to basics and the real reason for its existence, establishing accountability among consultants and local professionals for accomplishments. BC management must reduce the range of intervention activities, and begin to provide more meaningful assistance to fewer organizations. This may require a sector-specific target for clients, better selection criteria, or pre-qualifications of enterprises that can partially fund technical assistance.

- Support for SMEs has not yet materialized, yet building an entrepreneurial foundation of enterprises has proved essential to every developing economy. A proactive SME lending and consulting effort is needed in Bosnia, and perhaps as capital markets become established together with a better overall enabling environment, enterprise funds and innovation centers (small business incubators) will become feasible. In any event, a concerted effort should be made to reach out with some portion of BC assistance specifically to new greenfield enterprises.

- While BC may wish to narrow its focus on high-growth sectors, and also to consider a portion of its efforts directed toward SMEs, the project will be challenged to provide adequate support to a broader geographic area. To date, assistance has been somewhat lopsided from both a regional and sectoral perspective. In time, this may create a polarized pattern of economic growth, which will be sensitive within the Federation's cantons, but more importantly, between the Federation and the RS.

- Support departments that directly relate to consulting should be charged with accountability, and then given the necessary resources to achieve their objectives. A focal control of PVO work plans and industry specialists, for example, would have clear authority for initiating activities in concert with BF and BC projects, and then be responsible for implementing plans and measuring impact.

- Expand and accelerate PVO engagements to achieve more in-depth consulting. PVO consultants may offer the fastest, most efficient means of providing in-depth industry and functional specialization at the individual client level. Their utilization should be continued and accelerated as part of the BC program. PVOs should also be engaged early on in BC's assistance effort to maximize their value to firms by preventing costly mistakes (e.g., incorrect installation of equipment). PVOs should spend significant time with each client enterprise, but in most instances, PVOs can be leveraged to assist with other firms in the same industry or piggyback to secondary assignments. The PVOs could be employed, as part of their assignments, as training instructors in relevant industry functional or core competency programs to maximize their value to the BC program.

- Those support departments that have a more indirect or supplementary role could be spun off into separate independent units or subcontractors as self-supporting entities (e.g., Business Connections or Investor Relations). Business services and various other activities, such as skills training or market research, could become fee-based with a clientele that is broader than BC's alone.

- Assuming no immediate change in the BC configuration, it is vital that the turnaround activities be expanded through effective recruiting of capable and experienced expatriates. It is crucial that the recruited consultants understand development, not merely western corporate management. Even if the Business development program is redesigned, this will become one of the most important features of technical consulting assistance.

- Modularized assistance should be positioned where it is appropriate and not pervasively employed for many (and certainly not all) projects. Standardized approaches to intervention are, indeed, cost effective, and in a developing economy where there is vast need for fundamental business assistance, these off-the-shelf methods can pay huge dividends. However, there is an ever-present danger that modules permeate a program under the false assumption that they are "magic bullets." Most enterprise managers will benefit from standardized applications of business practices, and USAID will benefit from the resource leverage. On the other hand, nearly all companies have unique circumstances that must be addressed by consultants with broad insights and the ability to adapt to field conditions rapidly; standardization often reduces this flexibility.

3.2.3 Building Indigenous Capacity

- The apprenticeship program appears to be working extremely well and is not cost-prohibitive. Assuming that the BC component continues (or is repositioned with these tasks in place), the apprenticeship effort should be continued as long as there is effective demand. More important, it should be fee based for the general population, and perhaps supported with competitive grants for outstanding candidates who might become staff or subcontractors under USAID's programs.

- The possibility of internships by a few capable apprentices to work in the United States under a mentorship program should be studied. Indeed, there are many options this can take, such as sponsorship in the U.S. by American firms for 1, 3 or 6 month assignments, work at USAID or contractor locations in the United States, or temporary employment in foreign companies where they can hone their specialties and gain real-time work experience.

- Generating small specialized consulting (BSO) groups through a system of subcontracts would not only reduce budget requirements for an existing Business Consultant component, but facilitate one of the key objectives of the development program. This would require hands-on expatriate guidance and a clear channel of authority for projects, yet hold local NGOs accountable for results under a pay-for-performance system of project evaluations.

- Clearly the continued good work of BC to provide on-job training, teamwork, in-house seminars, and participation by local staff in core competency and functional educational programs should go forward. If the project continues with a consulting and training dimension, these efforts will eventually pay off in local capabilities, but it is unlikely to occur soon or to be measurable.

3.2.4 Training and Development

- Expand firm-directed management training programs and improve scheduling. The Core Competency and Functional Skills Programs are important to the management development of enterprises and their improved performance. Both serve a valuable role in the BC program and are well regarded by BC's clients. However due to time and workload limitations at the enterprises often they are unable to attend the programs. This is particularly the case for training programs scheduled during the summer vacation period, as they are this year. Absences may be as high as 40%. The location of the seminar programs also impacts on attendance levels. For instance, earlier in the BC training program, many seminars were held in Sarajevo making it difficult for those firms based in other cities to attend. Furthermore the absence of a participant fee makes it easier for firms not to honor their commitment.

- BC should schedule all training programs both in terms of location and timing to maximize attendance levels. A firm survey could be conducted to determine their needs in this area. Expansion of contractual relationships with educational institutes outside of Sarajevo might alleviate this problem. Intensive programs could be done on an off-site half-day basis i.e. 1PM-6PM to address this issue. For large successful companies, an on-site intensive training program involving all the key managers would be an option; it's one that has already been suggested to firms with favorable response. There are many creative solutions that could be tested to identify the optimal scenario(s).

- Firm-level training programs offer an opportunity to generate fees, and in due course, all programs should be offered on a cost-recovery basis. Enterprise managers will pay for these services, and although they may shy away from expensive programs, USAID can deliver low-cost and high-impact seminars, direct training assistance, and certain skills programs inexpensively,. The BC Training Unit intends to elicit from the firms themselves what consulting assistance they want and would be willing to pay for. Paying for services, even if only partially, creates a sense of ownership by enterprise managers. It puts the onus on the firms, encouraging them to become proactive rather than reactive to their needs; it should be actively promoted and pursued by BC.

- The core competency and functional skills training programs have reached a large number of people very quickly. Overall, the response to these seminars and courses has been very positive by Nearly all participants. In the near term, there will be a continued demand for these services, but eventually, they should not remain in the task portfolio. Instead, BC should expand its geographic coverage, often providing appropriate subsidies for disadvantaged areas and individuals, and monitor demand to eventually "wean away" from the programs. Perhaps they can become projects under NGOs. For the moment, they not only provide fundamental skills and business education, but they may be the best form of highly visible program promotion available to USAID.

- In time, Bosnia will need better educated business undergraduates and postgraduate MBAs. Formal educational endeavors are beyond the scope of work, but a transition will occur, and USAID must consider how it can assist in providing a cadre of young managers to the economy.

- All training and development must be reviewed for geographic coverage, and in the process carefully consider support for the Republika Srpska. The intense focus to date in Sarajevo (with recent and very successful initiatives in Tuzla and Banja Luka) does not reach the breadth of interest required for the nation. Funding limitations may dictate this, or perhaps political priorities will intervene, but a continued presence in a relatively restricted area will soon come back to haunt the program.

3.2.5 Other Considerations

- Leverage strategic alliances at the project level to maximize opportunities for collaboration with other USAID projects, and among other donors. Strategic alliance leveraging needs a more formal venue. One possibility would be to expand the ITFC role beyond macro policy issues to encompass this. Another could be to develop it under Business Connections particularly if the latter were spun off as an independent, self-sustaining unit responsible for developing its own client base. At a minimum, monthly donor project-level meetings could be initiated in which project directors could provide briefings among donor projects with comparable goals

- Communication and sharing of information must be improved among BC, BF and the agent banks to increase the efficiency and effectiveness of the BDP. Standardization of reporting requirements and forms, sharing of databases, regular meetings, and cooperation in areas of mutual interest and overlap (training, marketing, lending) would contribute to better communication and servicing of the client enterprises.

- Market and promote the BC program through orchestrated campaigns, including the potential use of advertising, pubic service seminars, and printed matter.

- Develop and test market fee based service structure for promotional services, company reports, research, market analyses, and similar activities, eventually handing these off to indigenous support organizations for client companies.

4. RECOMMENDATIONS FOR THE BUSINESS DEVELOPMENT PROGRAM

The evaluation team recognizes an important responsibility in proposing program changes that could affect both Business Finance and Business Consulting, and specifically the careers and reputations of many individuals who have provided exceptional services to a war-torn country desperately in need of assistance. We also recognize that it is in the best interests of Bosnia and USAID to pursue constructive changes that ultimately address the focal strategy of U.S. assistance: ***to strive for a stable post-war Bosnia with a functioning and dynamic free-market economy and a democratic society.*** With that said, the evaluation team has attempted to keep firmly in mind the strategic objective that empowers the contractors: ***to restore private sector productive capacity to restart production quickly and to create immediate, self-sustaining employment.*** As noted at the outset of the section, the emphasis of this specific objective may have changed. It is within this changed framework that many individual suggestions noted above are operational and solvable, and taken together, they should not detract from the appreciation due to the contractors and their staff for performing an exceptionally difficult job under very complicated circumstances.

If there were no strategic changes in the Business Development Program, and only attention given to resolving operational issues, USAID could continue with confidence in the success of its development efforts. At the same time, there are several realistic alternatives that might better facilitate USAID's strategic objectives in Bosnia. These are outlined below for consideration by USAID.

4.1 Maintain BF and BC Projects with Task Modifications

Clearly, both BF and BC have had difficulties, and in each instance, their projects have evolved to become improved and have more efficient operations. Indeed, it is almost as if the first two years of the BDP represent a strenuous learning process in which each project is now positioned to go forward vigorously with far better success and predictability. Under this alternative, there would be no changes in the primary scope of work for either unit, but the perplexing problems noted earlier must be resolved. The entire loan portfolio should be reviewed and appropriately restructured, either under BC, or as a joint BC/BF effort under the BDP management.

Business Finance should resolve their agent bank relationships and reduce the range of their activities to ensure feasible and complete fiduciary relationships with banks and borrowers. Immediately alter the structure of loans, criteria for making loans, disbursement decisions, and repayment schedules. Attention should be given to priority training for banks and borrowers, and a rigorous effort should be made to prepare Bosnia bank officers and staff for generating a sustained banking sector, including commercial lending to smaller enterprises, credit monitoring, broader services, and the implementation of relationship banking as a fundamental dimension of commercial bank management.

Business Consulting should reduce the scope of work to regain the primary emphasis on the most important program elements. These include direct consulting services to BF client borrowers, in-depth consulting to any Bosnian enterprise with the credentials for growth and sustainability required in the mission objectives, and continued support for training and education directed toward enterprise managers. Also important, BC must generate a positive and rigorous program of developing indigenous professional consulting capabilities through the apprenticeship program, mentoring, and better use of subcontracting of relevant services to local organizations. BC must address the list of operational priorities noted earlier, but also take advantage of PVO expertise, target sectors better to leverage their resources, and set better priorities for providing deep and lasting consulting services rather than broadly based and shallow services.

The success of this alternative rests with several assumptions. First, USAID must be able to accept a profile of activities and scope of work for both projects that is narrower and more clearly focused on the most important tasks. Second, neither USAID nor the project managers must allow their tasks to become trivial or shallow, but in fact, to strengthen client relationships and to provide sustained assistance. Third, there must be *quality impact objectives* matched with *quantity benchmarks* as appropriate, and both USAID and the contractors must agree to these measurements, and subsequently to pursue those that relate directly to the task priorities.

There are very strong arguments for retaining existing project components. Almost everyone involved has a deep appreciation for, and understanding of, Bosnia and its problems. Any change in the existing configuration of activities will mean a costly loss of intellectual assets. New contractors or new staff will require many months of work to gain the same richness of experience that currently exists. The current project staff have an ingrained knowledge of a very large number of clients, banks, loan circumstances, other donors, and the political realities of Bosnia. Whatever changes occur (even under this alternative with task modifications) sets the program back a notch and requires a new evolution of activities by new people. This may have benefits in the sense of bringing in new management, new technicians, and industry experts.

The downside of this alternative is that critical turnaround work that must be accomplished would fall to BF or BC (or both), and with separate contractors, unknown management priorities, and new staff configurations, the turnaround activities may never be adequately controlled. There would also be a substantial re-negotiation required for all task orders, a need for better clarity of management responsibility in each component, and a carefully thought-out program required for developing local capabilities and transferring activities to indigenous organizations.

4.2 Redesign BF and BC Projects with Expanded Local Responsibilities

Assuming that operational responsibilities can be addressed as noted in alternative under 4.1, and that a turnaround function can be established with coordinated BC/BF activities, a second alternative is to redesign the BDP so that both projects are downsized to core expatriate groups. These groups would be primarily responsible for pursuing the Mission's priority objectives through carefully articulated task orders, but to do so through a system of subcontracting with indigenous organizations. This would include a substantial component of training and development for local bank officers and consulting staff, intense management of their activities during the contract period, and a sensitive coordination role for the expatriate groups that would be ultimately responsible for task objectives, yet expected to facilitate those objectives primarily through local talent.

Essentially, the management and funding of both projects could be reduced, with the majority of responsibilities for operations shifted to local organizations. This would increase (not decrease) the responsibilities for managing the projects, but substantially decrease the implementation roles of expatriates. It would shift funding expenditures to support for local subcontractors, consultants, educators, and bankers. The overriding benefit of this alternative is the ability to proactively move toward a full graduation by USAID from Bosnia, yet to do so while fully meeting its primary business development priorities.

The downside to the alternative is that local capabilities are questionable now, and to develop a sustainable program of such activities required in banking and consulting may not be feasible in the near term. The likelihood is that that program would endure disappointments and failures among their subcontractors, and the expatriate core groups would have to shoulder tremendous responsibilities in the near term. Success would depend not only on refining the task orders (as note in 4.1 above), but on recruiting contractors and expatriate managers of exceptional quality and patience who could work diligently at meeting USAID's objectives while being equally capable of "working their way out of jobs." Most importantly, the turnaround and restructuring tasks for the BF portfolio would require either a separate task group under BDP management, or a very carefully orchestrated joint effort by the expatriate consultants in BF and BC who would be exclusively charged with these responsibilities.

4.3 Combine BF and BC Projects

A third alternative would be to incorporate the operational and task modifications required under 4.1 or the redesign under 4.2 above, but collapse the administration of both components under one roof. This option may appeal to those who see a pressing need to rationalize budgeting and funding control, thus simplifying the reporting channels and providing USAID with one composite contract rather than several components with diverse operations. There probably would be some actual cost savings if task responsibilities remained similar to either 4.1 or 4.2, but the substance of each program profile would remain similar.

Looking at this alternative from all sides, it appears that the changes would be administrative only, and although more tidy to define and control, some performance may be lost. Specifically, a composite program would probably evolve more toward financing or toward consulting, depending on the personalities involved and the contractor's expertise. It would be very unusual to find one contractor capable of providing the integrated expertise required for both dimensions. Consequently, priorities would shift, and while USAID might initially believe the rational one-roof structure is easier to manage, in reality, it may be extremely difficult. Objectives are likely to be sacrificed, and the overall development program weakened.

With that said, there are potential benefits. A turnaround function could be clearly mandated and staffed under one chain of authority. All activities would be in one central location and in proximity to one another where communication should be far better than between two physically separated and managerially distinct operations. Accountability would be clearer, even if problems occurred in pursuing priority tasks, and duplication of facilities, support staff, and various overhead costs could be eliminated.

The downside is that fundamental conflicts of interest would occur in lending and consulting activities, and the turnaround/restructuring group would face the same coordination problems as noted in

4.1 or 4.2 above. Impact measurements by each type of activity under the project would be very different, and it would require an unusual manager with eclectic skills and leadership capabilities to make this succeed.

4.4 Redesign BDP with Three Components

A fourth alternative is to redesign the BDP with three projects. This option would take the best and highest priority tasks of each existing BF and BC component, implement the required operational changes noted under 4.1 above, and create a third high-powered turnaround project for one year that would report directly to the Mission. The focus of this configuration would be on a comprehensive and self-contained turnaround/restructuring "squad" of experts who would have one primary goal: to review and restructure as necessary every loan in the USAID portfolio. This team would make recommendations for the desired results needed in each enterprise, which would then be reviewed by the Mission and handed off to the consulting group to pursue. Decisions on loan restructuring would be in the form of recommendations by the team for the finance group to implement.

It is beyond the scope of this evaluation to clearly outline the design of the project, but from a conceptual viewpoint, the main issue is to empower a separate team with these responsibilities, which at the same time, is not accountable to the BF or BC projects. This uncouples three critical dimensions of development that have major differences in priorities. Finance, which must be concerned with making effective loans and managing the priority tasks outlined earlier would not have to be concerned with enterprise operations, consulting, or the relational problems of turnaround/restructuring. Consulting would not be required to subordinate their activities to Business Finance, and therefore be able to focus intensely on well-defined turnaround activities or pursue other development objectives. And the turnaround/restructuring group would not owe allegiance to either BF or BC, thus be free to make the difficult recommendations for enterprise changes and loans -- or even legal actions against enterprises – without the potential conflict of interest associated with joint BF/BC efforts.

This alternative could incorporate the redesign elements of either 4.1 or 4.2, thus leveraging existing program success and extending current activities, or downsizing the BF and BC projects to shift activities toward indigenous organizations. In both instances, it would require additional funding, but for a well-defined period of time that could be extremely cost effective. Assuming that a highly skilled and expensive team of experts could rapidly reconcile all loans in the portfolio, the group could potentially save many from default. This option would also reduce the burden of managing the essential turnaround/restructuring process that, in any event, must occur through one of the existing projects. In that respect, there may be little or no added cost, and more focused accountability for results.

The downside is that USAID may not have the resources or the time required to add one more project to its portfolio, and of extreme importance, this project must be launched immediately. Regardless of the options pursued, the longer a turnaround and restructuring effort is delayed, the greater the likelihood of default as the list of troubled companies is likely to grow. There would be very little time for USAID to engage in a typical lengthy bidding process, and each loan that gets deeper into trouble increases the sense of crisis management by all contractors.

5. CONCLUSIONS

The evaluation team suggests that USAID extend the existing Business Consulting contract to buy time to pursue one of the strategic alternatives. This will provide continuity for the program and continued support for enterprise managers and indigenous professionals being developed through BC's programs. Most important, it will permit turnaround and restructuring to continue. Indeed, this should be substantially enhanced during the interim. Competent staff consultants with turnaround experience and relevant development experience should be brought in to bolster the independent initiatives by a small group of BC and BF consultants. At the same time, BF should immediately reduce its exposure to marginal agent banks, begin to issue new loans on entirely new loan packaging criteria, and position itself to work under a revised BDP mandate thereby reducing the risk of adding more problem loans to the portfolio, and supporting USAID's transition decisions regarding the future of Business Consulting.

Business Consulting would partially demobilize in the sense of cutting back to core activities and focusing on the core consulting requirements under its scope of work, but it would manage the interim turnaround effort. During this period, USAID would also have access to several important reports soon to be completed in conjunction with privatization, loan portfolio audits, bank supervision, and capital markets development. These may have significant influence on the Mission's decision regarding both BF and BC activities. The interim will also be marked by Bosnian elections, and a breathing period during the contract extension will bridge political changes. With the likelihood of new legislation enacted, the launch of early privatization efforts, and new resolutions for bank supervision, the assumptions in this report, and the Mission's priorities for its Business Development Program, could change dramatically.

A breathing period of five or six months is extremely short to implement project redesign efforts or new contracts, yet the future success of the entire program rests on the Mission's ability to decide on appropriate changes. These include, at the minimum, reconciliation of the most immediate problems of management of the consulting project, control of turnaround activities, and structure of loans in the Business Finance portfolio.

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APPENDIX A

LIST OF PERSONS AND ORGANIZATIONS INTERVIEWED

Magdi Amin, Special Consultant for Development, The Recovery Group, USAID Business Consulting, Sarajevo.
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Sead Becirovic, Financial Director, JATA d.j.i., IBRIC, Srebrenik.
Pero Bosnic, Assistant Minister, Ministry of Finance, Federation of Bosnia and Herzegovina.
Brigette Buchet, Investor Connections, USAID Business Consulting, Sarajevo.
Muris Cicic, Project Manager, Business Development Program, USAID/Sarajevo.
Paul Clark, Financial Manager, USAID Business Consulting, Sarajevo.
Edward and Cheryl Davis, Country Director and Deputy Director, Citizens Democracy Corps, Business Development Program, USAID/Sarajevo.
Nedeljko Despotovic, Minister Without Portfolio, BiH, Federation of Bosnia and Herzegovina Government, Sarajevo.
Olic Dijana, Manager for Credit Approval, Tuzlaska Banka, Tuzla Canton.
Jay Dyer, Deputy Chief Credit Officer, USAID Business Finance, Sarajevo.
Hasanovic Dzemal, Deputy General Manager, Tuzlaska Banka, Tuzla Canton.
James B. Edgerly, Director, The Recovery Group, Boston, MA.
Hanic Esad, Director, Hanic Export-Import, Trgovina Na Veliko, Gradacac, Tuzla Canton.
Javier Fargas, Management Consultant, MIS Systems, USAID Business Consulting, USAID/Sarajevo.
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Daniel Gillspy, Special Assets Supervisor, USAID Business Finance, Saravejo.
Terry Glossop, Chief Credit Officer and Director of Institutional Development, Business Finance Program, USAID/Sarajevo.
John R. Glover, Senior Advisor for Privatization and Enterprise Restructuring, ENI/PER, USAID, Washington, D.C.
James Gomez, Administration Supervisor, USAID Business Finance, Sarajevo.
Osman Habibovic, Founder and Manager, Monix Produce and Food Processing, Zivinice.
Edin Hamzagic, Chief Executive, Long Term Crediting, Univeral Banka, Sarajevo.
Sefik Handzic, General Director, Finance, Bosnalijek d.d., Pharmaceuticals, Sarajevo.
Zsuzanna Hargitai, Deputy Resident Representative, European Bank for Reconstruction and Development, Bosnia and Herzegovina.
John P. Heck, Project Manager, European Union, PHARE, and Association of Chamber of Commerce and Industry in The Netherlands, Srarjevo.
Daniel F. Hogan III, Managing Director, MAS International, Inc., Bank Specialists, Business Finance Program, USAID/Sarajevo.
Vildana Huzbasic, General Director, Universal Banka, Sarajevo.
David King, Chief of Party, Business Consulting Program, USAID/Sarajevo.
Ljubomor Klincov, General Manager, Crystal Bank Stock Company, Banja Luka.
Terri Kristalsky, Training Director, Business Finance Program, USAID/Sarajevo.

Nurudin Kusturica, Economist and Chief Credit Manager, Vakufska Banka d.d., Sarajevo and Gracanica.
Samir Lacevic, Assistant Executive Manager, Privredna Banka Sarajevo, d.d., International Division.
Mirsad Letic, General Manager, UPI Banka, d.d., Sarajevo.
Jerry Lorenz, Bank Team Leader, USAID Business Finance, Tuzla.
Brian McGill, Bank Team Leader, USAID Business Finance, Saravejo.
Leslie McCuaig, Senior Associate, Associates in Rural Development, TDY World Bank Reconstruction Project, Sarajevo.
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Lawrence S. Michel, USAID Privatization Project, Price Waterhouse, Sarajevo.
Jeanette Miller, Marketing Connections, USAID Business Consulting, Sarajevo.
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Zan Northrip, Team Leader – Agency Agreement Renewal, USAID Business Finance, Sarajevo.
Dino Osmanbegovic, Executive Manager, Market Banka d.d., Sarajevo.
Muharem Salihbasic, Founder and Director, Vegafruit, d.o., Fresh Fruits and Produce, Gradanica.
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Mike E. Sarhan, Chief, Economic Restructuring Office, USAID/Sarajevo.
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Dzevdet Tinjic, General Manager, Megatti Production an Trade Company, Ltd., Sarajevo.
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Salaka A, Umid, Director of Marketing, , Bosnalijek d.d., Pharmaceuticals, Sarajevo.
Fikreta Uzunovic, Manager, International Projects Department, Central Profit Banka, Sarajevo.
Emir Vilic, General Manager, Sarabon Zora, Sarajevo.
Richard Wasalewski, Chief of Party, East-West Group, USAID, Saravejo.
C. Dale Wilson, Senior Advisor to BiH Federal Banking Agency, USAID Bank Supervision Project, USAID/Sarajevo.

APPENDIX B

AGENT BANKS INTERVIEWED DURING EVALUATION

1. FEDERATION AGENT BANKS

Central Profit Banka Sarajevo

Sefket Teskeredzic, Division Manager, Tel: 53 36 66/626, Fax: 66 38 55
Mesud Sisic, Deputy General Manager, Tel: 53 23 19
Fikrata Uzunoic, Manager-Investments Project Department, Tel: 53 36 88

Gospodarska Banka

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Market banka

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Privredna Banka Sarajevo, d.d.

Samir Lacevic, Assistant Executive Manager, Tel: 20 98 04, Fax: 66 38 07

Universal Banka

Vildana Huzbasic, Assistant General Manager, Tel: 21 45 88, Fax: 66 41 39
Edin Hamzagic, Chief Executive, Long Term Crediting, Tel: 65 80 37

UPI Banka, d.d., Sarajevo

Mirsad Letic, General Manager, Tel: 47 28 28, Fax: 66 41 35

Tuzlanska Banka, d.d.

Dzemal Hasanovic, Deputy General Manager, Tel: 25 92 59, Fax: 25 05 96
Dijana Olic, Manager for Credit Approval, Tel: 25 25 60

2. REPUBLIKA SRPSKA AGENT BANK

Crystal Bank

Ljubomir Klincov, General Manager, Tel: 81 29 42, Fax: 81 28 78

APPENDIX C

CLIENT ENTERPRISES SURVEYED DURING EVALUATION

Attached is a matrix listing essential criteria of enterprises selected for this evaluation together with loan information and location of the enterprise.

Sportform	**Agrounija**	**Pingvin**	**Drimex-Hellas**
Fojnica	Srbac, RS	Laktasi, RS	Prnjavor, RS
1959			
State 100%	Private	Private	Private
Sport apparel	Poultry	Ice cream, Frozen desserts	Sawmill
30% Bosnia, 70% Export	RS	RS, 10% Export	90% Export
195,000 + 795,600	250,000	200,000	1,800,000
Jun-96, Sep-96	Nov-97	Feb-98	Nov-97
Aug-96, Nov-96	May-98	Apr-98	Feb-98
300	60	7	90
Privredna Banka Sarajevo	Agroprom Banka Banja Luka	Kristal Banka	Kristal Banka
6 months / same	0 months	3 months	6 months
18 months / 3 years	3 years	39 months	48 months
7%	DM Libor + 4%	DM Libor + 4%	DM Libor + 4%
No – restructured	Yes	Yes	Yes
Action/Bus & Mktg Plan, Business Conn, Seminars, Investor relations	Action Plan, Fin-Pro, Financial Plan,Excel Cost Tracking Program	Action Plan, Business Connections	Action, Financial, Marketing,Operational Plans, Business Connections
Raw material, wages, equipment, cash flow	Equipment	Equipment (142.000) Building (40,000) Work/Cap(18,000)	Equipment (1.274 mil) Building (128,000) Work/Cap (398,000)
8	5	5	5

by the DAI Loan Evaluation Team's Credit Audit (as of May 29, 1998). The RR is based on miner Standards as follows:

e	Rating	Loss Ratio
able	1-4	1-2%
tch List	5	1-2%
standard	6	20%
	7	50%
	8	100%

xport-

family

ished wood

nly, all

ırna Banka

/Mktg Plan,

	Duno-lit	**Holding Stanic**	**Lasvanska**	**Lady A**
	Kiseljak	Kresevo	Travnik	Zenica
	1991	1997 *	1812	1988
ship	Private – family	Private – Family	State 100%	Private – family
	Marble / Granite	Meat processing	Lumber	Clothing
	Bosnia, RS, Croatia, Italy	Bosnia, RS	Bosnia	Export only, Lohn 100%
d	200,000	3,000,000	900,000	480,500 + 260,950
	Jan-97	Sep-97	Jul-97	Aug-96, Jun-97
nd	Jan-98	Mar-98	Mar-98	Dec-96, Jun-98
	35 (unofficial)	72	300 + 100 waiting	73
	Gospodarska – Sarajevo	Market Banka	BH Banka	Hipotekarna Banka Investiciono Komercijalna (May-98)
	None	6 months	6 months	1 year / 6 months
	3.0 years	3.0 years	3.0 years	3.0 years / 4.0 years
	8%	8%	8%	7.5%
ne	Yes	Yes	Yes	Restructured
	Business/Mktg Plan, Business Connections	Seminars, Mktg	Business, Marketing, Organizational, Privatization Plans, Fin-Pro, Seminars	Fin-Pro, Business/Mktg Plan, PVO, Seminars, Business Connections
	Equipment, Raw Material	Equipment	Equipment(750); roads repair (150)	Building, Equipment, Cash Flow
	5	4	6	6

l / Trade
+ 540,000
Aug-97
Dec-97
Sarajevo
seminars, QC, , Mktg plan, vity advice
, repairs, it
l

Company	**Mljekoprodukt**	**Binis**	**Vegafruit**	**Hanic**
Location	Kozarska Dubica, RS	Banja Luka, RS	Bodoj-isok, Tuzla	Gradacac & Omanica
Established			1984	1991
Type of ownership	Private	Private	Private	Private
Main Products	Dairy Farms	Concrete Products	Processed Fruits & Vegetables	Sawmills and Wooden Wall/floor
Main Markets	RS	RS	Federation, Croatia	Federation, Croatia
Loan Amount (in DM) 1st- 2nd	500,000	1,500,000	3,900,000 1,000,000+ 2,900,000	1,050,000 (returned 413,000) net DM 636,000
Initiated 1st-2nd	Jan-98	Dec-97	Dec-96	June-97
Received 1st – 2nd	May-98	Apr-98	Feb-97 + Aug-97	Dec-97
Employees – Present	20	49	170 (FT), 350 Farmers(Seasonal)	54
Agent Bank	Agroprom Banka	Kristal Banka	Vakufska Banka	Tuzla Bank
Grace period	6 months	9 months	6 months	6 months
Repayment	36 months	60 months	48 months	36 months
Interest Rate	DM Libor + 4%	DM Libor +4%	DM Libor + 4%	DM Libor + 4%
Repaying on time			Yes	Yes
BC Support Services			Mktg/FinPro/Export/ Training/other	Fin & Mktg Plans, Export Linkage
Loan Purpose	Equipment (470,000), Building (30,000)	Equipment	Renovation, Building, Equipment, Working Capital	Building, Equipment, Working Cash
Risk Rating	5	5	6	5

Company	**Arhitekt**	**Jata doo**	**Monix**	
Location	Gradacac	Srebrenik	Zivinice	
Established	1988	1991	1996	
Type of ownership	Private	Private	Private	
Main Products	Stone & Construction Mat.	Road Construction/Asph alt	Food & Beverage Distribution	
Main Markets	Northern Federation	Federation	Federation	
Loan Amount (in DM) 1st - 2nd	1,200,000	1,400,000	340,000	
Initiated 1st - 2nd	June 1996	April 1997	June 1997	
Received 1st - 2nd	Apr-97 (renewed May 98)	October 1997	November 1997	
Employees – Present	281	322	11	
Agent Bank	Tuzlanska Bank	Tuzlanska Bank	Tuzlanska Bank	
Grace period	5 months	6 months	6 months	
Repayment	36 months	36 months	36 months	
Interest Rate	DM Libor +4%	8.5 %	DM Libor + 4%	
Repaying on time	Yes	No (two payments late)	Yes	
BC Support Services	FinPro/Mkt & Action Plans Seminars, World Learning	Fin/Mkt Plans, Training Loan for Germany TA	Action Plan, Mktg, Inventory Mgt, Cost of Equipment	
Loan Purpose	Plant Reconstruction Equipment	Asphalt Production Equipment	Equipment & Truck	
Risk Rating	5	4	4	

APPENDIX D

USAID BUSINESS CONSULTING BUDGET SUMMARY

Below is a breakdown of budget information provided by the USAID Business Consulting administration office, current through June 30, 1998 with projections through the end of project, September 30, 1998. There are accruals that represent liabilities against the remaining budget not specifically addressed in this budget summary, but category data is accurate. Footnotes relate to specific items as noted.

Category	# Days	Budget $	Cumulative Total June 30, 1998		Remaining Budget	
			# Days	Cost $	# Days	$
Labor						**Total**
Total Expat LOE*	7,236	7,253,884	5,677	5,423,224	1,559	**1,830,660**
TCN LOE** subtotal	1,451	1,233,311	864	690,481	587	542,829
CCN LOE*** subtotal	13,012	2,330,486	9,224	1,174,911	3,788	1,155,575
Total TCN/CCN Local LOE	14,463	3,563,797	10,088	1,865,392	4,375	**1,698,404**
Training						
ATP****		171,330		56,890		**114,440**
Training Materials/Tuition		144,384		136,143		**8,241**
PVO						
PVO		399,643		45,004		**354,639**
Other Direct Costs(labor) *****						
Admin. Staff		348,616		247,399		**101,217**
Interpreter/ Translation staff		260,982		97,857		**163,125**
Total Other Direct Costs		3,309,846		2,090,276		**1,219,569**
Total Costs		16,239,442		10,841,238		**5,398,204**

* Total Expat LOE refers to all project consulting positions whether filled or not. These include one or more positions in the following categories:

Project Management
Client Service Team Leaders

Small Loan Support

Business Connections
Training/Product Development
Management/Operations
Industry Task Force
Business Development Advisor
Short-term TDY

** TCN LOE. This subtotal refers to Third Country National consultants (non US citizens) and local consulting firms. This subtotal is included in total local professional LOE.

*** CCN LOE. This subtotal refers to Cooperating Country National. This category represents our local professional consulting counterpart staff.

**** ATP refers to Apprenticeship Training Program. This is a component of the Other Direct Costs category and is included in that total.

***** Other Direct Costs (labor). This represents the Administration and Interpretation/Translation labor line items. These line items are components of Other Direct Costs and are included in that total. Other Direct Costs include:

Office Space
Office Equipment
Furniture & Fixtures
Office Renovation
Apartment Renovation
Interpreter/Translation Services
Total Communications
Office Supplies
Consulting Apprentices
Administrative Support
Public Awareness
Insurance & Legal
Shipping Allowance
25% and 15% Danger Pay
Bank Charges and Commissions
PVO Program
Social Costs
Labor Cost for Paid Holiday/Leave Days