"The Good, The Bad and The Ugly"
Post-war privatization in Bosnia and Herzegovina

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1 Introduction

In 1995, shortly after the end of one of the most brutal conflicts taken place on European soil since the Second World War, the international community rushed to aid the country most devastated by the war; Bosnia and Herzegovina (BiH). The new state, largely a result of the Dayton Peace Accords, was put under international supervision and an ambitious peace-building plan was put into effect. This plan was to cover a broad range of areas where the overall goal was democratization (Chandler, 1999). In fact, so many parts of the society would be affected and restructured to fit into the goal of a civic, democratic state that the term “nation building” started to spread.

In the short perspective, the Dayton Peace Accords and the process of its implementation by the international community can be regarded as a success. Ethnic violence has been greatly reduced, paramilitary groups have been put out of action and war criminals have been removed from political life. Not to mention that neighboring countries no longer interfere with, and posses influence over, domestic matters as much as they used too (Altman et al 2004:56).

Strengthened by these initial successes, the international mission changed its character over time. As mentioned, the peace-building plan covered more than just enforcing an end to hostilities and open warfare. To reach the goal of a sustainable democracy the political and economic structure of the former socialistic society had to be reformed. One of the most important parts of this process was, besides obvious democratic components such as elections, economic reform and the introduction of a market economy. A prosperous economy, producing economic growth and creating jobs, was seen as a potential bridge over the ethnic lines that divide the country, thus strengthening the conciliation-process (Donais 2002:2).

Not only is this privatization seen as the re-building of the economic engine of BiH that would lead the country into a prosperous future. A successful privatization of former state-owned enterprises is also an important check-point on the roadmap towards integration with the European Union (EU). Today the EU is widely regarded as the most important international actor in BiH in question of support and guidance on the continuing work that, hopefully, will lead to a sustainable democracy and a functioning market-economy, (www.europa.eu.in). Since the long-term goal with this engagement is a future BiH as a part
of the EU the importance of a successful outcome of the privatization process can not be underestimated. To be considered as an EU member-candidate, among a number of requirements, BiH has to liberalize its economy and make it open to foreign investors. This can obviously only be done by an economy dominated by the private sector. So, beside being an vital ingredient in the restructuring of the BiH economy, the privatization process also plays a central role in the strategy that will bring BiH closer to an EU-approval.

Unfortunately the massive international support and involvement in BiH have not reached the same level of success in economic reconstruction as it has in short-term peace building. Regarding that ten years passed since the end of the war, and more than 5 billion USD have been spent on reconstruction (Donais & Pickel, 2003:1), it is surprising that the BiH economy is still performing far from pre-war levels.

Considering this lack of performance of the BiH economy, and taken into account its hope of becoming a part of the EU, getting the economic engine to roar again must be considered one of the most crucial objectives of the international community. And since an at least partly successful privatization seems like the only way of getting there, the future of BiH is in many ways tied to this process.

Regarding the important role that privatization plays in this combined peace-building and transition process surprisingly little research has been conducted in this area. Hence, this study aim to be a modest contribution to the understanding of the privatization process in a “triple” transition of BiH, namely a shift from war to peace, from socialism to a market economy and from a Yugoslav republic to an independent state geared towards EU integration.

1.1 Purpose of the study
The purpose of this study is twofold; the first part will be devoted to shortly describe the history and current status of the process of privatization in Bosnia and Herzegovina. The aim is to as adequately as possible outline what has been done, why it has been done and what the result has been in regards to the privatization process. The second, and smaller, part will try to shed some light on the grass-root level, examine the perceptions and responses of the corporate sector and the opinions of local actors. The main research question are: Why have
some companies managed to come through the privatization more or less successfully while others are still stuck in the process, and how is the privatization process perceived from the perspective of both international and local actors?

More specifically, this study will try to answer these two questions:

- What are the results of the privatization process (or lack of results) in BiH, and how have these outcomes been produced?
- What factors in, and around, Bosnian enterprises decide the outcome of the privatization for specific companies?

In order to answer these questions there are a number of minor questions that will provide stops on our path towards a general conclusion. First, to understand the context in which this privatization process is formed we need to answer questions that relate to the history of the corporate sector in BiH; its structure in pre-war BiH and the extent of destruction following the devastating conflict. Furthermore, what sort of privatization methods have been used and how has the implementation of these methods affected the corporate sector in BiH? Secondly, to obtain a better understanding how the privatization process has affected individual enterprises we need to put our focus on local actors; what are the opinions of these actors in relation to the privatization of specific enterprises? How has the privatization affected these companies, and what, in the opinion of local actors, are the reasons for these results?

1.2 The scope of the study
The limitations of this study are a combined result of the comprehensive, most likely too comprehensive, purpose and the limited space available in this paper.

The effects of the privatization process stretch way beyond the individual enterprises being privatized. Involving the economic as well as the political spheres, not to mention being an important part of the reconstruction of a nation, one would not be far off by describing the privatization process in BiH as a transformation of society at large. It is therefore not possible, and not even desirable, to give a complete and in-depth analysis of all aspects of this area in this short study. Therefore this study should not be seen as a comprehensive history or detailed description of all aspects of the privatization process in BiH. Instead the intention is
to provide a limited description and analysis based on mainly primary sources such as interviews (discussed and examined more thoroughly in the methodology section). This essay will come more to its right if considered to be a small piece of the whole cake, contributing to the answers of the rather big questions posed in the purpose by offering the perspectives of some of the participants at the front-line of privatization in BiH.
2 Theory and definitions
Throughout this thesis no single economic theory is explicitly used or tested. Nevertheless, during the work of collecting information, analyzing this information and finally putting this thesis together I have moved in on this subject through an institutional approach. This approach “…implies recognizing that economic processes are also politically, socially and culturally embedded.” (Likic-Brboric, 2003:25) The transition to market economy cannot be perceived solely as a one-dimensional route of dismantling the old social and institutional constraints. Instead it must be understood as a multi-dimensional process where a broad spectrum of society and past and present institutions interact. This approach recognizes that a change in regime regarding property rights is influenced by internationally set conditions for transition to market economy but also by domestic politics, structures and actors no matter of how “separated” economic reforms are from other institutional changes (Likic-Brboric, 2003:34).

The institutional approach, as described above, offers a useful perspective on the transition process. In this study this approach has been used as a “filter” through which the process of privatization in BiH has been observed.

To understand and analyze the privatization process we need to understand what privatization is and why it is pursued. Intuitively one might say that privatization is simply “the transfer of state-owned property to private hands”. This narrow definition might be enough in an already capitalistic and liberalised economic and political environment. However, when studying the privatization process in countries in transition from socialist economy to market economy a broader notion is needed. Out of this perspective privatization can be seen as including all “…measures contributing to the destatisation of economic activity” (Lavigne, 1995:157). As such privatization is synonymous to liberalisation, not only is the privatization a process of transferring property rights, its role is also to pave the way for an environment where anybody might engage in economic activity. For countries in transition, determined to reach the goal of becoming a well-functioning market economy, removing obstacles to “greenfield” privatization, the setting up of new enterprises, has therefore been as an important part of privatization as the pure transfer of already existing state-owned assets (Likic-Brboric, 2003:32).
If privatization is defined as stated above, this process may be pursued by a number of reasons. The aim of the privatization might be purely financial, a way of the government to acquire capital for use within other state operations. Equity considerations, giving away state-assets to citizens as it might be perceived as rightfully theirs in the first place, might be another reason. Efficiency is of course another obvious reason, creating increased competitive pressure through privatization. Privatization might also be an aim in itself. After a change of political regime one might want to remove the former political nomenklatura not only from political but also from economic power (Lavigne, 1995:159).

In the case of BiH the aim of privatization includes but also goes beyond the possible reasons stated above. As briefly explained in the early introduction privatization is seen as a process that will contribute to the overall goal of peace-building. Privatization as means to reach sustainable peace might sound far-fetched or even provocative to some. Nonetheless, the process of privatization, if properly and successfully conducted, could result in removing economic incentives for continued warfare. Creating the foundation for a prosperous future is not “…something that weak governments, divided societies, or Non-Government Organisations (NGOs) can take on alone. A far more effective approach is to integrate the private sector into peace-building as private investment will remain the primary engine of sustainable growth and development in war-torn societies.” (Gerson and Colletta, 2002:119)

A successful privatization, with the following result of a functional private sector, will contribute to the ongoing process of peace-building in several ways. Through the creation of jobs the private sector can help in dissolving the war economy. By providing the population with means to sustain themselves this sector will also provide incentives to observe the peace. A functional private sector would also help to re-integrate returning refugees, displaced persons and demobilized soldiers into the post-war society. And not to forget, the private sector could help in the re-establishment, or creation, of basic institutional infrastructure such as promotion of the rule of law (Gerson and Colletta, 2002:122).

The privatization process can, and should, form a vital part of peace-building and democratization. The outcome of this process will affect the surrounding society whether the local and international authorities like it or not. Therefore the importance of avoiding a complete failure of this process cannot be stressed enough.
3. Sources, methods and outline of the study

3.1 The interviews – primary sources
This study is based upon both primary and secondary sources. Primary sources, in the form of
interviews, were gathered during a two-month stay in Sarajevo, BiH. During this stay in
Bosnia, interviews with several representatives of international organizations, scholars,
business leaders and civil servants were conducted. Due to practical limitations, interviews
were conducted with individuals based in Sarajevo. Interviews were focused on four groups
of respondents; representatives of the international organizations present in BiH, scholars with
thorough knowledge of the privatization process, local civil servants working in relation to the
process and finally individuals in businesses and enterprises with personal experience of the
process.

Using material based on interviews to this large extent is of course problematic. The question
of accuracy and objectivity is always present. But as declared in the purpose, part of the aim
of this study is to describe the process from the perspective of local actors, and for this reason
relying on qualitative sources such as interviews is essential.

3.2 Secondary literature – secondary sources
The quantitative material that is used in this study is mainly collected through secondary
literature. The situation of the Balkan region in general, and BiH in particular is the focal
point of many publications and scholars. Material has been collected from published works by
different scholars as well as from reports and publications of organisations such as the World
Bank and IMF (International Monetary Fund). But as mentioned in the introduction, the
research regarding the specific issues of privatization is rather limited. Therefore primary
sources have sometimes been used where secondary sources would have been preferable.

3.3 Outline of the study
Methodological as well as structurally the study is basically divided into two parts. The first
part of the study is concerned with the background, framework, implementation and outcome
of the privatization process. This part is focused around the first question posed in the
purpose. The second part examines the issues of the second question posed in the purpose.
This part focus heavily on the experience of a few enterprises and actors in regards to the
privatization. Methodologically the sources used for these two parts gradually move from being focused on secondary sources, earlier research, in the first part, to rely more and more on primary sources as we move towards the second part. The second part relies entirely on primary sources in the form of interviews with business representatives. Therefore the objectivity of this part is easily disputed, and the conclusions presented in this part could be regarded as speculations. Nevertheless this part is very valuable in providing a closer picture on how the privatization is perceived by people in the midst of the process. This picture, projected on the background of the first part of this study will prove to be invaluable in the effort of answering the questions posed in the purpose. But of course the reader should definitely bear in mind that the picture presented in this part is a sample based on interviews with a few individuals, not a thorough general description of the situation.

What here follows is a general outline of each chapter in regards to content and sources:

Chapter 4 provides the background of the current political-economic situation in BiH with focus on the corporate sector. The pre-war structure of the Bosnian corporate sector is examined, the results of the armed conflict and the following Dayton agreement leading to an end of open aggression are presented and the contemporary institutional framework is described. All this is done in a fairly briefly way and should not be considered to be an exhaustive history or description of contemporary BiH. Anyone knowledgeable about the effects of the war and the current situation of BiH could easily skip this part. Chapter 4 relies heavily on secondary sources, mostly relatively recent research. But primary sources are also used to a limited extent. These sources have been used to emphasise and describe the current status of BiH.

Chapter 5 describes the structure of the privatization process in BiH. Both the institutional framework as well as the methods of privatization are examined. This chapter is based on a mix of primary and secondary sources. Material from interviews with scholars and bureaucrats from international organisations helps to understand the development of the privatization process in BiH.

Chapter 6 is focused on the result of the process described in chapter 5. The outcome of the methods of privatization is scrutinized, and the continual development of the process is explained. These results and the development is studied from the perspective of the corporate
sector, the focal point is the effect of the privatization process on Bosnian enterprises. The sources and methods used for this chapter are similar to the ones used in chapter 5.

Finally, in chapter 7, we meet the people who are in the middle of this process. Through personal accounts of three managers, one union leader and one consultant we are provided with the outcome of the privatization process in relation to five different enterprises. This group of enterprises is a mix of two successfully privatized companies, two not yet privatized but nevertheless comparably successful companies and one company not yet privatized and in rather bad shape. To make these accounts as equal as possible it would have been preferable to base this part on interviews with both managers and trade union representatives in all cases. Due to practical reason this was not possible to achieve. For the same reason it would have been desirable to acquire information from one more company of the third kind. Again, problems of practical nature came between my original intentions and reality. Also because of practical limitations all five companies are based in Sarajevo. Therefore these five accounts should be considered a sample, and not a general description.
4 Background

BiH is facing the difficult challenge of being both a war-torn society working toward reconstruction and being an economy in transition working toward restructuring. Both processes follow each other and are intervened; it is impossible to isolate one piece and exclude the others when studying any part of the rebuilding, and construction, of the state of BiH. Even though the privatization is just a small piece, it takes some overall knowledge about the situation in BiH to properly understand this process. What here follows is a simplified and short description of the events that have paved the way for the current situation.

4.1 The corporate sector in pre-war Bosnia

In the aftermath of the break with the Soviet Union in 1948, Yugoslavia feared an increasing hostility in the region. Fearing attacks from its neighbours the hostile, and easily defended, mountainous region, and former partisan stronghold, of Bosnia was seen as a very valuable resource. Due to its split with the east, Yugoslavia received aid from the west, following the logic of the cold war. This was the starting point of a period of heavy industrial investment in BiH.

A tremendous amount of money, of which a major part was foreign credit, was ploughed down in BiH in the form of defence-associated projects. The massive Yugoslavian military industry, which would supply the Yugoslavian military machine, was founded in BiH. The military industry became the driving force behind the fast-paced industrialization that now took place, and enterprises within the military industry also formed the backbone of the emerging industrial sector of BiH. Industrialization continued throughout the 1960s and during the 1970s the Bosnian industrialization did not seem to know any limits, 3000 new jobs per month were created during these ten years (ESI 2004:13).

The bulk of enterprises that evolved through this industrialization developed to form big, technological intensive, industrial conglomerates with operations all over the former Yugoslavia. These were very sophisticated companies which in many cases operated on the world market, with export to the rest of Europe as well as to other countries. In 1990 23% of the Bosnian GDP was export oriented, and 57% was due to trade with other Yugoslavian
Republics (Prof. Bozidar Matic, Interview). However, without diminishing the success of the Bosnian enterprises at this time one should bear in mind that the political position of Yugoslavia, within the context of the polarised political world of the cold war, opened up export markets in countries closed to nations with clear alignment with either one of the eastern or western block (Dr. Renzo Daviddi, Interview).

With time industrial production in BiH spread to other sectors and by 1990 the corporate sector of BiH consisted of around one thousand enterprises mainly within textiles, leather goods, chemicals, machines, metals and armaments. The industry was concentrated around the urban areas and employed about half a million workers. The big conglomerates mentioned above dominated the economy with 12 companies generating 35% of GDP, and with 4 companies contributing to approximately 40% of the BiH export. These were maybe not enterprises in the western sense of the word but more like vertically integrated organisations with operations in many different fields. Joint ventures with western companies were common, e.g. Volkswagen Golf and SKF (Svenska Kullager Fabriken) roller bearings were produced in joint ventures with Bosnian enterprises. (Esad Ruckin, Interview) In general the labour force was highly educated; in 1986 around 35% of the workforce had post-secondary school degrees (University degree, non-University degree, high- and low professional degree) (Prasnikar et al. 2002:63).

Unlike other countries in the eastern block the production in Yugoslavia was not Soviet-style centrally planned. Socially owned enterprises also defined as Self-management was the system that characterized the Yugoslavian corporate sector. This system was introduced as a response to the break with the Soviet Union, and the aim was to find a functioning middle-way between capitalistic market-economy and Soviet style planned economy (Likic-Brboric, 2003: 101). Whether or not this system promoted a form of semi market-economy within the socialistic framework is unclear. Although the introduction of this system implied a broad “social” ownership, in many ways the state was still the effective owner (Lavigne, 1995:244).

In the system of Self-management the employees, not the state, were defined as owners. Enterprises were controlled through workers councils, elected by the employees. Although this was the basic idea, many enterprises became so big and complex that they evolved to be controlled top-down, very much like western companies. Enterprises could decide their own strategy; they could choose subcontractors freely, invest their profit as they liked, buy raw materials on the open market and sell their products the same way (Prof. Bozidar Matic,
Interview). However, companies did not enjoy complete freedom; local authorities and banks had the right to intervene in investment decisions and also had the right to change any other decision. These mechanisms were on the other hand not intended to be used on a frequent basis but more considered to be safety-instruments. The state also intervened in other aspects of the corporate sector; prices and wages could be centrally decided. In addition, enterprises were not always owner of their fixed assets such as land, equipment and machinery: The founding of an industry could be decided at central level, constructed with state money and then a self-managed enterprise was installed in this facility. All in all, through this intricate system of competitive, export-oriented, self-managed industries, within the framework of a socialistic regime, Yugoslavia achieved economic results comparable with other OECD countries (Bayliss 2005:23).

Yet, it is not an undisputed fact that this system of Self-managed enterprises created a sustainable economy. There are claims that this kind of semi market-economy still lacks the efficiency of a capitalistic system and therefore its enterprises needs to be artificially sustained. Even though this system would have been sustainable it never got the chance to prove itself. The fast industrialization of BiH, and the whole of Yugoslavia, was by large part financed by foreign credit and aid. 32% of annual investment during the first half of the 1970s came from the World Bank and other foreign sources. With the world economy coming to a halt with the second oil-crisis Yugoslavia found itself caught in an escalating debt-crisis. Although enterprises were desperate for reforms and increased efficiency their lack of complete independence from the state forced them to continue hire new employees to sustain the overall employment rate (ESI 2004:14).

By the end of the 1980s inflation was on such a high level and the economic crisis was so deep that the government finally took measures to reform the economy. To increase efficiency and improve corporate governance the government under Ante Markovic initiated a privatization process, described later on. The Yugoslavian Dinar was pegged to the German Deutschmark and an early transition-process was started. This initial step toward a market-economy, and especially the launch of a privatization process, was way ahead of any other eastern European country (Bayliss 2005:26).

Even though the fact that Yugoslavia was facing a severe economic situation, out of a pure economic perspective the country definitely spotted the light at the end of the tunnel. The
early start with market-reforms and privatization, if fulfilled, could maybe have led the corporate sector on to a path with increasing foreign investments and improved efficiency. Even though part of the corporate sector had been state supported and dragged behind in efficiency, enterprises were already used to operate in a someway competitive environment, and the technological know-how was high. The industry was export-oriented and had well-established trade routes with the rest of Europe. Not to mention the human capital with a well-developed, and a well-educated middle class, ready to take on the challenges of a move toward the western capitalistic market-economy. Considering the results of former plan-economies like Poland, Hungary and others today, and taking into account the situation of these countries compared to former Yugoslavia during the 1980s, it is not unrealistic to assume that a peaceful transition of Yugoslavia would have made it one of the first Eastern European countries to enter the European Union. The successful entry of Slovenia into the EU certainly emphasise this point.

This scenario was however never to be fulfilled, political and nationalistic forces threw the country into a shattering conflict that surpassed the worst nightmare ever perceived by anyone.

4.2 Results of the conflict, the corporate sector in ruins

Some has portrayed the war that took place in BiH, 1992-1995, as a rape of land, people and property. “…there is a general agreement that the human suffering and physical devastation were on a scale not seen in Europe since the World War II” (World Bank 2004:1). Leaving aside the humanitarian catastrophe for others to recapture, the war was an absolute disaster for the economy of BiH.

The ethnic aspects and character of the war made the situation even harsher for the corporate sector. Not only was the industrial base severely damaged by the ongoing conflict, enterprises were themselves directly targeted for attacks. Valuable resources were in a very structured and deliberate way plundered and destroyed. On the eve of conflict the Yugoslavian army (actively supporting the Serbian side in the conflict) removed important resources, equipment and assets of the Bosnian military industry, what was not possible to relocate to Serbia was simply destroyed. This act alone would have been enough to bring the whole of BiH economy into a deep depression (ESI 2004:12).
Of course “regular” plundering also occurred all over BiH where militias financed their campaigns, and achieving their goals of ethnic cleansing, through plundering of private as well as enterprise property. “Weekend-plunderers” came from all over Serbia under the guise of joining the “struggle of their Serbian brothers”; just to grab whatever valuable assets they could get their hands on, not to mention other cruelties of theirs.

The strategy seemed in many cases to be, not only to capture land and property, but also destroy every possibility for the other ethnic groups to sustain themselves in the future. E.g. the Serbian side of the conflict aimed to destroy the well developed, and profitable, aluminium industrial sector of BiH. The expedition of destroying every aluminium factory seemed like a too difficult and expensive operation. Instead operations were focused at wiping out the sources of raw material for this industry, the alumina mines. This proved to be a very rational and efficient way of shutting down a complete sector of industry with minimal effort (Prof. Bozidar Matic, Interview).

When the guns finally silenced the Bosnian industry had been brought to an almost complete standstill. Industrial output had fallen to an estimated 5% of the pre war level; GDP per capita was down to 20% of the pre-war level and 45% of all the industrial plants were reduced to a pile of bricks. Of the population 250,000 were killed, 200,000-400,000 were wounded and as many as 2 million people had fled or were internally displaced (World Bank 2004:1).

The modern and sophisticated structure of the pre-war corporate sector made the outcome even worse. As described many of the enterprises forming the back bone of the BiH economy were huge, technological- and knowledge intensive organisations. This kind of structure is very sensitive for disturbances. Not only were the physical damages on these companies immense, with the dislocation of over 2 million people the human capital that the industry relied on before the war was destroyed and dispersed. The important markets of the other Yugoslavian Republics were lost overnight as well as the operations and facilities that the enterprises had run in the other republics before the war. In the case of BiH even the former domestic market was cut up with the Dayton-agreement stipulating the constitution with the
two entities. Enterprises based in the FBiH lost all their operations and facilities in RS and the other way around.¹

On top of all this, with the country stepping out of war, the institutional framework around the corporate sector was not in a favourable position to support a transfer to market-economy. During the war, assets had been put under state- and bureaucratic control and free entrepreneurship was nowhere to be seen. “In actual fact resources were captured by national bureaucracies, group-property interests and inertia of the socialist system, and isolated from the impact of market forces.” (Bojicic-Dželilovic et al. 2003:2)

4.3 Stepping out of war, the Dayton peace agreement and the institutional framework for economic transition

“Dayton was unlike any other peace treaty of modern times, not merely because it was imposed by powers external to the conflict, but because of the far-reaching powers given to the international community which extended well beyond military matters to cover the most basic aspects of government and state.” (Chandler 1999:43)

The Dayton peace agreement sought to create a new political entity. The fact that this new state was solely a product of the international community and lacked both popular support and involvement was not taken into consideration (Chandler 1999:43). As a result, the idea of incorporating the different ethnic sides within one artificially created state left BiH with one of the most de-centralized institutional structures of the world.

To be able to assemble the different ethnic sides under the umbrella of a central government the country was divided into three almost autonomous parts; two locally controlled entities and one very small internationally controlled district (Chandler 1999:66). The two entities are the Federation of BiH (FBiH) and the Serbian Republic, Republika Srpska (RS). These two entities are largely based on ethnical groups; the RS is obviously dominated by Serbs while the FBiH consists mainly of Croats and Bosniacs. The FBiH is in turn divided up between ten Cantons which have a large amount of autonomy towards the Federation. This division of land, property and people effectively created borders within the state, and until 1999-2000 the

¹ Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS): The two entities stipulated by the Dayton-agreement. The Dayton peace-accords is further explained in the following text.
state of BiH did not really exist as more than a “paper-state”. (Prof. Fikret Causevic, Interview)

To make things even more complicated there is also an international “transitional” administration; the United Nations (UN) High Representative. This Office of the High Representative (OHR) has the power to directly impose legislation, to veto political candidates and remove elected members of governing bodies (Donais and Pickel, 2003:7). Although the OHR has the power to impose legislation it has no way to enforce this legislation. This sometimes leads to the peculiar situation that the elected government sometimes has to enforce legislation that itself does not support. Another effect of this arrangement is also that politicians tend to avoid decisions of unpopular nature and leave these decisions to the OHR. This way the politicians avoid taking responsibility for these decisions in the eyes of the public (Altman et. al, 2004:59).

Due to this fragmented nature of the state constructed through the Dayton agreement, implementation of the legal framework necessary for activation of economic reforms lagged behind. It became a complicated procedure to implement and harmonize laws, and in the end this prevented the country from becoming a single economic space within its own borders. As mentioned, not until 1999-2000 started things to develop, and then by decree from the OHR. Laws representing the basic functional minimum for any state, e.g. border control and customs policy, was enforced on to the parliament to implement. And even then it took 6 to 10 months to take on these laws (Bojicic-Dželilovic et al. 2003). In 1999 a common currency was introduced, the convertible mark. Until that moment the RS had used the “Yugoslavian” (Serbian) currency and the Croat parts of the Federation used the Croatian Currency. For the first time since the declaration of independence did BiH actually consist of a single economic space. In 2000 the inter-state borders were abolished and the citizens of BiH could travel freely through their own country. After 2000 the prevailing institutional vacuum started to fill. Some power was finally moved up from the ethnically divided entity level to state level; 9 ministries were established and since 2004 fiscal policy is decided and controlled on state level. Up to that point taxes had been collected and controlled through the two entities. The state government is although still dependent on the governments of the entities for revenues, and in many other ways the real power still lies within the governments of the entities and not the with central state (Prof. Fikret Causevic, Interview).
Beside these official institutions and structures there is also the well-established grey/black sector. This sector forms an intricate mix of public and private enterprises, political parties, ethnicity, mafia and the general public. Michael Pugh claims that “The BiH economy is in the hands of capitalist patrimonies that manipulate the economy for political and prebendary gain, collaborating with international actors where they see benefits.” (Pugh, 2002:477) The foundation for this “parallel” economy can be found in the economic warfare preceding and following the armed conflict. The institutional vacuum in the post-war environment contributed to the growth of this sector by linking political parties and the well-fare of their supporters with enterprises throughout the Bosnian society (Pugh 1999:471).

The size of this sector is largely due to the lack of sustainable social-welfare and lack of employment opportunities. Altogether, this situation is used by groups and individuals to integrate politics, businesses and ethnic quarrels to suit their own interests. However, this informal sector is not necessarily bad through and through. It creates job opportunities and supports economic activity, cushioning social effects (World Bank, 2005). In fact official statistical data over the Bosnian economy does not comply with the real situation at all. Official GDP/Capita is 1500$, but World Bank estimation indicates a real GDP/Capita around 6500$. At the same time the official unemployment rate is staggering 40% but estimations including the informal sector points towards actual unemployment rate of around 20%. (Mrs Brankica Pandurevic, Interview) This signals how well-developed the informal economy is, or maybe more accurate; how under-developed formal economy and state institutions are (Prof. Bozidar Matic, Interview).

4.4 The post-Dayton environment and the corporate sector
Considering the devastating effects of the war described earlier it is easy to recognise that the corporate sector faced challenges of gigantic proportions in its attempt to rise from the ashes. By sheer appearance it would seem like the corporate sector quite fast got on its feet and started to produce; both export and import increased by impressive rates between 1996-1998 (World Bank, 2005). But this increase of export and import do not say much beside the obvious fact that the post-war economy started out on a very low level, and increased fast through foreign aid and infrastructure rebuilding projects.

In fact, the corporate situation got worse during the first years following the Dayton-agreement. The SOEs (State Owned Enterprise) were mistreated, and used for partisan
purposes. E.g. SOEs were treated as social safety nets, forced into hiring large numbers of war-veterans, even though these companies did not make money enough to support their previous employees to start with (IMF 2005:43). But the biggest issue was the complete lack of institutions to support the business environment, not to mention the society at large.

The legal framework surrounding the corporate sector in the post-Dayton environment was not what would be perceived as business-friendly. Even though many laws have been changed there is a lack of political will to implement them. Illustrative, until recently it did not exist any bankruptcy legislation at all. Even though a bankruptcy law of good quality now finally has been adopted the execution is dependent of the political system. (Prof. Fikret Causevic, Interview) Hence, the major part of bankruptcy cases is still unprocessed because no one takes the affected companies to liquidation. Neither the tax authorities nor the management of these businesses have done anything about it. There have been a few examples of management taking their insolvent enterprises to bankruptcy, but in these cases the purpose of the management has been to claim the assets for themselves. (Ivailo Izvorski, Interview) In the end this is also a question of know-how, even though the self-management system involved competition enterprises were sheltered from bankruptcies, so generally speaking the legal competence on how to handle such a process is lacking (Dragisa Marek and Ismeta Coric, Interview).

The labour laws affecting the enterprises have not been revised and in many cases proved to be a debt-trap for the corporate sector. Many enterprises have continued over the years with downscaled- or non-existing operations. These businesses have developed huge liabilities towards workers and state in the form of unpaid salaries, social contributions, pensions and taxes (Dr. Renzo Daviddi, Interview). The labour laws stipulate that before a worker can be released all liabilities towards that worker have to be cleared. This of course creates a situation where enterprises can not afford to lay off workers (IMF 2005:43). And for the big enterprises constituting the pre-war industrial core of BiH this means that they have to keep thousands of workers on their payrolls even though they only use a few hundred, if even that. Workers not actually working do not get any salary, but since they still are officially employed the company debt towards them and the state in the form of social contributions and pensions increases with time, which in turn makes it even more expensive for the company to lay off these “fictitious” workers.
As a result, since the difficulties and costs of operating in the formal economy are higher compared to the complications of operating in the informal sector, going “grey” is beneficial for individuals as well as companies. The informal sector described earlier is not limited to only small actors like small-scale companies and individuals. Nedim Bukvic, National Program Officer at SIDA (Swedish Development Agency), points out that “…it happens throughout the sector. The whole economy, there are double standards, there is the set of books for the taxAuthorities, and one set of real books for the company management.” The effects are loss of revenue for the state together with erosion of property rights and rule of law (World Bank, 2005).
5 The privatization process up to today

5.1 The institutional framework of the privatization
The structure of the privatization process in BiH is fairly complicated, institutional structure as well as the legal framework is in many ways as fragmented as the rest of the post-Dayton Bosnian society.

During the already mentioned Markovic-privatization a legal framework consisting of the Law on Socially-Owned Capital and the Law on Payment of Salaries, Direct Joint Consumption Funds and Company-Subsidised Meal Funds was implemented throughout former Yugoslavia. These laws paved the way for employee buy-outs and formed the initial step towards a functional market-economy. The war disrupted this process and this legal framework and method of privatization are no longer viable. However, the result of this early privatization is established and provides a corporate sector which is a mixture of fully privatized, partly-privatized and fully state-owned enterprises. This is a reality that post-war legislators of BiH have had to bear in mind when re-starting the privatization process in the post-war environment of BiH (Salimovic, 1999:163).

With the aim to construct a coherent legal framework concerning the post-war privatization of BiH, the former High Representative, Carlos Westendorp, imposed the Framework Law on the Privatisation of Companies and Banks in BiH in 1998. The intention was to create a basic framework for privatization concerning the whole of BiH. The idea was also that this legislation would lead to a future harmonization of privatization laws between the two entities (Salimovic, 1999:163).

Although the basic legislation controlling the privatization process was issued on central level and concerns all of BiH, both entities created their own legislation concerning the privatization of State Owned Enterprises (SOEs) (FIPA 2005:42). In both entities there are agencies responsible for implementing the law and acting as the agent for the selling of state owned assets. In the Federation the Agency for Privatization in the Federation of Bosnia and Herzegovina is responsible for these matters, and in RS the equivalent agency is the Directorate for Privatization of Republika Srpska (http://www.eppu.ba/english/strategija_engl.html). The steering boards of these agencies are appointed by the government of each entity. Also the OHR has the authority to exclude
members of these steering boards if there are any suspicions of misconduct or conflict of interests (Prof. Fikret Causevic, Interview).

The decentralized structure of the FBiH is of course present in the privatization process and beside the central agency each canton has its own agency for privatization. These cantonal agencies are established by cantonal law and their management is appointed by, and answer to, each cantonal assembly. Due to the decentralized constitution the cantonal assemblies enjoys a great amount of authority and control over these cantonal agencies. E.g. between 1997-2000 the steering board of the privatization agency of Sarajevo canton were in fact also the governing board of the canton itself.

The cantonal agencies are responsible for the privatization of SOEs with all their assets within the specific canton. Enterprises with their assets spread over at least two cantons, and enterprises on the list of Strategic Enterprises, are handled by the federal agency. (World Bank 1997:43) In 1997 there were in total 2288 SOEs in the FBiH that were considered to be candidates for privatization (http://www.worldbank.org/ecspf/PSD-Yearbook/bosnia.html). Of these 872 were categorized as small enterprises, 1219 as large enterprises and 197 as strategic enterprises (World Bank 1997:44). Important to notice is that in this categorization the category of strategic enterprises includes public utility and service providers and banks. This category is not to be confused with the mentioned list of Strategic Enterprises which does not include public utility enterprises and banks. According to Zlatan Delic, general manager of the Sarajevo stock exchange and formerly associated with the federal privatization agency, in 2000 this list of Strategic Enterprises consisted of 84 companies.

5.2 Methods of privatization in Bosnia and Herzegovina

Over time a number of methods of privatization have (with two of these methods being prevailing) been used, and are used, with the specific aim of transferring state owned assets into private hands, and with the more general aim of revitalizing the industry and take the leap into a future of a self-sustainable market economy.

Basically the privatization process in BiH consists of three branches: The first branch is small scale privatization, the second branch is larger scale privatization of commercial enterprises and the third branch is large scale privatization of infrastructure.
The small scale privatization concerns businesses with less than 50 employees and with assets valued at less than € 250,000 (http://www.eppu.ba/english/strategija_engl.html). It also concerns parts of bigger enterprises considered by the management of this enterprise to be of interest to sell, e.g. non-core businesses, unused real-estate, redundant equipment and machinery and such (Prof. Bozidar Matic, Interview). In the latter case the revenue from the privatization goes back into the enterprise in contrast to other forms of privatization where the income from the sale goes back to the state. The small scale privatization is to be achieved through tendering or auction (www.privatization.ba/en).

The large scale privatization of commercial enterprises is more complicated by nature due to sheer size of the companies affected, and the impact of this privatization on society. Companies in this category are privatized by public offering of shares/mass-privatization, tendering or a combination of these two methods. There is also the option of using auction or direct negotiation as instruments for selling companies, e.g. if the tendering process has failed (www.apf.com.ba).

There is also the special case of the companies on the list of Strategic Enterprises which are to be privatized through international tenders. The third branch, the privatization of enterprises within infrastructure and public utilities (energy, telecom, water and so on) is treated in a special way and have been more or less put aside from the rest of the privatization process. These enterprises are often quite lucrative and unique in their position as monopoly holders. Although the ultimate aim is privatization, so far efforts have been focused on restructure of these public enterprises rather than to prepare them for privatization (http://www.eppu.ba/english/strategija_engl.html). Also because of the monopoly situation and the profitable areas in which these companies operate, e.g. the energy-sector, there is also some political resistance towards privatization of these sectors (Prof. Bozidar Matic, Interview).

The dominating strategy of the privatization process has without doubt been the public offering of shares/mass-privatization, followed by the method of tendering. And therefore the usage of these methods in BiH requires a more thorough explanation.
5.2.1 The public offering of shares and the method of mass-privatization

After the war both entities were heavily burdened with debts. These debts had several origins, both due to the war but also because of events that preceded the conflict. In general, citizens had a lot of claims toward the state: Bank savings in foreign currencies had disappeared during the war effort, and since the state had guaranteed the safety of these banks it was now accountable. Furthermore there were unpaid salaries to soldiers, unpaid pensions to retirees and many other sources for citizens’ claims. In short the RS and FBiH faced a major crisis of liquidity with no cash at hand to solve this (Prof. Bozidar Matic, Interview). At the same time a suitable model of privatization was discussed and the USAID together with the World Bank pushed for a mass-privatization through the issuing of certificates (Nermin Zukic, Interview). This approach also suited the government who saw an opportunity to erase all the citizens’ claims through handing out certificates worth the amount of the debts. At this early stage the local government also perceived foreign investment as a threat, and the issuing of certificate would make it possible to keep the ownership within the country (Ivailo Izvorski, Interview).²

Certificates were issued to all citizens who had been 18 years or older in 1992.³ Certificates were also issued on the base of each individual claim toward the state, e.g. veterans received certificates as reimbursement, and pensions were handed out in certificates and so on. With these certificates individuals could buy shares in enterprises put up for sale through public offering. It was also possible to invest certificates in Privatization Investment Funds (PIFs) which in turn used the certificates to invest in different enterprises (Bayliss, 2005:39). Citizens could also use their certificates for acquiring other state-owned assets up for sale; in fact many people used their certificates to buy out their apartments and houses formerly owned by different enterprises.

5.2.2 The method of tender privatization

The method of tender privatization is a bit more straightforward in its structure. In this process certificates are not an eligible way of payment, only cash is accepted. With the method of mass-privatization no fresh capital is produced, the companies are simply given away through the public offering of shares. To some companies, in desperate need of investment, such a transaction from state ownership to private hands will not help at all. But through the tender procedure the selling side, the privatization agencies in this case, can

² Or more precise: keeping the control of the property within the ethnical group.
³ In RS a similar, but not identical, procedure took place with the distinction that the documents issued was here called vouchers
negotiate with potential buyers and reach agreements about future investment (www.apf.com.ba). Also, through the tendering process the state can sometimes produce an income for itself when selling these companies. This process especially concerns the companies on the Strategic List. This list was put together by large international agencies including USAID, OHR, the EU, IMF and the World Bank. The idea behind the list was to put together a list of strategic companies that would be privatized through international tenders but with the help of international consultants. The role of the international consultants would be to “…improve economic privatization effects, what means effective transformation of the ownership structure according to the accepted deadlines, employment of more workers, new technology, new markets…” (www.apf.com.ba). This would ensure transparency and help in finding international investors interested in revitalizing these companies through investment (Donais, 2005:123). As already mentioned, for the FBiH the list consisted of 84 enterprises. To this day it is still unclear what the precise criteria for this list are (Zlatan Delic, Interview). The choice of companies seems to be very arbitrary and in some of these enterprises not even the management is informed why their company is considered to be strategic (Esad Luckin, Interview).
6 Results of the privatization

The engine behind every economy is its corporate sector. Regardless of how the production is organized, and regardless of how the ownership is arranged, if the corporate sector doesn’t deliver, the economy of any country languishes. In BiH of today this is equally true as anywhere else, but the stakes are higher. Not only is revitalizing the corporate sector of great importance to create a livelihood for its citizens and a source of revenue for its state. Failing in this, and in despair people might lean back towards the ethnic rivalry that ten years ago tore the country apart, and the opportunity of a multiethnic state would be lost forever.

Ideally privatization would, in several ways, play a very important part in the process of revitalizing the corporate sector. Directly, by providing formerly state owned enterprises with the resources and incentive to reform and become profitable actors on the domestic and/or world market. Secondarily, by the creation of a business friendly environment through the destruction of state monopolies within the commercial sector, and the release of tied up assets through the liquidation of non-profitable and artificially sustained enterprises.

In the following section the contemporary corporate sector of BiH, and particularly the results of privatization in this sector, will be examined.

6.1 The unfolding of the privatization process

The privatization process in BiH started out in 1990 and even though this initial step was brought to a standstill by the war it has had some impact on the process that took place after the Dayton-agreement, and is thus important to notice. In 1989-1990 the federal Yugoslavian government, under prime minister Ante Markovic, commenced a process with the aim to gradually move the Yugoslav economy towards more of a western oriented market-economy. Initially this was done through an incremental change of the corporate sector. Enterprises were, through different mechanisms, step by step privatized. This process was abruptly halted, and reversed, with the start of the Balkan wars in 1992 (Bayliss 2005:26). The result of this initial privatization was very diverse among the Bosnian enterprises. Some companies had been fully privatized, others just partly and several not at all (Prof. Bozidar Matic, Interview). During the war almost everything was centralized and former private businesses were put under state ownership (Prof. Fikret Causevic, Interview). To some extent the results of the Markovic-privatization were re-established after the war. In accordance to this pre-war
privatization some companies entered the new privatization process as partly privatized (Prof. Bozidar Matic, Interview).

As noted, privatization of state owned assets was considered to be of great importance to move BiH towards a sustainable market economy. This was not only because SOEs stood a better chance to sustain and develop in private hands, but also because tied up state owned assets presented a general obstacle for the embryonic market (Dr. Renzo Daviddi, Interview). Consequently, already in 1997, the Law on Privatization of Companies in the Federation of Bosnia and Herzegovina was passed (Prasnikar et al. 2002:40). As already mentioned this law was developed together with the international community, first and foremost together with USAID and the World Bank. This law stipulated the rules for the mass-privatization described above. The idea was that the implementation of this privatization would be swift and transparent. This would prove to be a more delicate task than first perceived. Just to start the process turned out to be very difficult. Enterprises that were subject to the privatization were obliged to prepare balance-sheets and privatization programs to ensure a smooth transition for each business. But within many of the companies affected there was a strong opposition among management and employees against the idea of privatization. By the end of 1998 only a small part of these enterprises had actually prepared privatization programs, and none of these suggested programs was approved (Prasnikar et al. 2002:41).

The implementation finally started in 2000 with the small-scale privatization. At that time about 1400 enterprises were up for privatization, and among these about 300 companies were subject to small-scale privatization. The small-scale privatization proceeded rather quickly, by 2003 77% of the small-scale SOEs had been privatized and in 2005 that number had increased to include about 90% (http://www.eppu.ba/english/strategija_engl.html). In 2001 the privatization through the public offering of shares was implemented. If the small-scale privatization had been a comparable successful process this step proved to be much more complicated (Zlatan Delic, Interview).

The idea behind the issuing of the certificate and the public offered shares was, beside the reasons already stated, also to create a financial market. Even though the certificates were issued on an individual basis, they could be freely traded once they were out on the market. Considering that the Bosnian society completely lacked institutions for financial trade at that time, one could claim that this scheme was overly optimistic. People completely lacked
confidence in the value of the certificates. And in absence of an organized stock exchange, this lack of confidence together with a lack of information created a “street-market” where certificates were sold for 2-3% of their nominal value (Prof. Bozidar Matic, Interview).

This situation developed into something that was very open to abuse. Individual investors with political connections could acquire certificates for next to nothing and then use these certificates to buy valuable property with a minimum cost of their own. The enterprises bought this way had often valuable assets such as real estate and machinery, and asset stripping was not unheard of (Nedim Bukvic, Interview).

Due to the delay of the privatization process and the problems involved the international community got disillusioned of the whole process. In 2000 just as the implementation started, the OHR removed the political appointed head of the Federation Privatization Agency and the same year USAID withdrew its support for the process (Donais 2005:118).

Nevertheless the privatization through certificates continued, but parallel to this process the international community tried to form some sort of response to the disappointing results of the mass-privatization. These discussions put forward the method of tender privatization, and especially the suggestion of the formation of a list of strategic companies. The idea was not to replace the method of mass-privatization but to lift specific enterprises out of this process to increase the inflow of foreign capital. Although the selection of these companies was, as already mentioned, rather arbitrary, they were in general large companies. If foreign investors could be found to revitalize these enterprises it would have had a big impact on the economy in general and on unemployment rates specifically (Donais, 2005).

277 enterprises, including the 86 strategic companies, were set aside to be privatized through tenders. Initially certificates as well as cash could be used as payment in these tenders. Unfortunately this opened up for abuse according to the description above. After some spectacular examples of misconduct by politically connected investors, where assets had been sold for just a small amount of cash together with a large number of certificates, this tender procedure was stopped and 143 previous tenders were annulled. To avoid that former state asset would be concentrated into the hands of a small domestic elite, new rules were applied: 51-67% of company shares sold through tenders would be offered only by payment of cash. A small part would be offered to the public, through certificates. Since the enterprises offered
through tenders in many cases were more attractive than enterprises solely offered through the 
public offering of shares there was a need to let the public cash in on these. In the case of the 
strategic enterprises investors were offered 67%, or at least a majority part for cash. This did 
not apply to companies which already were majority owned by the employees, through the 

The privatization through the public offering of shares finished in 2002 and most of the large 
scale privatization is over too. What now remains is some of the companies on the strategic 
list together with enterprises within the branch of infrastructure: Enterprises involved in the 
energy sector, water supply and so on (Zlatan Delic, Interview).

6.2 Change in ownership, a change in corporate governance? 
During the privatization process the hope of revitalizing the former SOEs has rested with the 
transfer of ownership, the prevailing ideology has been that with new owners, restructuring 
and improved corporate governance would come.

6.2.1 Results of mass-privatization 
There is no understatement to claim that the privatization through certificates, in terms of 
revitalizing FSOEs, was a failure. Almost any actor today, international or domestic, agrees 
on this. One of the main problems was that the mass-privatization did not generate any 
money, not to the state, neither to the companies themselves. Nermin Zukic, Privatization 
Advisor at the OHR, says: “I don’t think the method of certificate privatization was very 
good, for a simple reason: It didn’t bring the cash.” Investment-wise the companies were not 
better off after mass-privatization then before.

The hope for improved corporate governance due to new, fresh, ownership did not fulfil 
either. Because of the mass-privatization ownership became much dispersed and the old 
structures and management could remain, comforted by the thought that no single owner was 
strong enough to do anything about the situation. (Ivailo Izvorski, Interview) Those who 
could have been expected to take on a role as responsible owners, the PIFs, due to their 
function as pools for citizens’ certificates, were crippled by rules and legislation. Due to the 
regulations surrounding the PIFs they usually hold majority ownership in the poorest 
enterprises and at the same time not being able to hold more than minority ownership in 
companies that are better off (http://www.eppu.ba/english/strategija_engl.html). This usage of
the PIFs as a “last resort” for companies without ability to privatize in any other way has of course crippled the PIFs capabilities to use their ownership to develop the corporate sector. Also under current legislation the PIFs are not allowed to invest outside their entity, or in any other enterprise than in FSOEs (Halima Hadzijamakovic, Interview).

But even without these impediments it is not entirely clear if the PIFs would take on a role as responsible owners. PIFs base their income on a management fee; this fee is based on the book value of company assets in their portfolio. Since these book values are based on old facts and many times are overestimated, the PIFs have no reason to demand increased profit since they are getting paid by assets, not profit. Furthermore if PIFs would decide to start trading and look after their portfolio they would have to re-value the companies, most likely land on lower book values than today. So principally it does not exist any incentive to take action from the PIFs side (Nedim Bukvic, Interview).

A lot of the problems with mass-privatization spring from the implementation of the process, the mass-privatization were politically motivated and separated from other reforms. E.g. it did not include any social programs or financial funds to handle the surplus workers (Bojicic-Dželilovic et al. 2003:22). The process was put into effect prior to state reforms; it was simply thrown into the institutional vacuum of 1995-2000.

For the corporate sector the mass-privatization did not do much to provide the know-how or incentives to reform and restructure, or as Dr. Renzo Daviddi, Head of Economic and Political Section at the Delegation of the EU to BiH, expressed the issue: “In some cases, I think, out of an economic point of view the used strategy was not the best one. The strategy was trying simply to address the question of transfer of the ownership without addressing the more complex problem of corporate governance, which is something which has much wider concepts.” (Dr. Renzo Daviddi, Interview)

6.2.2 Results of strategic privatization
The tender privatization, and especially the privatization of companies on the strategic list, has produced more mixed results than the mass-privatization. Since the strategic companies for most part consist of big enterprises this privatization is very important for the development of the Bosnian economy. If 70% of strategic enterprises could be successfully privatized it would have a tremendous impact on this development (Prof. Fikret Causevic, Interview).
Unfortunately, under current circumstances, that kind of massive successful outcome is far from likely to occur. But that does not mean that there are no stories of success.

The privatization of strategic companies focuses on foreign investment to provide the revitalizing forces so much needed (Donais 2005:123). This strategy has in some enterprises yielded successful results, revitalization have occurred and corporate governance has improved. In fact enterprises that have attracted foreign investors, even the ones sold for a minimal price, have through increased exports contributed considerably to the economy. The increase of the GDP of BiH is largely due to this foreign investment (IMF 2005:47).

However, the enterprises that are object for this foreign interest have often been very active in their hunt for profitability even before privatization. Not surprisingly it is the companies with decent management, developed business plans and attractive assets that have become the focal point of this foreign interest (IMF 2005:47). Unfortunately these enterprises are more likely to be exceptions; by 2005, 70% of enterprises on the strategic list of FBiH had still not been privatized (Prof. Fikret Causevic, Interview), and 50% of the companies on this list did not perform well and had difficulties in finding interested investors (Nedim Bukvic, Interview).

Although this method has presented better results than the mass-privatization it has not been without flaws. The privatization agencies are only responsible for the tender procedure, the agencies are not in control over the enterprises they are about to sell. This has opened up for interference from ministries and other agents within the political sphere who are trying to keep the assets within their control (IMF 2005:47). Some of the strategic companies are in possession of large, and valuable, assets which together with their comparably decent situation (for a few of them at least) makes the transfer of ownership of these to a very delicate issue.

One effect of this situation is the attitude towards foreign investors. As described foreign money is perceived as the solution for these enterprises but at the same time there can sometimes be an unofficial reluctance toward this; foreign investor is sometimes considered to be “stealing” the assets (Nermin Zukic, Interview). Of course there is also an ethnical aspect of the strategic privatization, especially considering enterprises within the lucrative, and publicly important, sectors of energy- and telecom. Ethnic parties have publicly, even though it is illegal, disapproved potential buyers because of their ethnicity. E.g. in the
sensitive case of the tender of Energopetrol, an important and big gasoline and oil distribution company, Bosniac nationalistic parties publicly disapproved a Croatian buyer while Croatian dominated parties supported such a solution, and at the same time both sides opposed prospective Serbian buyers (Prof. Bozidar Matic, Interview). Although this struggle between different parties is partly due to ethnical considerations there is also a pure economic aspect: In many cases different strategic companies have provided an important source for funding of the political parties (Bojicic-Dželilovic et al. 2003:12). Thus the ethnical standpoint is sometimes used as a disguise for actions based on financial considerations.

Another problem of political nature is the, already mentioned, liabilities of enterprises towards their employees, both real and “fictitious” ones. Many enterprises are in dept towards their employees after failing to pay salaries as well as social fees and fees to pension funds.

As described, many of the SOEs on the strategic list used to be huge enterprises with thousands if not tens of thousands of employees. Since these companies came to a stand still during the war, and after the conflict only recovered to a small percentage of their former operations, a large portion of this workforce has not received salaries but still remains officially employed (Dragisa Marek and Ismeta Coric, Interview). On top of this, legislation stipulates that a company cannot lay off a worker without settling all outstanding claims of wages, severance and social insurance contribution (World Bank Report No 32650-BA 2005:55). In effect enterprises can not afford to lay off workers and therefore keep them as officially employed without paying wages or actually using the redundant workforce. And so liabilities build up and continue to grow.

For some companies these debts have taken unbelievable proportions. The pre-war structure of the corporate sector in BiH, where a few very big conglomerates dominated the industrial scene, is mirrored in this debt cycle; 10% of the companies in BiH count for 70-80% of social security debts (Ivailo Iqvorski, Interview). To be able to repay the most urgent liabilities many companies are simply liquidating fixed assets, “eating themselves from within”, something that reduces solvency further more (IMF 2005:40).

For obvious reasons it is rather difficult to attract investors to the companies that has large outstanding debts and at the same time is consuming their fixed assets. These companies are locked up in their debts, lacking ability to restructure themselves; the parts of these enterprises that might stand a chance to deliver profit are weighed down by the other parts. Graham
Slack, President Representative of the IMF in BiH, assert that “…many of them cannot pay off their debts, not even over a ten year horizon. They are bankrupt, they are insolvent. So clearly if you were to impose market forces they would be out of business very quickly”.

In a functional market economy enterprises that are insolvent are brought to bankruptcy with the aim to restructure the company or to set assets free. In BiH bankruptcies are something very rare, as already mentioned there did not even exists any legislation in regards to bankruptcy until 2003. But even though a firm legal structure was introduced the implementation of these laws has been dragging behind. The process of putting together courts, and train legal professionals in the implementation of these laws has been rather slow. And once the courts start to operate, there is also the risk that they will be overwhelmed by the large number of cases that needs to be addressed (IMF 2005:44).

Due to the large number of employees that have claims towards these companies this is a politically very hot issue. An effective bankruptcy process would bring all these claims and issues out into the open air, something that politicians tend to try to avoid. For that reason there is a lack of will from politicians to push for further reforms in regards to these enterprises (Graham Slack, Interview). But since the debts are continuously increasing and these companies are up for privatization this status quo will not be sustainable. The issues of large insolvent companies on the Strategic list for privatization will surface soon rather than later.
7 Companies in privatization, “the good, the bad and the ugly”

Up to this point the privatization has been examined on a fairly general level. It seems that a successful or at least the avoidance of a completely unsuccessful, outcome of the privatization process is very important for the development of a functional market economy in BiH. Furthermore it seems that the process up to today has provided a somewhat mixed result: combining utmost failure with successful examples of privatization.

The effect of the privatization process on the corporate sector in BiH is in no way consistent. Different enterprises with different attributes have been affected in very different ways. Emir Mihmidvasic, privatization advisor at USAID, makes the following remark in regards to enterprises in the process of privatization: “…the good companies are the one that have some value, and that can attract investment, preferably foreign investor, foreign buyer. That would bring in the new technology, the new management, market-oriented, and would actually revitalize the company. The bad ones, like the no-hopers, that not only are they over-debt. But the production, the technology, is out-dated. And what is left is a shell, a shell with thousand and thousands of employees. And then there are the ugly ones. The ugly ones people might have some expectation on. But a quarter of the company has ended up in one entity, another in the other entity and so on.” (Emir Mihmidvasic, Interview)

This chapter will connect to the second question posed in the purpose of this study: What makes some enterprises go through the privatization process successfully while still others are stuck in the very same process? Answers to this question have been implied in earlier chapters, but it is now time to turn our eyes directly towards this question. By collecting information from representatives of five specific enterprises, already privatized or about to be privatized, I will try to shed some light on this question. The discussion that follows is based on interviews with representatives, or individuals with detailed knowledge, of these enterprises. As already mentioned in the methodology, this minimal sample will of course not be able to provide any general answers. It should instead be viewed as expressions of the opinions of individuals in regards to these enterprises. Having said that, this discussion might still be enough to at least give a hint in the direction of what factors in and around an enterprise that provide a base for its successful, or troubled, route through the process of privatization in BiH.
7.1 Enterprises with a history of successful privatization, “the good”
The enterprises of Standard and Centrotrans got one thing in common; they have both been fully privatized and is today profit making.

7.1.1 Standard, a personal account of CEO Adnan Causevic
Standard is a fully privatized furniture manufacturer based in Sarajevo. In the pre-war context of former Yugoslavia Standard had positioned itself well before the Markovic privatization. It was a successful furniture manufacturer based on the knowledgeable and well developed wood-industry of BiH. When the first wave of privatization was initiated by the Federal government in Belgrade, the management and workers saw their opportunity to develop the enterprise and quickly acquired 47% of shares. The prevailing idea within the company was that a quick privatization would be beneficial.

When the war began the strategy of the enterprise turned towards survival. By keeping the business going and keeping some employees the company managed to avoid getting robbed of its assets. Although some production was running, producing mattresses and beds for the Bosnian army, the focus was on protecting and sustaining company property and production material. Future liabilities were kept to a minimum through a write-down of salaries. During the war, the laws required companies to keep employees on waiting lists and continue to pay salaries, social service fees and pension fees. The management of Standard accepted these terms but simply putted the salaries of all the workers on the waiting list to 1 KM. This might seem like a drastic move but effectively reduced debts towards workers and state in the post-war period to a manageable sum.

Due to the fact that production and facilities were sustained during the war Standard could start up commercial production as soon as the fighting stopped. Workers were brought back and raw-materials saved since the pre-war time could be used to immediately get things going. Thanks to a short term loan offered by USAID investment in production machinery could be made and the business developed. The big international presence brought with it a number of new customers. Since Standard quickly had restarted its commercial production many international agencies, e.g. the UN and the EU, equipped their Bosnian offices with furniture from Standard.
The institutional vacuum of early post-Dayton Bosnia was however about to take its toll. The country lacked effective border controls and smuggling became a problem. Also furniture manufacturer started to develop in the informal sector effectively escaping taxes. As a result Standard found itself competing with smugglers and illegal producers who escaped the 32% tax Standard had to add to the price of its products. As a result, soon enough Standard began making losses.

At the same time the issue of privatization was again brought up. The management and the workers faced the privatization through certificates and the question of worker and management buy out was raised. But the idea of the workers and management buying the company themselves through certificates was not perceived as a completely positive outcome. As Adnan Causevic expresses the issues: “Ok, let say we get this factory, what then? Ok, to get a loan. But everybody is owners…maybe we will have one or two percent each… And then one owner has one interest and another owner has another interest, how can we make a strategic way for this company?”

Eventually the management and workers of Standard never had to decide in this question as Standard was lifted out of the process of mass-privatization and placed on the strategic list. Even though Standard was a well-functioning company it had started making losses in 1998 because of the dysfunctional institutional structure. And in 2001, after 3 years of continuously increasing losses, finding a buyer was not easy. But on the final day of the tender a German furniture manufacturer group, Schieder Group, came up with an offer. This German investor had earlier been involved in privatized companies in Poland and saw in Standard a possibility to produce furniture at a low cost with good quality.

In the negotiation following this bid it was decided that Schieder Group would acquire 53% of the shares for a very low price, but they were obliged to invest 4 million Km in Standard over the next three years, hire 40 new employees to bring in know-how and continue with current production. This offer together with the possibility to get access to other European markets, such as Germany and Austria, through Schieder Group proved to be a very good opportunity for Standard. The deal was settled and Schieder stepped in as a strategic partner to Standard.
After the privatization some organizational structures were to be changed to turn around the business and increase profitability. Earlier Standard was, as many Bosnian companies, vertically integrated business trying to keep as much “in-house” as possible. For Standard this primarily involved a transport department and cantinas for its production facilities. These were not considered to be core businesses and were outsourced to other enterprises. There were also new investment in machinery and technology to create new product lines. But all in all the company had more or less already restructured itself to fit into a market-economy.

Today Standard is doing well, products are exported and sold at more than 200 furniture stores in Germany and every month about 100 trucks leave for the European market. The production is running at full capacity and together with Schieder there are plans on increased export to new markets. Compared with the Polish company that is also within the Schieder Group Standard has performed much better during the first years under this partnership and the Shieder Group has piece by piece increased their stocks and now holds 67% of Standard.

7.1.3 Centrotrans-Eurolines, a personal account of Executive Manager Safudin Cengic

Centrotrans-Eurolines is a transport company based in Sarajevo. Business is focused on local bus lines within BiH as well as international lines connecting Bosnia with its neighbours as well as with the rest of Europe.

Centrotrans was originally part of a big holding company with businesses in wide spectrum of areas, employing over 5000 people. During the Markovic-privatization this holding company was divided and Centrotrans emerged as a pure transport enterprise. At this time, right before the war, Centrotrans employed 1550 people and had operations mainly in and around Sarajevo, but also operating international bus lines. Before the Markovic-privatization was halted, employees of Centrotrans had managed to acquire 11.5% of the shares.

As with other Bosnian enterprises, the war had a disastrous effect on Centrotrans. Besides the obvious humanitarian suffering the loss of property was immense: 360 busses were destroyed or robbed and combined with the amount of destroyed infrastructure the material damaged done to Centrotrans was calculated to 31.5 MEUR.
But surprisingly as it may sound, throughout this hardship Centrotrans managed to keep the company going. In Sarajevo employees continuously tried to save and repair property to sustain the business, and all the way through the war Centrotrans continued to operate international bus lines to a number of destinations.

When the Dayton peace accord was signed and the guns had silenced this persistent work throughout the conflict paid off: Centrotrans managed to obtain credit from the German bus manufacturing company Neoplan to invest in new busses. During the year of 1996-97 Centrotrans invested 7.5 MEUR in new equipment. At the same time they also managed to become one of 26 members in Eurolines, a European transportation association.

In 2000 it was announced that Centrotrans would be privatized. The shares owned by the state, 67% of total shares, would be privatized through a tender procedure. As a response the management and 430 employees formed a group to compete in the tender. Although the aim was a joint management-employee buyout it was very clear that this would not be a step back towards the self-management system of many companies of former Yugoslavia. A contract which stipulated the separation between ownership and management was signed by all members of this group. This contract also emphasised the clear aim of forming a competitive company with profit-making as overall goal. The demand from the privatization agency was that at least 30% of the price would be paid by cash, for the rest certificates could be used. 10% of the cash would be paid by the employees and the rest by the management.

However, right before the tender procedure was about to start, the whole process of privatization was postponed for a year, something which, according to Safudin Cengic, caused much dismay among employees and management. Due to the uncertain future of the enterprise motivation among employees dropped and a fear that a buyer with no interest in the company besides selling the fixed assets would win the bid spread. Safudin Cengic estimates the cost for this delay in privatization to somewhere around 1 MEUR.

In 2001 the tender was finally closed and the management-employee group won and Centrotrans could finally evolve their business as a fully privately owned company. Centrotrans started to grow and today infrastructure and busses are on a comparable level with transportation companies in other European countries. The enterprise is profit-making and has increased their personnel force to 565 employees.
7.1.4 Factors behind the successful privatization of Centrotrans and Standard

Although being companies with completely different types of businesses there are several common factors in the accounts of the CEO and the Executive Director of Standard and Centrotrans in regards to their privatization.

Their pre-war structure is very much the same: Both being medium-sized enterprises with geographical concentration within one canton (Sarajevo). Standard as well as Centrotrans (at least after the Markovic-privatization) had also both worked within very focused business-areas, Centrotrans being focused on transportation and Standard being focused on furniture production. As a result both enterprises could keep their assets under reasonable control during the war without suffering the loss of any major part of their businesses.

According to the statements presented above, both Standard and Centrotrans seem to have shared the determination to keep business going throughout the conflict. This made it possible, not only to protect and save equipment and assets, but also to throw their companies back into production as soon as the armed conflict ended.

Both enterprises actively pursued privatization. During the Markovic-privatization Centrotrans as well as Standard took their first steps towards privatization. To become privately owned and work towards competitiveness within a market-economy is something that was pursued even before the war. This attitude certainly helped these two enterprises to adjust to a new environment and adapt to market-conditions.

Access to fresh capital is another common factor. Due to the attraction and competitiveness of these two enterprises they both managed to acquire fresh capital soon after the conflict: Centrotrans through credit from bus manufacturer Neoplan and Standard through loan from USAID.
7.2 Attractive enterprises still not privatized, “the ugly”
EnergoInvest and UNIS are two of the major flagships of the heavy industry of the pre-war Bosnian economy. Having been able to somewhat restructure themselves they are today profit-making but not yet privatized.

7.2.1 *EnergoInvest*, a personal account by President of EnergoInvest Trade Union, Mustafa Jugo

EnergoInvest was one of the giants of former Yugoslavia; the company employed 55,000 workers and was established in all parts of the country. It was, and by some degree still is, a multidisciplinary company; activities included trading, engineering, construction of energy grids, production of low-voltage equipment and more. It was very active abroad with construction projects and big customers in countries such as Indonesia, Libya, Nigeria, Ethiopia, Iraq and others. It also had production facilities in Mexico to serve customers on the American market. It was self-managed and socially owned during the Yugoslav days but was brought under complete state-ownership under the Bosnian government in 1994.

Since EnergoInvest was such a big, complex and sophisticated enterprise the war damaged the company badly. The facilities that were spread outside Bosnia were lost. And within BiH the remaining company was divided in two following the formation of the two entities; in RS the remaining facilities, of which large parts constituted the factory base of EnergoInvest, formed their own company. A substantial mass of the knowledge base was also lost due to emigration; highly skilled engineers and professionals had no trouble finding work with big Western engineering enterprises e.g. ABB, Siemens and so on. Finally the remaining pieces were damaged due to looting and general destruction; all of the productive assets were completely robbed and destroyed.

After the war, before the tender method for privatization had been adapted, all daughter companies belonging to EnergoInvest were sold. What now remains is the “knowledge”-part of the company, almost all pre-war capacity to produce has been lost, and 800-1000 employees. Beside the sale of the daughter-companies 33% of EnergoInvest itself was privatized and is now owned by employees, PIFs and citizens.

Although it seems like EnergoInvest would be down on its knees it has, still under state-ownership, managed to get on its feet. The liabilities are on a manageable level and in
recognition of the competence of the employees the remaining enterprise has managed to get some business restarted. The main activity is now knowledge based, working in engineering and projecting together with other contractors and producers. Today EnergoInvest is a profit-making company.

EnergoInvest was also lifted out of the mass-privatization and placed on the strategic list. The tender procedure is about to commence and because of its profitable status there are a lot of domestic investors interested. But none is still recognised to be serious in their aspirations to take over the enterprise.

Mustafa Jugo asserts that the union, as well as the management of EnergoInvest, would clearly prefer to stay under state-ownership, or to sell 50% of shares but still be under state-influence. Another variant that is perceived as safer than a sell-out is management take-over. But neither the management nor the employees are in a position to present the money needed for such a deal. The main fear is a potential company split up by a new owner. Conditions for take-over can be set by the state but after three years as private company the owner can do as he pleases.

But since there is no legal option other than privatization the union would prefer to get it over with as fast as possible. This is partly because the current situation of being in between state-ownership and privatization is not seen as a sustainable position, and partly because of the fear of split up. New laws (described in the example of Krivaja) will allow the enterprise to be privatized by parts, and that is something that is conceived as bad for the enterprise. The employees are not generally negative to the process either and there are many who would welcome a privatization under the right circumstances.

From the perspective of the union, under current circumstances it would be best to be privatized fast under a number of conditions. These would include conditions of future investment; EnergoInvest is in need of new technological input, and promises of keeping employees. How EnergoInvest will end up is far from certain, but because of its profitability and since it works on markets were western enterprises are underrepresented it could be an attractive investment.
7.2.2 UNIS, a personal account by director Esad Luckin

As EnergoInvest, UNIS was one of the real heavy-weight champions of former Yugoslavia. With its roots within the Bosnian armament industry its main activities were within different areas; mainly within manufacturing-industry. It was a company acting on the world market with branches in 35 countries. The sale in western-Europe alone counted for 500 million USD and the total income was around 2.2 billion USD. Production facilities were established as joint-ventures with western enterprises and the total number of employees counted more than 55 000. It was socially owned but entered the Markovic-privatization in 1991. When this process was interrupted by the war only a small part, 5-6% of shares, had been privatized. This privatization was backtracked together with the remaining parts of socially ownership when the company became completely state-owned in 1995.

“No building in Sarajevo represents the magnitude of destruction more than the twin Unis Towers. Home to the largest commercial enterprise in Bosnia, it was reduced to a skeleton of twisted steel and broken glass.” (www.friendsofbosnia.org, 2006-01-10) The fate of the characteristic sky-scrapers of UNIS headquarters in Sarajevo effectively describes the consequences of the conflict. As many Bosnian industrial enterprises, UNIS was beaten beyond recognition. As a result of the conflict the international branches were closed down, most of the production facilities were located in the area that became RS and were lost, other facilities that remained in the FBIH was robbed and transported into RS during the conflict. During this time a small amount of military oriented production and trading were maintained while most other activities were dropped or temporarily stopped.

In the same way as the demolition of the UNIS twin-towers illustrated the destructive force of the war, almost as illustrative is the rebuilt and shiny appearance of the skyscrapers today as a demonstration of the survival, and rehabilitation, of UNIS after the war. Still under state-ownership UNIS started to adopt itself to the new situation and although the company was severely damaged an ambitious restructuring took place. Since UNIS had a large amount of land and buildings not needed anymore due to the decreased size of the company, these could be sold and the money could be used to reinvest and rebuild some production. Collaboration with foreign enterprises was also sought; in the case of the destroyed skyscrapers a company from Kuwait formed a joint venture with UNIS, called UNITEC, and rebuilt the towers which are now forming a buzzing business-centre. Effort was also made to restart the pre-war automotive industry together with Volkswagen, but that required too big of an investment and
ended with UNIS selling the automotive industry, enabling it to develop by itself together with Volkswagen. In addition to this, discussions were also carried out with SKF about restarting joint ventures in roller-bearing but the Swedish manufacturer was not interested.

Privatization wise the main part of UNIS, 67% is still state owned and will be privatized within the framework of strategic privatization. The other 33% is in private hands since the mass-privatization; mainly owned by PIFs, workers and private investors.

Today UNIS is a fraction of its former size and the number of employees in total is around 200. Main activities are today organized through totally owned, or partly owned, daughter-companies within roller-bearing production, gas-equipment manufacturing and real-estate. UNIS is still export-oriented and most of the market is found abroad; 70% of produced gas-equipment is sold to Denmark, Germany and the US. Most part of the roller-bearings production is sold in Serbia, Bulgaria and Austria. Liabilities are also much reduced; there are only some minor liabilities to employees in some of the production enterprises owned by UNIS but it’s not a major problem. The company is today consolidated and has a total income of about 15 million KM and a profit of around 1.2 million KM.

Lately focus has been shifted from restructuring of the company to development of new production programs. Two new production projects are planned and UNIS has both the capacity and the possibility to expand their business through these projects and increase income to maybe around 40 million KM. However this development would require investments of around 7-8€ million and that is money that UNIS does not have today.

A number of issues are holding UNIS back from developing and growth. Lack of investment is one problem, since UNIS still is state owned no banks are ready to put up with any credit to finance new investment. Another problem is lack of expert competence, UNIS is in great need of competent engineers and expert to support its development. This issue goes hand in hand with the more general problem of lack of new technology. For an enterprise like UNIS, the domestic market is simply too small, its products needs to compete on the world market. To be able to do that new technology has to be introduced from the outside.

Considering the issues mentioned above, UNIS is highly in need of privatization to be able to attract investment and fully act on the world market. Also considering the fact that it already
is rather restructured, is doing quite well, and has a strategy for the future it would seem like an easy task to attract some strong investor. There are investors interested in UNIS but the tender procedure is not yet to begin and there are many demands and procedures that potential investors have to go through. The management in UNIS recognises that these procedures and obligations will frighten potential investors. There is also a belief that foreign investors are careful to invest in Bosnian companies in general, even though they have good potential like in this case. According to Esad Luckin, the management would prefer if the shares of the company were released and sold on the open market. This could create a dispersed ownership, but it is believed that since UNIS is a rather attractive company the ownership would be concentrated to one or two owners after some time. In any case there is little understanding of why the process is taking so long time. Esad Luckin claims UNIS is well-suited for the open market and has needs that the current owner, the state, can not fulfil.

7.1.4 Factors behind the stalemate of the privatization of EnergoInvest and UNIS

Like in the example of Centrotrans and Standard there are many common factors between EnergoInvest and UNIS. But in this case some of these factors have worked against the privatizations of these two enterprises.

The pre-war structure was very much the same for UNIS and EnergoInvest: Large enterprises with production facilities and additional businesses all over former Yugoslavia, not to mention operations on a global scale. These enterprises have worked within numerous areas of advanced technology. As testified by Esad Luckin and Mustafa Yugo these advanced company structures were fairly sensitive to disturbances, and the war totally shattered these huge enterprises. What remained is not easy to puzzle together.

The geographical dispersion of these enterprises in the post-war environment of BiH also stands in the way for a smooth privatization. With operations in many different cantons there are a lot of politics involved in the process of transferring ownership of these enterprises.

The privatization of EnergoInvest and UNIS is also politically sensitive on a broader scale. In the eyes of the public these enterprises are so intimately connected to the picture of the former
glory, this together with the large amount of people that used to be involved in these enterprises put a lot of public pressure on political leaders.

The salvation for UNIS and EnergoInvest has so far been the tremendous amount of assets that has not been part of their core-business. These assets have been sold and the capital has been reinvested to restructure the enterprises. They have simply been forced to reinvent themselves around the assets that remained. But at least in the case of UNIS, this path has now reached its end and the company needs fresh capital to be able to evolve.

7.3 Enterprises with increasing amount of debt, “the bad”
Krivaja is also one of the big players in pre-war Bosnian economy. However, war and the following economic crisis have taken its toll. According to Damir Ferovic, consultant at Deloitte, Krivaja is far from being successfully privatized.

7.3.1 Krivaja, a personal account by Damir Ferovic, consultant at Deloitte and Touche
Krivaja was one of the largest furniture and wood processing companies in the entire region of former Yugoslavia. It had about 10 000 employees before the war and its businesses covered a wide range of areas beyond the core industries of wood processing. Before the break up of former Yugoslavia it was self-managed and socially owned but in the early 1990s it was brought under state control and became 100% state owned. During the war it was severely damaged and production was more or less brought to a standstill.

The post-war configuration of the company is basically in three different industries, with around 3000 employees. It has its core business in wood processing, but it also has some construction and metal industries. These three are further divided into 21 profit centres with individual activities. Beside these industries there are also two related companies abroad, one in the US and one in Germany.

Due to the large number of pre-war employees Krivaja suffers under huge liabilities for unpaid salaries, social contribution and pensions. It also has large receivables from the two enterprises in Germany and in the US but it is not likely that these will pay up since they are loss-making too.
Because of the size and pre-war importance of Krivaja it was given high priority in the privatization process and was quickly put on the list of strategic companies. As a consequence of its large and complex nature it was decided that the core business, the wood-industry, was going to be sold through international tender while the other profit centres were going to be sold through small-scale privatization. This solution was adopted since no buyer would be expected to acquire the whole company with all its diverse activities. A problem with this solution is however the legislation and rules of small-scale privatization. The different profit centres, except the core-industry, would be sold and the revenue from this sale would go to the remaining parts of the company. Liabilities that each profit centre had accumulated would also stay with the remaining company since it is purely a question of assets-sale. But since the liabilities are so big and the income from the asset-sale of the different profit-centres is no way close to cover for this, the effect would be an accumulation of debts with the remaining core-business, which in effect loose attraction with increasing liabilities.

A solution to the problem of this concentration of liabilities could be a new law which is about to be passed. With this change of legislation it will be legal to split up enterprises and sell the parts by themselves, not through small-scale privatization, with their own liabilities included. This would improve the smoothness of the privatization process in cases like Krivaja and make it possible to sell smaller parts and negotiate conditions for take over for every single case.

The social aspect is also an issue that needs to be handled carefully in this case. Since there are so many employees in Krivaja the transfer of workforce is a very important part of the sale. The goal, from the owners side (the government), is of course to be able to negotiate a deal that enables as many workers as possible to keep their job. Since the average age of workers within Krivaja is 40-45 years there are many employees that are close to retirement. This in combination with the general problem of over-employment is of course not a very tempting situation for a potential buyer. To solve this matter, the state, together with the potential buyer would have to negotiate over, and form some sort of social plan to support laid off workers. If the buyer is interested enough, this could be made as a precondition for buying the company.
Damir Ferovic emphasises that for now, without the new legislation, the liabilities have accumulated over the ten years that have passed since the war, and the rather prospective industry that Krivaja used to be is now burdened with so much debt it is hard to find a buyer.

**7.3.2 Factors behind the situation of Krivaja**

Unlike EnergoInvest and UNIS, companies that also used to be very large organisations but still have managed to in some ways reform themselves, Krivaja is still not on its feet.

With such a diverse pre-war organisation, with businesses in many different areas, Krivaja was, as EnergoInvest and UNIS, very sensitive to disturbances. Not surprisingly Krivaja was demolished beyond recognition and came out on the other side of the conflict as a fraction of its former size.

The major issue in the case of Krivaja, preventing it to evolve in the same way as UNIS and EnergoInvest is its debts. Even though some parts of Krivaja seems attractive, Damir Ferovic points to the fact that debts will just be shuffled around, accumulating in the core-business.

Another issue is the great social impact of the privatization of a company like Krivaja. The many employees, not to mention the many being close to retirement, put pressure on the state to manage a privatization that will be as beneficial as possible for these employees, something that might scare off future investors.

In the case of Krivaja it stands clear that the proper supporting structure of the privatization process is lacking. The legislation is not in place to support a complicated privatization like this, and the social network is lacking to support laid off workers; as a result these issues become part of the tender process.\(^4\)

\(^4\) Legislative situation in 2005.
8 Summary and conclusions

Two main questions were asked in the introduction and the first question, regarding the result of the privatization process, has been a bit of a general theme throughout this study, in a way engulfing the second question. Nevertheless it was broken down into a few sub-questions that have been treated one by one.

The first of these sub questions – what was the pre-war respectively post-war structure of the corporate sector- was treated in chapter 4. It was shown how the Bosnian corporate sector was dominated by big industrial conglomerates that, relying on a well educated workforce as well as on the unique political position of Yugoslavia, acted both on a pan-Yugoslavian market as well as on a global level. The Yugoslavian system of self-management, however being disputed as just as ineffective as planned economy, still managed to provide a somewhat competitive environment for the corporate sector of BiH. Out of this pure corporate perspective the ground seemed paved for a, if not smooth, at least not a too disturbing transition to a western market-economy. But as we all know, other issues of political, ethnic and economic nature had its say and threw the country into a violent havoc. Sadly, the factors contributing to the modern and developed structure of the Bosnian corporate sector also made it very sensitive to disturbances. As shown the corporate sector of BiH emerged out of the conflict as beaten to the ground, in some cases completely shattered. The Dayton peace accords, on which the structure of the whole state of BiH is built upon did not provide much support for the trashed corporate sector either. Successfully managing to provide an end to open war, the Dayton-agreement has left Bosnia with a divided and extremely de-centralized structure. The institutional vacuum of the first years after the war was far from what would be perceived as a stable foundation for a prospering corporate sector, even least so when considering the status of many of the war-damaged enterprises.

The second sub-question in regards to the result of the privatization – what sort of privatization methods have been used and how has the implementation of these affected the corporate sector – received its treatment in chapter 5 and 6. It was showed that the rather fragmented structure of the Bosnian state projected itself on the privatization process. As a result the process has been complicated with a number of different authorities and agencies involved. Further more the two methods of privatization that has been prevailing, the method of mass-privatization and privatization through tenders (especially the privatization of
enterprises on the strategic list), were discussed and described more thoroughly. When it comes to the result of these methods of privatization it seems fairly clear that, out of the perspective of the corporate sector, the method of mass-privatization was an utmost failure. There appears to be a fairly general conclusion among local as well as international actors in BiH that this method did not do much to improve the situation of Bosnian enterprises. In fact, during my time in Sarajevo, I can not recall speaking to anyone still promoting this method. So why was it used? Lack of other options and political pressure seems to be the answer. As explained the financial claims of the BiH citizens towards the state after the war was of huge proportions. Issuing certificates, to hand out former state-property, was an easy way out for the government. Even though international organs such as the OHR and USAID withdrew from this process after a while it is surprising that they supported it in the first place. Not only did the method of mass-privatization lack to provide capital and opportunities for investment for the damaged enterprises, releasing certificates into the institutional vacuum of the post-war BiH without even something resembling a financial market place, the method effectively paved the way for corruption and misconduct. What this process meant for the image of the evolving Bosnian state in the eyes of its citizens one can only guess. Spontaneously, creating a fertile soil for corruption seems like the number one thing on the not-to-do list when trying to create a sustainable democracy.

As showed the privatization of companies on the strategic list provided a more mixed result. Some companies have actually managed to revitalize themselves, while others still languish under heavy debts produced during and after the war. Also here the inability of the Bosnian state constructed on top of the Dayton-agreement is evident. Laws and regulations, e.g. the laws regulating bankruptcies, which are needed for an effective privatization, have been lacking, responsibilities are unclear and some sort of sustainable social-security system that would be able to handle the issue of “fictitious” workers is badly needed. Overall, there is a lack of political will to push through with privatization of many of these companies. Time is passing, and instead of treating the patient straight away parts of the corporate sector of BiH is bleeding to death. In effect, while the mass-privatization might be considered a too hasty process, the privatization of strategic enterprises is in need of speed.

As mentioned in the beginning of this chapter, the second question posed in the introduction – what factors in, and around, Bosnian enterprises decide the outcome of the privatization for specific companies – is somewhat engulfed by the overall question. The result of individual
enterprises is of course connected to the overall result of the privatization process of BiH. The two sub-questions presented in relation to this second question – what are the opinions of local actors in relation to the privatization process of specific enterprises, and, how has this privatization affected these enterprises – is discussed and analyzed in chapter 7. Judging from the few testimonies presented in this chapter we might try to draw some conclusions, of course with the exclamation that these are samples, not a general description.

Not surprisingly it is the medium-sized companies with geographical concentration that have been easiest to revitalize and privatize. These enterprises are by nature not that sensitive to disturbances and therefore emerged after the war in better shape than bigger and more complicated organisations. But as showed in chapter 7, with the samples of UNIS and EnergoInvest, there is also hope for some of the former conglomerates, although in a much smaller and streamlined form. One of the most important factor in the survival of these enterprises has been the access to capital at an early stage. Either through credit, as in the case of Standard and Centrotrans, or through accumulating capital through sale of unnecessary land and property, as in the case of UNIS and EnergoInvest. Of course, both of these actions require a competent and foreseeing management, something many enterprises in post-war BiH lack. Beside pure capital, all the interviewees in chapter 7 (except in the case of Centrotrans) express the need of imported know-how and technology. The claim that only foreign investment can save the corporate sector of BiH is not completely appropriate, the case of Centrotrans proves otherwise, but in the case of heavy industry and technology intensive businesses, there is no real solution except foreign investment. Neither EnergoInvest or UNIS have the ability to develop new technologies by themselves; there is a need for foreign owners and partners in businesses like these.

In regards to the privatization process the interviewees in chapter 7 all put forward the issue of speed. They all consider the privatization process to be too slow. Being a state-owned enterprise in the process of privatization in BiH is in many ways like having no owner at all. The privatization agencies handle the privatization but they are not in control of the businesses. Management lack support and control from an active owner with the effect that there is no consistent strategy or sense of a future for many of these enterprises. If there is any single message from these people it is: Privatize us now!
To end things, it is hard to make a general statement of the privatization process in BiH. It has clearly suffered from the dysfunctional democratization and consolidation process that is still to finish. As mentioned, the Dayton-agreement with all its international back-up clearly succeeded in providing a stop to the armed conflict. But the conflict is still there, and the political stalemate has crippled the process. The privatization process is slow, not because it has to be, but because of the political and institutional structure of BiH. A fully implemented privatization process would be painful for BiH. Many enterprises would be insolvent and go bankrupt. But nevertheless some would survive and provide a sound base for further economic development. And the resources tied up into enterprises with no future would be released. A complete and followed through process of privatization would of course create social distress among redundant employees and there is a strong need for a political leadership to handle these issues. However waiting will not solve the issue, the problem of the corporate sector will surface soon enough.

So far I have painted a picture in rather dark colours. But judging from the material presented and analyzed in this study and considering my own experiences of meetings with business leaders in Sarajevo, I would say there is certainly hope. The economic engine of BiH is far from roaring, but you can surely hear it growl. The big question is if the surrounding political, ethnic and economic environment will give the corporate sector any chance to roar or if these issues, again, will destroy the future of BiH.
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**11.3 Interviews**

Nedim Bukvic, National Program Officer, Swedish International Development Agency (SIDA), 2005-10-05

Prof. Fikret Causevic, Sarajevo University and Ekonomski institut Sarajevo, 2005-09-08

Prof. Fikret Causevic, Sarajevo University and Ekonomski institut Sarajevo, 2005-09-21

Adnan Causevic, CEO, Standard, 2005-09-27

Safudin Cengic, Executive Manager, Centrotrans, 2005-10-18

Dr Renzo Daviddi, Head of Economic and Political Section, Delegation of the European Union to Bosnia and Herzegovina, 2005-09-21,

Zlatan Dedic, General Manager, Sarajevo Stock Exchange, Formerly with the federal privatization agency. 2005-10-18.

Damir Ferovic, Consultant, Deloitte and Touche, 2005-09-27
Halima Hadzijamakovic, director, PREVENT INVEST, 2005-10-11

Ivailo Izvorski, World Bank, 2005-10-11

Mustafa Jugo, President, EnergoInvest Syndical Union, 2005-10-07

Selma Karavdic-Gaab, Economic Development and Employment Promotion, GTZ, German Technical Cooperation, 2005-10-02

Esad Luckin, director, UNIS, 2005-10-12

Dragisa Marek and Ismeta Coric, technical assistance coordinator and assistant, ODRAZ, Foundation for Sustainable Development (Implementing agency of World Bank support), 2005-09-23

Prof. Bozidar Matic, President, Academy of Science and Arts of Bosnia and Herzegovina, formerly president of the federal steering board of privatization, 2005-10-19.

Emir Mihmidvasic, United States Agency for International Development, USAID, 2005-10-13

Brankica Pandurevic, FIPA, Foreign Investment Promotion Agency, 2005-10-14

Muhamed Pilar, director, Unipromet, 2005-10-05

Graham Slack, Resident Representative International Monetary Fund (IMF), 2005-10-03

Nermin Zukic, Privatization Advisor, Economic Department OHR, 2005-09-14
Afterword

As mentioned in the acknowledgement, performing a Minor Field Study in a foreign environment presents some special features and challenges. Nevertheless, looking back at my stay in Sarajevo and the following struggle with getting this paper together, this work has provided me with a tremendous amount of valuable experiences and opportunities. Sarajevo is a fascinating place, partly because of its beautiful settings and rich history, but mainly thanks to its friendly and outgoing people. It is somehow frustrating that writing an academic paper, presenting my findings and following analysis as strict and objectively as possible, I have been forced to limit myself in my wish to fully express or describe the stories of the people I have met. Naturally, my experiences extend way outside what I have been able to express here.

Because of these enriching experiences I strongly recommend anyone who is considering performing a Minor Field Study to go for it. I am sure that every Minor Field Study is associated with its unique difficulties. However, I believe some issues encountered during such a project are of a more general character. Looking back I realise that doing some things differently, avoiding some mistakes, would have made my work easier. I therefore wish to express a few short and simple recommendations to anyone about to embark upon an adventure similar to mine.

Formulate your purpose of the study as precise as possible before beginning the fieldwork. With a precise and focused purpose, a purpose that you fully understand yourself, you will have something to lean back on and guide you when the material you collect seems fuzzy and unclear. However, formulate a precise purpose must not stand in the way of flexibility. It is not possible to predict what sources of information and what material you will be able to collect once you are in the field. Do not despair if the material you are able to get your hands on does not fully correspond with your purpose. My experience is that you can only plan your study to a certain point. Once you start to work you will realise that your questions are maybe not as relevant as you expected. Be creative and search for ways to change your questions, or even find new ones, in the material you have at hand.

Build a theoretical framework before starting the field work. It makes things much easier if you already have a firm theoretical approach to help you put your findings into perspective. With a heavy theoretical background it will be easier to see where your sources and findings
are taking you. This will also help in your flexibility. A firm theoretical background within the area of your study will help you reshape and formulate your questions and even purpose if needed. It will be easier to structure your findings and you will already have a “tool-box” to help youanalyse the material while still collecting it. Not doing this and you might experience that there are gaps and missed opportunities in your field work when putting it through a theoretical filter later on.

Extend your curiosity outside your field of study. I prepared myself for my stay in Sarajevo by reading books and articles about the Bosnian society and history at large. This is something I am very happy I did, not only did this broad intellectual preparation make my stay very interesting and exciting. Naturally this understanding also helped in my work. Understanding the society in which you will conduct your study will help in day-to-day life as well as in your struggle to collect your findings and analysing this material.

I hope that these few recommendations will be of some help to anyone in the process of beginning a Minor Field Study. However, my strongest recommendation is without a doubt to take the opportunity and go for it. Performing research abroad is such an enriching experience that every challenge connected with it is worth overcoming.