“FACILITY FOR SMEs AND CAPACITY BUILDING”

BOSNIA AND HERZEGOVINA

MARKET ANALYSIS

WOOD, METAL, AGRO-FOOD PROCESSING,

TEXTILE AND FOOTWEAR

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1. Wood processing industry

Overview

Bosnia and Herzegovina has a long tradition in forestry and wood processing, going back to the second half of the 19th century. The abundance of both hard and softwood, as well as the low-cost skilled labour force, combined with manufacture facilities that have capacities for various wood products, furniture and timber production that exceed domestic demand, make this sector export-oriented. Of all the natural resources of Bosnia and Herzegovina, its timber is best known; 50% of the country is covered in forests (about 27,000 km²) that can serve both the furniture and the construction industry. These forests have the potential to provide nearly 7 million m³ of round wood per year on a sustainable basis. Beech, oak, ash, pine and fir, as well as more specialized woods, such as walnut, apple and cherry, are exported as raw material, half fabricates and finished products. In the pre-transition period, B&H was regarded worldwide as a good source of low-cost, high quality forestry resources and wood-products. War destructions have damaged and devastated the major part of the production capacities and market connections have been disrupted; we stepped backwards in terms of modern design, forest management, unfinished privatization process and splitting of already privatized companies into smaller ones; those small companies are currently dealing with simple wood-cutting and they mostly export the raw material, while the production of the semi-finished and readymade wood products is at a very low level. The most challenging issue in this branch is the enlargement and strengthening of these small private enterprises/manufactures, in order to overcome these problems.

The wood processing sector is characterized by a large gap between its current performances and its real potential. Due to the influence of the transition and privatization processes, some very large, sophisticated, fully-integrated companies were disintegrated or even collapsed. Within this period, their technologies and equipment became obsolete; as a result, many factories for final wood processing are still not working in their full capacity. Despite this the sector still plays an important and measurable role in the domestic and export economies. Within the past ten years a large number of privately-owned companies (including many small sawmills) were established in the wood processing industry and it is estimated that there are approximately 1500 now operating, which adapted to the new market demands, investing in new equipment and increasing the quality of products. Some companies have been able to discover their niche markets, such as specializing in hand-carved traditional furniture or modern furniture. Technical skills exist thanks to a long tradition in the sector, but additional investment in continuing education and modernization is needed (e.g. design, hand-carving, etc).

The preservation, proper management and new planting of forests is another challenge, which requires not only the provision of the strategic raw material, but also the preservation of the natural balance of flora and fauna; the ecologic and social impact, which could be directly jeopardized and destroyed by uncontrolled and unplanned exploitation of the forests, must be taken into account.

Currently, the largest markets for these producers are Germany, Croatia, Serbia and the UK, but the potential to export to other countries is vast. Sales and exports of the B&H wood sector have tripled over the past five years. Some 60% of wood sector production is exported, where the finished furniture
is becoming more and more an important export product. It is worth mentioning that comparing to 2005, in 2006 export of B&H furniture was increased by 28.6%. In 2006 wood industry exports accounted for € 350 million (20% of total exports). Export of primary and semi-finished products accounted for 69% of total exports, while final products accounted for the remaining 31%. Main products are: furniture, joinery, sawn wood, paper and paperboard and pellet production.

**Investment opportunities**

As before mentioned, the wood processing sector is characterized by a large gap between its current performances and its real potential. Targeted investments have the potential to bridge this gap and improve substantially the value added outcome, providing investors with an array of opportunities by:

- Introducing better technologies and machinery
- Transferring know-how and recent manufacturing skills
- Modernizing product design
- Increasing efficiency in production
- Increasing management and marketing capacity
- Increasing recovery rates and profitable uses for wood waste
- Improving connections with international markets and expanding market channels
- Legal frame and enabling investment climate that makes investment in this sector a proposition with competitive returns
- Long tradition of manufacturing and forestry
- High quality raw material - relative ease of access
- High level education / professional forestry and wood processing experts at all levels
- Substantial and skilled labour force at reasonable cost
- Attractive and competitive costs (labour and raw materials)
- Known, recognized and established wood product reputation
- Development of international relations and co-operation
- Geographical location that is highly favourable to regional markets
- Growing international demand for final and semi-final (especially hard-wood) products

These conclusions rely on the availability of quality lumber, a skilled, but low-cost labour force, proximity to regional markets, international recognition of B&H products, an emerging entrepreneurial class, and an enabling investment climate, that make investment in this sector a proposition with competitive returns. Foreign investments, that have already taken place in recent years, confirm these impressions. Overall, wood processing has been identified as potentially one of the most attractive sectors in B&H for foreign investors. Local and international experts have identified a wide range of opportunities, taking in consideration physical forest resource potential, availability of a very skilled work force, market assessment, environmental analysis, investment costs, financial profitability, etc.
Certification of wood processing companies - A number of B&H wood processing companies, particularly export-oriented ones, have begun the process of certification or have obtained certificates, following EU directives and standards related to wood products, including: Quality Management System (QMS) according to ISO 9001 requirements, Environmental management ISO14001:1996/2004, CE marking, etc.

Strengths

An obvious strength is in the large forested areas. Wood processing industry in B&H has a long tradition started in the 19th century. Major development in this industry branch happened in the period after WW2, under the conditions of planned economy. At this moment, the big companies that were owned by the government are being privatized and work with decreased capacity and workforce, comparing to capacity before the war. Such situation made qualified workers available for some minor requalification and employ in newly opened wood processing facilities. Investment by potential strategic partners would enable recapturing the market from foreign manufacturers that are now in the area.

Weaknesses

The main problem lies in old equipment that was mostly produced before the war. Although there are many qualified workers, their technical skills lag behind current state-of-the-art in the sector and they did not have opportunities for training or requalification. Only a minor part has some knowledge about working with CNC machines. Another problem is bad and outdated design. This greatly hinders competitiveness although raw material quality is better than that of foreign companies. Local manufacturers have a weak marketing approach, as they do not consult design, marketing or any other experts. This is partly due to the bad financial situation. The financial sector shows a lack of interest and trust in the business potential of the wood processing industry; this makes access to investment funding for new facilities and machinery more difficult. The low productivity level is also caused by bad networking and communication between local manufacturers. Approximately 55% of the timber produced in Bosnia and Herzegovina is being exported with little to no processing with very low value added. The same material is imported back once processed at a much higher price (wooden board furniture, joinery, furniture etc.)

Opportunities

Introducing new technologies (CNC) would increase processing level and allow a greater added value and profit from finalized products. It is necessary to diversify the products in line with world market quality; this would make B&H furniture recognizable in the market. It is necessary to take advantage from the current situation of insufficient offer of wooden products, and to decrease imports to a reasonable level. Another opportunity lies in reusing waste material. The many primary wood processing facilities produce a large amount of waste material that can be used in the production of goods for which there is a great demand in the international market (brickets, pallets and laminating of the wood).
Threats

The main threat for the wood processing sector is international competition. The grim economic situation drives local demand towards cheap, low quality products. The decommissioning of the JUS standard was responsible for the progressively decreasing quality of the domestic production. Customers lost their trust in local products in favour of foreign products. Illegal woodcutting is a direct threat to the survival of forests. The ongoing trend of using ALU and PVC joinery represents an additional threat to the sector.

### SWOT Analysis - Wood Processing Industry

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2. Metal Processing Industry

Overview

Metal processing industry is of great importance for B&H economy. B&H has an important aluminium and steel processing industry. There are more than 130 companies in the metal processing industry in B&H; 80% of which are small enterprises, 15% medium sized and 5% large enterprises. There is a longstanding tradition of metal processing in B&H, due to the country’s richness in natural resources (in particular iron ore, bauxite, lead, zinc, copper) and the concentration of the military industry of former Yugoslavia. Before the war B&H metal processing industry was embedded in the Yugoslav economic system. Using local inputs mainly, the industry was an important supplier of semi-finished products for the rest of Yugoslavia and for markets of the third world countries. Exports did not play a significant role, but existed in special fields. The automotive industry, an important customer of the metal processing industry, was partly located outside B&H (in Slovenia and Serbia) and partly inside, with Volkswagen running an assembly plant near Sarajevo, using about 30% local components. Mostar was a centre of the aluminium and aircraft industries in former Yugoslavia.

With the disintegration of Yugoslavia and the 1992-1995 war, many production facilities, including mines and the Zenica steel mills, were severely damaged and the existing production chains and supply networks broke apart. The defense industry in B&H disappeared and the remaining small domestic market disintegrated further by the establishment of different political and administrative entities (FB&H, RS and Brcko). Export orientation has become the solution for most companies, trying to reutilize and upgrade their former capacities. In spite of significant imports as well, the trade balance for the sector as a whole is positive. This is in contrast to the highly negative overall trade balance of B&H. Share of export from metal processing industry in total exports is substantial, reaching 22%, while import takes a share of about 6% only.

The main customer of metal processing industry is the industry itself (primary and secondary processing), the manufacture of metal products, the vehicle and machinery industry, construction and petroleum, gas and electricity industry (tubes, wires). It can be expected that if the integrated production line at Mittal Steel Zenica becomes operational, imports can be reduced and export expanded. Thus the prospects are good for metal processing industry to strengthen its position as a net exporter, but the longer term development prospects of producers of basic and semi finished products usually depends of their ability to switch to higher value added products.

Strengths

B&H has ample skilled human resources. The price of labor in metal processing industry is competitive, comparing with the world market prices. It makes production cheaper and enables huge orders from abroad. Small private companies buy modern computerized equipment and try to stay on par with current technologies by introducing laser and CNC machines. Their main activity is final processing and the most of them are engaged in cooperation with foreign partners, mostly from Austria, Holland and neighbour countries.
Weaknesses

There is too much capacity for the current market. Namely, installed capacities were supposed to fulfill ex-Yugoslav market needs. After separation of former Yugoslav republics, the market was split into several smaller markets. The huge systems could not adapt to the new market conditions. Their technologies became obsolete. The new private companies, which were formed on modern market basis, successfully filled the gap caused by the collapse of the huge systems. Founders of those new companies are mostly former workers in those huge systems. At this moment, revitalisation of big companies is in progress. Good example is iron factory Zenica. After privatization, the fresh capital from abroad activated the production. Because of old technologies and machinery, the productivity is getting down. The situation is getting better by introducing CNC equipment. Unfortunately, those technologies demand less workers. The investments for metal processing industry come on very slow pace. It is because this branch of industry requires huge financial means.

Inadequate financial resources for manufacturers are always problem for those business activities, primarily in lohn-business activities. There are financial institutions, but most of the companies in metal processing sector are not stable companies, and have many problems with placing and investment in new machines. Machines, which domestic companies' possess, are not competitive on the world trade market. One of the frequent problems for domestic metal processing companies is slow following development in technologies. Considering that domestic companies did not include to the actual technology development, they are not ongoing events in that field.

Opportunities

The chance for metal processing sector in B&H is in acquisition of new machines, which would increase the productivity. Increased productivity, together with decreased labor and constant quality, would enable making of competitive price on the world market. There is need for training, education and prequalification of workers to be able to use modern machines and technologies. That should help them to fill the gap in knowledge, which was made during the war and in years just after the war. It is necessary to put maximal efforts to regain trust of the developing countries, which used to be great buyers. Another opportunity, which could be used, is production of special metal gallantry for rich clients in Western countries. That kind of products is too expensive to be produced in Western countries (forged products, stainless steel products).

The procedure for investment from abroad should be simplified. Foreign investments are big chance for metal processing development in this region. If foreign partners want to invest in B&H, there are a lot of opportunities on domestic and foreign market. There are just a few manufacturers and there is not a serious big company that has own products, with all quality standards for export to the European markets. These companies cannot be competitive on the foreign developed market without foreign investors or partners. Entering in the European Union presents market expand for domestic companies. With that entrance domestic companies would have a chance, with introduction of new standards of quality, new partners for bigger and better markets. That would be a new beginning for better future.

Unemployment market is very big and there are many skilled workers with different professions and qualification in any processing industry, what is a present opportune for foreign investment in segment of the industry. Seaport is on distance less than 300 kilometres, which is connected with roads. That is an opportunity for companies that are oriented to the long distance export.
Threats

The main threat for metal processing industry is appearance of foreign companies that could offer better price, good quality and productivity. The appearance of that kind of company would jeopardize existence of all companies on the market. The big threat is constant increase of prices for electricity. The electricity is main mover in metal processing industry and it is important for proper working of CNC and other machines. The recovery of big processing systems, which could produce big series, goes very slowly, because they need huge investments in reconstruction and raw materials.

The special problem, specific for our market, is payment problem. Namely, it is hard for local producers to get money for produced and sold goods on local market. Uncontrolled import is very serious problem for metal processing producers and domestic production. Control on borders is not on satisfactorily level. There is also disloyal competition. Disloyal competition is the result of uncontrolled import and unprotected domestic production and producers. Foreign partners or investors are interested in mostly for lohn-business activities in this region. Domestic companies don't have a choice and accepting that business in bad conditions for development and expand.

**SWOT ANALYSIS – METAL PROCESSING INDUSTRY**

**STRENGTHS**
- Already built industrial infrastructure
- The most of facilities in good shape
- Existing mineral mines
- Tradition in that branch
- Qualified manpower
- Competitive price of manpower
- Successful privatisation

**WEAKNESSES**
- Loss of market share
- Obsolete technologies
- Oversized capacity for existing market
- Low productivity
- Absence quality standards
- Inadequate financial resources for manufacturers
- Slow following development in technologies

**OPPORTUNITIES**
- Acquisition of new modern productive machines
- Improvement of workers’ skills
- Return to the lost markets and regain of the trust of the customers
- Specialisation in production of metal gallantry for rich clients on the West (forged elements, stainless steel elements, etc.)
- Foreign investments
- Entering in European Union (market expand)
- Bosnians and foreign universities of mechanical engineering

**THREATS**
- Foreign companies with better quality and productivity
- High price of electricity
- Low interest in investing in reconstruction and modernisation of capacities
- Difficulties in paying on local market
- Unprotected domestic metal producers
- Uncontrolled import
- Disloyal competition, bad competitive advantage
- Lohn business activities
Automotive industry, as the part of metal processing industry

Automotive industry in Bosnia and Herzegovina is one of the most attractive sectors in the country, with a progressive growth in the last few years. It has potential and competitively priced workforce. Given B&H’s rich and extensive tradition in the automotive industry, especially in the production of auto components, B&H companies are renowned as suppliers of quality components.

For decades, major brands have relied on the skilled workforce of B&H to assemble cars for Western markets. Automotive industry in B&H has a long tradition that goes back to 1950s. First steps in this industry branch were made in automotive industry that followed production of different parts and components for passenger cars and heavy weight vehicles. At the beginning of the 1970s, Volkswagen and UNIS-Holding merged into a concern, and the production of the first vehicles in B&H began.

At the same time, Famos Holding, one of the most important companies involved in the development of automotive industry in B&H, started the production of the first diesel engines, licensed under Mercedes Benz, as well as gears licensed under German ZF. Volkswagen Group has recognized this tradition and B&H is well underway to become the Group’s supply-base in South Eastern Europe, a market of 120 million consumers.

Privatization of companies in the automotive industry has been very successful. It is important to mention that Automotive Cluster in B&H consists of 23 successful companies from B&H, as well as some governmental institutions.

**SWOT analysis - Automotive industry**

**STRENGTHS**
- Tradition in metal sector
- Tradition in auto-components supply
- Qualified workforce
- Quality production – ISO and industry certificates
- Competitive labour cost
- Equipment mostly of EU origin

**WEAKNESSES**
- Lack of recognition
- Poor research and development
- No new products
- Oversized companies
- Old equipment
- High costs due to the low utilization
- Low IT support and equipping
- Lack of funds for further investments

**OPPORTUNITIES**
- Beneficial location in the region
- Infrastructure in place
- Energy source available
- Raw materials available
- Technology chain - from mines to metal processing
- Strategic partnerships

**THREATS**
- Similar conditions in surrounding countries
- Slow modernisation
- Unclear ownership
- No institutional support
- Slow regulations synchronization within the country
3. Agriculture and food processing industry

Overview

Bosnia and Herzegovina has enormous potential in agriculture and food processing sector, due to a number of favourable conditions, such as:
- over 1.5 million hectares of agricultural land
- excellent climatic conditions, as well as fertile soil and high quality water
- majority of the land is free from chemical fertilizers and the routine use of pesticides.

Fruit and vegetable products have enormous market potentials that have been identified by USAID Business Consulting Report. It is estimated that there are over 14 million trees producing plums, pears, apples and other fruits, which are used either for export or for fruit-juice production and its packaging. The warmer regions in Herzegovina have been the centre of wine production, tobacco farming and the cultivation of lavender and other aromatic herbs. B&H is also known for its high-quality medicinal herbs, used in pharmaceutical and cosmetic industries. Fish farming is also well developed, especially trout and carp, since the water from B&H’s streams is exceptionally clean and unpolluted. Given the potential of organic produce and pure water supplies, it is easy to understand why international food and drink distributors have recognized the value of this sector. Furthermore, B&H has an extensive tradition in this sector, as well as experienced and skilled workforce.

Favourable Climate - Bosnia and Herzegovina is relatively small country, but has very different climate, because of its specific position and topography. South of the country has slight Sub-Mediterranean climate, characterized by long, warm summers and short, mild winters. More than 200 sunny days and in average 1400 l/m2 of precipitation per year enable almost all sorts of agricultural production. Enough water, available agricultural surfaces and large number of sunny days make the south of B&H an ideal place for development of vineyards, fruit and vegetable. There are excellent conditions for greenhouses production. Central part of B&H has mountain-continental climate. It is characterized by cold winter and long summer. These are ideal conditions for production of potatoes and cabbage, as well as for organic production. Great mountain grasslands, that are full of water, enable the intensive-extensive cattle production. North of the country has typical continental climate. It is characterized by very cold winter and warm summers. Because of the climate and topography, there are ideal conditions for production of wheat, vegetable, and cattle breeding.

Organic Food - Bosnia and Herzegovina has large areas of ecological, unpolluted and cultivable land, clean water springs and clean air that represent optimal conditions for intensive organic production. Additional advantages are the relatively low labour costs and the rare use of mineral fertilizers and plant-protection chemicals in B&H over the last ten years. The proximity of the largest world markets and constant growth of needs for so called “light”, “healthy”, “functional” and organic food, caused by body and health awareness, makes this field of economy extremely interesting for investment. At the same time, the permanent decrease of areas for growing organic food in Europe makes B&H a leading potential producer in Europe. B&H is a member of IFOAM – International Federation of Organic Agriculture Movements.
Strengths

Strengths in agricultural production in B&H are most visible in production part, because there is a lot of agriculture soil. There are different types of landscape (from high mountains to the plains near the rivers), which provides conditions for growing different spices of vegetables, fruits and big and small cattle. As for human resources, there is many non-working population, particularly young unemployed people. The manpower price is competitive in the area of Bosnia and Herzegovina and neighbors countries. Agricultural production is specific with possibility for self-employment and requires a lot of workforce. With this strengths there is a chance for development and expand in that production. B&H is very opportune market for investment and has very cheap work force and many facilities for foreign investors, extra about investment in agricultural development. That may be a big reason for foreign investitures for better expansion and strengthening competitive advantages.

Climatic conditions are good for fruits, various types of vegetables and livestock farming. Livestock farming has good potential for development. Medical plants are very immanent on this area. There is much different medical and aromatic plants like: mushrooms, cranberry, blueberry, rose hip, nettle, elder, sage... The quality and clearness of the soil, water and air make conditions for production of organic food, which is more expensive and more demanded on local and foreign market. During the last couple of years, the local agricultural producers and local and cantonal authorities showed interest for increased agricultural production (green houses production, milk production, fresh meet production). Local and cantonal authorities support producers through giving subventions for this production. The most subventions were given for milk production. The trend of increased demand of processors and customers for domestic products on local market has been noticed. In general, main agricultural sectors, where the producers are most powerful are: vegetable from green houses, fresh meat and milk production, as well as production of mineral waters.

Weaknesses

The producers in Central B&H showed low market orientation. It is obvious through lack of market research, bad quality of packaging, etc.

There are problems in land ownership relations. Because of that, there are a large number of small land plots (average plot is about 1ha) which makes organization of agricultural production in the field much more complicated. The large agricultural facilities, established during the socialism, are not in function anymore. A lot of lands in B&H aren't cultivated, there are mostly green areas. Some people use that areas for livestock, but unfortunately many of that areas are not in use.

Lack of formal education of the producers, together with lack of application of modern technological-solutions in production, makes very low productivity of work and low usage of capacities (now is about 45%).

Agricultural manufacturers didn't organize in one association, which would be support to everyone individual manufacturer.

The producers are faced with numerous law regulations and limitations, caused by weak cooperation and/or badly organized technical support of expert services. It puts them in inferior position, comparing with the other professions in Bosnia and Herzegovina. It discourages them in their work.

Long and short-terms loans for agricultural activity are very unfavourable for investment in that activity.
Opportunities

It is important for B&H to win back market share on the domestic market. The strengths of the food sector on the local market are:

- domestic demands are still higher than local production
- proximity to local markets (important for fresh products, perishable products with low to mid-durability and for products with high storage and transport costs)
- knowledge of local consumer behaviour
- many years of experience in various sub-sectors
- availability of sufficient pasture and meadows for cattle farming
- price advantages with some fruit and vegetable products

Foreign investments are big chance for agricultural development. If foreign partners want to invest in B&H, there is a lot of requirements on domestic market. Progression in political stabilization and way to the European Union make positive contents which will be useful for agricultural development in this region. Government support is elementary part of the agricultural development in every state. That situation in B&H is still in progress.

Agricultural activity is specific, because there is possibility for self-employment for everyone who is included in that activity. That can be permanency or short-time working.

It is necessary to adopt new modern technologies in agricultural production for maximal increase of capacities. Many individual producers are occupied with production of herbs for export to EU. Bosnia and Herzegovina still import a large amount of food and beverages (mineral water, juices etc.) from abroad. It could be replaced with domestic production and products. It is necessary to attract new customers and new markets by quality processing, good packing and marketing approach.

Threats

Uncontrolled import is very serious problem for agricultural producers and domestic production. Disloyal competition is the result of uncontrolled import and unprotected domestic agricultural production and producers. There is not arranged domestic market. The main import comes from neighbors countries (Serbia, Croatia and Slovenia). There is strong regional competition.

Better support of Government to domestic producers for export products is necessary. Conversion cultivated lands in land for other purposes is extremely often and immanent problem. Consequences of the war are still somewhere dangerous (land with mines). Many of mines are removed and it is invested much money in that problem.

The pollution of water, soil and air could make negative impact on agricultural production. It could destroy conditions for organic production which is important opportunity of agriculture in B&H.

The threats, which are present in B&H, could be mostly removed by mutual effort made by producers and Government.
SWOT ANALYSIS - AGRICULTURE AND FOOD PROCESSING INDUSTRY

**STRENGTHS**

- Competitive price of manpower
- Over 1.5 million hectares of agricultural land
- Different conditions for growing vegetables and fruits
- Good quality of following products: out of season vegetables, strawberries, blackberries, redberries, milk and dairy products
- Existence of conditions for organic production
- Great interest of local population and authorities for agricultural production (stimulation actions)
- Demands of processing industry in increase
- Increased demands of customers for local products on local market
- Human resources
- Climatic conditions
- Potential in livestock farming
- Geographical locations
- Enriched with medical plants
- Tradition

**WEAKNESSES**

- Low market orientation
- Small individual land plots
- Absence of modern productive technologies
- Insufficient cooperation between producers
- Complicated law system
- Low level of education of individual agricultural producers
- Weak or badly organized technical support of agricultural expert services
- Disorganized agricultural manufacturers
- Absence data base
- Lack of financial resources
- Inadequate financial resources for agricultural manufacturers.

**OPPORTUNITIES**

- Diversification of products
- Access to the new technologies
- Offer lower than demand
- Production of organic products
- Added value through processing raw materials
- Foreign investments
- Government support
- Self-employment in agricultural production
- Entering in European Union (market expand)
- Existence of many agricultural associations, cooperatives and agricultural manufacturers
- Existence of B&H web page for agricultural manufacturers

**THREATS**

- Illegal and uncontrolled import of foreign products
- Significant black market of fresh agricultural products
- Strong regional competition
- Disloyal competition
- Lack of quality standardization
- Pollution and insufficient protection of environment
- Conversion cultivated lands in land for other purposes
- Lands with mines
4. Textile and footwear industry

Overview

Bosnia and Herzegovina has a long tradition and a good international reputation in textiles, clothing and footwear industry. B&H has achieved progress in modernizing its production units and introducing new technologies aimed at becoming part of the global market. B&H has a number of experienced and skilled workforces with both, academic and practical experience.

The proximity of B&H to both Western and Eastern European markets is a major asset. B&H has the potential to attract companies wishing to relocate closer to their main markets, able to provide a short product delivery cycle to European retailers. The clothing and footwear sector is strategically more important to the B&H economy, because of its potential to employ more people and to provide a long-term supply base to European markets.

B&H textile and clothing industries have inherent skills, and good reputations as former suppliers of textile and footwear based consumer products to the German and Italian markets of the European Union (EU). Much of the cohesion of this structure was lost as a direct result of the war, but this situation is changing. New partnerships are bringing in new equipment and management know-how, as well as money, to those companies that have already been privatised. Goods that fulfil EU technical standards can be imported from Bosnia and Herzegovina into all 27 EU member state countries.

It would be possible to move modern equipment from Western European mills into those located in Bosnia and Herzegovina to raise the quality of output to meet the requirements of customers and consumers alike. The requirement of the textile sector is primary capital to invest in new machinery with increased automation that will improve the consistency of the product. The clothing and footwear sector is strategically important to B&H economy because of its potential to employ more people and to provide a long-term supply base to Western and Eastern European markets.

This sector is experiencing a serious crisis on global level, but it is the fact that the Western countries move their capacities towards the East and to the Western Balkans' countries; such comparative advantage should be exploited.

So-called „lohn-business“, that domestic enterprises are mainly dealing with, are not the prospects of development of this sector but still in next couple of years, they can be a good basis for our enterprises' work, emphasizing recognition of the development of own goods' brands.

However, in order to achieve that, assistance is necessary to this processing branch that employs mainly female labourforce (90%) and contributes considerably to unemployment decrease. This sector raise the problem of grey economy and necessity of the Government and other important bodies' engagement at its prevention, in order to protect domestic production. Uncontrolled import of goods that is not burdened with dues' payment is evident, which competitiveness of domestic enterprises is directly imperilled by and invoice values of such goods are very often extremely low. Apart from „the flood“ of cheap and poor-quality goods from China and Turkey, it is very expressed problem of inexact data on declarations of imported textile products in terms of raw material composition, which domestic producers are put in a very inequal position.
**Strengths**

Textile and leather industry has long tradition in Bosnia and Herzegovina. There are numerous experts in this branch who could be engaged. The labor price is very low and that attracts foreign companies who move complete production to Bosnia and Herzegovina. They are engaged in so-called “lohn” business and example for this is “Bontex” Maglaj who exports 100% to Swiss. The other positive example is also company “Kotex” from Tešanj. Besides programs for foreign customers, they have their own fashion line for production of leather gallantry. Many private companies employed numerous workers in the last couple of years.

**Weaknesses**

The textile sector has several weaknesses that are caused by domestic and global trends on the market. The textile industry is low accumulative branch of economy; the situation is even worse because of numerous low paid “lohn” business arrangements. Additional problems in this branch are caused by financial sector, namely, inadequate loans with too high interest rate. In textile-leather sector, the presence of the human work is still very high (1 machine - 1 worker). There are huge amounts of imported textile and leather goods (approximately 75%) with very low price. There is no adequate protection of domestic production.

**Opportunities**

The opportunity would be creating of own products and collections, in order to decrease dependence on foreign companies. That would also stop mentioned export of manpower. There is a need for constant following of fashion and technology trends in the world in order to survive on the market. Designers and creators should make brand of Bosnian creation.

**Threats**

The main threat comes from huge import of leather and textile from the Eastern Europe and Far East countries, especially from Poland, Romania, Turkey, Thailand, China and Hong Kong. It is hard to compete with strong foreign competition since Poland and Romania together covers 80% of cloth and textile market in EU. China also produces huge series, mostly fake copies of famous brands and produces. Domestic production is additionally burdened with high taxes and import fees for raw materials and high price of electricity that is the most important source of power. The textile and leather industry, having in mind tradition and other positive circumstances, has a chance to survive and even develop their capacities. The proof is numerous private companies who achieved positive business results and based their work on quality economical basis. Moreover, that development must be followed by state measures in order to continue industrial tradition and employ workers in this sector.
SWOT ANALYSIS - TEXTILE AND FOOTWEAR INDUSTRY

STRENGTHS
- Skilled labour force
- Preserved production plants
- Significant share in the country’s gross domestic product
- Employs a great number of workers
- An exporting industry
- Development of textile sector stimulates the development of other sectors and regional development, thus conditions would be created to move from lohn jobs, which currently represent the greatest share of exports, to the development of own product range, own product assortments and move gradually from lohn jobs to regular exports
- Long lasting tradition
- Opened numerous “lohn” business facilities
- Numerous qualified workers from former state owned companies

WEAKNESSES
- Obsolete equipment and technological gap
- Shortage of working capital
- Engagement on lohn jobs only
- Lack of adaptation of customs regulations and procedures
- Inability to develop own products
- Lack of know-how and resources needed for the establishment of business relations and expansion and maintenance of adequate business contacts network
- Uncontrolled importation of goods, that is not burdened with dues’ payment
- Unfavourable credit conditions
- Low accumulative economy brunch
- Lack of domestic production protective measures (grey market)
- Unfinished and badly conducted privatisation process

OPPORTUNITIES
- Restart and develop the basic textile industry (wool, cotton and fabrics)
- Stimulate the introduction and dissemination of production, design and management technologies
- Encourage research and development and creative potential within companies
- Encourage introduction and strengthening of sector-relevant education at universities by way of specialization (textile, footwear-working, design engineers etc.)
- Strengthen the existing institutions, notably those engaged in product quality control
- Encourage the development of own product assortments
- Improve work organization within the sector
- Resume participation in fairs and exhibitions, with a view to restoring the previous and making new contacts with buyers
- Improvement of knowledge and skills
- Decrease of “lohn” business and create of own collections
- Following of fashion trends
- Cooperation with fashion designers

THREATS
- Adopt international standards and regulations (EU directives, ISO standards, harmonized European standards) concerning product quality and safety
- Support the introduction of quality control techniques, including the issuance of the required certificates and licences
- Establishment of conformity assessment infrastructure (standards, metrology, testing and certification, quality control) along with the conditions required by the relevant New Approach Directives and harmonized European standards in order to meet the requirements for using the CE mark
- Import from Eastern countries
- High taxes and other costs
- Too high electricity price
- Constant need of upgrading and acquisition of new machines