



Bosnia and Herzegovina: Post-Conflict Reconstruction and the Transition to a Market Economy

Bosnia and Herzegovina

Post-Conflict Reconstruction and the Transition to a Market Economy

An OED Evaluation of World Bank Support



OPERATIONS EVALUATION DEPARTMENT

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FOREWORD

This report examines World Bank assistance to Bosnia and Herzegovina (BiH) during 1996–03. It analyzes the objectives and content of the Bank's assistance program during this period, the outcomes in terms of economic and social development in BiH, and the contributions of the Bank and other development partners to development outcomes. The report is based on a review of project files, economic and sector reports, Implementation Completion Reports (ICRs), Project Performance Assessment Reports (PPARs), and other OED evaluations (see, in particular, OED 2000); Quality Assurance Group (QAG) ratings of quality at entry for BiH projects and economic and sector reports; and interviews with Bank staff who are working or have worked on the BiH program. The Country Assistance Evaluation (CAE) also incorporates work from background papers in education, health, social protection, labor markets, the financial sector, private sector development, and infrastructure. The CAE team visited BiH in December 2003 for discussions with BiH officials, representatives of other development partners, the private sector, academia, nongovernmental organizations (NGOs), and staff of the World Bank field office. The field visit was carried out in collaboration with a PPAR mission that is preparing an evaluation of four adjustment credits to BiH (forthcoming). A list of people met is provided in Annex B.

The report is organized as follows: Chapter 1 provides background on the situation in BiH at

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PREFACIO

En este informe se examina la asistencia prestada por el Banco Mundial a Bosnia y Herzegovina durante el período de 1996 a 2003. Se analizan los objetivos y el contenido del programa de asistencia del Banco durante dicho período, sus resultados, medidos en términos del desarrollo económico y social alcanzado por Bosnia y Herzegovina, y la forma en que el Banco y otros asociados en el desarrollo contribuyeron al logro de dichos resultados. El informe se basa en un examen de los archivos sobre los proyectos, informes económicos y sectoriales, informes finales de ejecución (IFE), informes de evaluación *ex post* de proyectos y otras evaluaciones llevadas a cabo por el Departamento de Evaluación de Operaciones (DEO) (véase, en particular, DEO, 2000); en la valoración dada por el Grupo de Garantía de Calidad (GGC) a la calidad en la etapa inicial de los proyectos ejecutados en Bosnia y Herzegovina y en informes económicos y sectoriales sobre Bosnia y Herzegovina, así como en entrevistas con funcionarios del Banco que trabajan o hayan trabajado en el programa para Bosnia y Herzegovina. En la evaluación de la asistencia al país también se incorporó información contenida en documentos de antecedentes sobre educación, salud, protección social, mercados laborales, sector financiero, desarrollo del sector privado e infraestructura. El equipo de evaluación de la asistencia al país también visitó Bosnia y Herzegovina en diciembre de 2003 para conversar con funcionarios de ese

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AVANT-PROPOS

Le présent rapport porte sur l'aide fournie par la Banque mondiale à la Bosnie-Herzégovine de 1996 à 2003. Il analyse les objectifs et le contenu du programme d'aide de la Banque durant cette période, les résultats en matière de développement économique et social en Bosnie-Herzégovine, ainsi que les contributions de la Banque et des partenaires du développement aux réalisations dans le domaine du développement. Le rapport se fonde sur l'examen des documents suivants : dossiers de projet, rapports économiques et sectoriels, rapports de fin d'exécution (RFE), rapports d'évaluation rétrospective de projet (RERP) et autres évaluations de l'OED (voir en particulier OED 2000). Le rapport tire également parti des évaluations, par le Groupe d'assurance de la qualité, de la qualité initiale des projets, des rapports économiques et sectoriels de la Bosnie-Herzégovine et des interviews du personnel de la Banque affecté actuellement ou dans le passé au programme de la Bosnie-Herzégovine. L'évaluation de l'aide à la Bosnie-Herzégovine se fonde aussi sur des documents de base concernant l'éducation, la santé, la protection sociale, les marchés du travail, le secteur financier, le développement du secteur privé et les infrastructures. L'équipe d'évaluation a séjourné en décembre 2003 en Bosnie-Herzégovine pour s'entretenir avec les autorités, les représentants des partenaires du développement, du secteur privé, des milieux universitaires, des organisations non gouvernementales (ONG) et le personnel du bureau

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the end of the country's 1992–95 civil war, terms of the peace agreement and the government structure agreed upon by the three main ethnic groups, and a brief overview of the international reconstruction effort under-

taken to rebuild the economy and society. Chapter 2 reviews the World Bank's strategy and assistance program for BiH over the 1996–03 period. Chapter 3 analyzes the outcomes achieved in BiH in governance, economic growth, employment generation, development of the private sector, delivery of social services and provision of effective safety nets, and the impact of World Bank programs in these areas. This chapter also includes an assessment of the likely sustainability of the World Bank–financed program in BiH. Chapter 4 attempts to attribute responsibility for the outcomes achieved to the various parties involved—the World Bank, other development partners, and the several governments of BiH. The final chapter draws conclusions and makes recommendations for future World Bank work in BiH and in other post-conflict countries.

Comments from the Bank's Regional management have been incorporated in the report. The report was also sent to the BiH authorities, whose comments are in Annex D.

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país, representantes de otros asociados en el desarrollo, del sector privado, de las universidades y de organizaciones no gubernamentales (ONG) y personal de la oficina del Banco Mundial en el terreno. La visita sobre el terreno se

llevó a cabo en colaboración con una misión de evaluación *ex post*, que está preparando una evaluación (pendiente de publicación) de cuatro créditos de ajuste concedidos a Bosnia y Herzegovina. El Anexo B contiene la lista de las personas con las que se mantuvieron esas reuniones.

El informe está estructurado de la manera siguiente: en el Capítulo 1 se proporciona información de fondo sobre la situación que existía en Bosnia y Herzegovina al final de la guerra civil de 1992-95; se describen los términos del acuerdo de paz y la estructura gubernamental acordados por los tres principales grupos étnicos y se ofrece un breve panorama de las actividades internacionales llevadas a cabo con el fin de reconstruir la economía y la sociedad. En el Capítulo 2 se examina la estrategia y el programa de asistencia del Banco Mundial para Bosnia y Herzegovina durante el período de 1996 a 2003. En el Capítulo 3 se hace un análisis de los resultados alcanzados en materia de gobernabilidad, crecimiento económico, generación de empleo, desarrollo del sector privado, prestación de servicios sociales y provisión de redes de seguridad efectivas, así como del impacto de los programas del Banco Mundial sobre estos aspectos. Este capítulo también contiene una evaluación de la posible sostenibilidad del programa financiado por el Banco Mundial en Bosnia y Herzegovina. En el Capítulo 4 se trata de identificar la contribución

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extérieur de la Banque mondiale. La mission sur le terrain a été effectuée en collaboration avec une mission du RERP, qui prépare l'évaluation de quatre crédits d'ajustement à la Bosnie-Herzégovine (à paraître). La liste des personnes rencontrées figure en Annexe B.

Le rapport est structuré comme suit : le premier chapitre présente la situation de la Bosnie-Herzégovine à la fin de la guerre civile dont le pays a été le théâtre de 1992 à 1995, les modalités de l'accord de paix et la structure du gouvernement convenue par les trois principaux groupes ethniques, ainsi qu'un bref aperçu de l'effort international de reconstruction visant à rebâtir l'économie et la société. Le chapitre 2 passe en revue la stratégie et le programme d'aide de la Banque mondiale à la Bosnie-Herzégovine sur la période 1996-2003. Le chapitre 3 analyse les résultats obtenus par le pays en matière de gouvernance, de croissance économique, de génération d'emplois, de développement du secteur privé, de prestation de services sociaux et de mise en place de mécanismes de protection sociale, ainsi que l'incidence des programmes de la Banque mondiale dans ces domaines. Ce chapitre évalue également la viabilité du programme financé par la Banque mondiale en Bosnie-Herzégovine. Le chapitre 4 tente d'attribuer la responsabilité des résultats obtenus aux différents acteurs concernés —la Banque mondiale, d'autres partenaires du développement et les différents gouvernements de la Bosnie-Herzégovine. Le dernier chapitre tire les conclusions et formule des recommandations concernant les futures interventions de la Banque

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hecha por las diferentes partes interesadas –el Banco Mundial, otros asociados en el desarrollo y los distintos gobiernos de Bosnia y Herzegovina– a los resultados alcanzados. El último capítulo contiene conclusiones y recomendaciones para la futura labor del Banco Mundial en el país y en otros países que han salido de un conflicto.

Se incluyeron en el informe los comentarios de los directivos superiores de la Oficina Regional del Banco, que también se envió a las autoridades de Bosnia y Herzegovina, cuyas observaciones figuran en el Anexo D.

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mondiale en Bosnie-Herzégovine et dans d'autres pays sortant de conflit.

Les observations de l'équipe de direction régionale de la Banque ont été intégrées au rapport. Celui-ci a également été communiqué aux autorités de la Bosnie-Herzégovine dont les observations figurent à l'Annexe D.

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EXECUTIVE SUMMARY

Following three years of war in Bosnia and Herzegovina (BiH), during which over 10 percent of the population were killed or wounded, and over half of the population displaced, a peace agreement, the Dayton Accords (DA), was negotiated in November 1995. The DA acknowledged the bitter ethnic divides that led to war by establishing a government structure with a weak central State; the ethnically based “Entities” (the Federation of Bosnia and Herzegovina and the Republika Srpska) retained political, military, and economic authority. The DA also provided for a strong international police and military presence and an international overseer—the Office of the High Representative (OHR).¹ Although this structure was a necessary political compromise at the time of the DA, it has presented difficult challenges to the Bank as well as other donors.

The international community moved quickly to support reconstruction in BiH. The Bank, the European Union (EU), and the European Bank for Reconstruction and Development (EBRD) estimated the required total donor assistance at \$5.1 billion, and approximately this amount was pledged over the 1996–99 reconstruction period. Funds were quickly committed and disbursed. The overall reconstruction effort was highly successful. By 2000 most housing, schools, water supply systems, roads, telecommunications, and electric power supplies had been reconstructed to near pre-war standards. The economy re-

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RESUMEN

Después de tres años de guerra en Bosnia y Herzegovina, durante los cuales más del 10% de la población resultó muerta o herida y más de la mitad quedó desplazada, en noviembre de 1995 se negociaron acuerdos de paz, conocidos como los Acuerdos de Dayton. En éstos se reconocieron las profundas divisiones étnicas que condujeron a la guerra cuando se estableció una estructura de gobierno con un Estado central débil: la autoridad política, militar y económica quedó en manos de las “Entidades” de base étnica (la Federación de Bosnia y Herzegovina y la República Srpska). Los Acuerdos de Dayton también establecieron una fuerte presencia internacional militar y policial y un supervisor internacional, la Oficina del Alto Representante (OAR)¹. Aunque esta estructura fue un compromiso político necesario en la época de los Acuerdos de Dayton, ha presentado retos difíciles de vencer para el Banco y otros donantes.

La comunidad internacional apoyó con presteza la reconstrucción en Bosnia y Herzegovina. El Banco, la Unión Europea (UE) y el Banco Europeo de Reconstrucción y Desarrollo (BERD) estimaron que la asistencia total que debían aportar los donantes ascendía a US\$5.100 millones y esa fue, aproximadamente, la suma prometida durante el período de reconstrucción de 1996 a 1999. Los fondos se comprometieron y se pagaron rápidamente. En general, las actividades realizadas para reconstruir el país tuvieron mucho éxito.

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RÉSUMÉ ANALYTIQUE

Après trois années de guerre en Bosnie-Herzégovine, au cours de laquelle plus de 10 % de la population a été tuée ou blessée, et plus de la moitié déplacée, un accord de paix (l’Accord de Dayton), a été négocié en novembre 1995. L’Accord reconnaissait les profonds différends ethniques qui ont entraîné la guerre en mettant en place une structure gouvernementale caractérisée par une administration centrale faible, les « Entités » fondées sur les ethnies (la Fédération de Bosnie-Herzégovine et la Republika Srpska) conservant le pouvoir politique, militaire et économique. L’Accord de Dayton prévoyait aussi une solide présence policière et militaire internationale et un inspecteur international—le Bureau du Haut Représentant (OHR).¹ Cette structure représentait certes un compromis politique nécessaire au moment de la conclusion de l’Accord de Dayton, mais elle pose des défis majeurs à la Banque et aux autres bailleurs de fonds.

La communauté internationale s’est empressée d’appuyer la reconstruction en Bosnie-Herzégovine. La Banque, l’UE et la Banque européenne pour la reconstruction et le développement (BERD) ont évalué à 5,1 milliards de dollars l’aide totale nécessaire au pays et un montant à peu près égal a été promis au cours de la période de reconstruction de 1996 à 1999. Les fonds ont été rapidement engagés et décaissés. L’ensemble de l’effort de reconstruction a particulièrement bien réussi. En 2000, la plupart des habitations, des

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covered strongly in the initial post-conflict years, but it had shrunk so much by 1995 (aggregate production less than 20 percent of the pre-war level, over 50 percent of the population unemployed and in poverty, according to rough estimates) that by 1999 the gross domestic product (GDP) had recovered to only about 60 percent of pre-war output.

The Bank played a leading role in the reconstruction effort. Together with the EU, the Bank organized donor meetings to mobilize resources from some 50 donor countries and 14 international organizations. The Bank also quickly prepared emergency reconstruction projects for International Development Association (IDA) and trust fund financing, covering infrastructure, housing, schools, hospitals, demobilization, and war victims; many of these projects were co-financed by other donors.² The Bank approved an exceptional level of IDA/trust fund resources for BiH over the 1996–03 period, committing a total of \$983 million; on a per capita basis, this is more than for any other post-conflict country to date. Only the EU and the U.S. have surpassed IDA in aid disbursements to BiH.

To enhance the effectiveness of its interventions during the reconstruction period, the Bank opened a Resident Mission in early 1996, hired competent local professional staff to help supervise projects, and established Project Management Units (PMUs), which were essential in the post-conflict environment. Almost all of the reconstruction projects had successful outcomes. The Bank's performance in supporting reconstruction in BiH is judged both timely and highly relevant and

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Para 2000 se habían reconstruido, casi hasta alcanzar los niveles anteriores a la guerra, la mayoría de las viviendas y escuelas, los sistemas de suministro de agua y energía eléctrica, las carreteras y las telecomunicaciones. La economía se recuperó vigorosamente en los primeros años que siguieron al conflicto, aunque para 1995 se había deteriorado tanto (según estimaciones aproximadas, la producción total era inferior al 20% del nivel de antes de la guerra y más del 50% de la población estaba desempleada y en la miseria), que en 1999 el producto interno bruto (PIB) sólo se había recuperado hasta situarse en un 60% del nivel anterior a la guerra.

El Banco desempeñó un papel preponderante en la campaña de reconstrucción. Conjuntamente con la UE, el Banco organizó reuniones para movilizar recursos provenientes de alrededor de 50 países donantes y 14 organizaciones internacionales. El Banco también elaboró rápidamente proyectos de reconstrucción de emergencia financiados a través de la Asociación Internacional de Fomento (AIF) y fondos fiduciarios, en materia de infraestructura, vivienda, escuelas, hospitales, desmovilización y asistencia a las víctimas de la guerra. Muchos de estos proyectos fueron financiados conjuntamente con otros donantes.² El Banco aprobó un nivel excepcional de recursos de la AIF y de fondos fiduciarios para Bosnia y Herzegovina durante el período de 1996 a 2003 y comprometió un total de \$983 millones; en cifras per cápita, esta suma es superior a la concedida hasta la fecha a otros países que han salido de un conflicto. Sólo la UE y los Estados Unidos han desembolsado más ayuda que la AIF a Bosnia y Herzegovina.

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écoles, des réseaux d'adduction d'eau, des routes, des télécommunications et des réseaux électriques avaient été reconstruits et pratiquement ramenés à leurs niveaux antérieurs à la guerre. L'économie avait affiché une solide reprise les premières années après la guerre, mais en 1995 elle s'était contractée à tel point (production globale inférieure à 20 % du niveau d'avant-guerre, plus de 50 % de la population au chômage et démunie, selon des estimations sommaires) qu'en 1999, le produit intérieur brut (PIB) n'était remonté qu'à quelque 60 % de la production d'avant-guerre.

La Banque a joué un rôle de premier plan dans l'effort de reconstruction. Conjointement avec l'UE, elle a organisé des réunions des bailleurs des fonds pour mobiliser des ressources auprès d'une cinquantaine de pays donateurs et de 14 organisations internationales. La Banque a également mis rapidement au point des projets de reconstruction d'urgence aux fins de financement par l'Association internationale de développement (IDA) et le fonds fiduciaire. Ces projets portaient sur l'infrastructure, le logement, les écoles, les hôpitaux, la démobilisation et les victimes de la guerre ; bon nombre d'entre eux ont été co-financés par d'autres bailleurs de fonds.² Au cours de la période 1996-2003, la Banque a approuvé, au profit de la Bosnie-Herzégovine, un niveau sans précédent de ressources de l'IDA/fonds fiduciaire, engageant un montant total de 983 millions de dollars. Ramené au nombre d'habitants, ce montant dépasse ce qui a été approuvé jusqu'ici pour tout autre pays sortant de conflit. Seuls

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should serve as an example of good practice in post-conflict reconstruction.

From the beginning, the Bank was fully aware of the need to establish a base for sustainable economic growth, employment generation, and poverty alleviation. As in the other transition economies, the central challenge was the transformation from socialism to a market economy. Even the earliest IDA projects included elements of policy and institutional reforms aimed at moving BiH toward this goal, and these aspects were increasingly emphasized after the reconstruction period. Some progress has been made. For example, in governance and economic management, Bank assistance had some success in improving budgetary management and harmonization of taxation, but tax evasion and corruption remain serious problems. In the financial sector, a Central Bank was established (which functions as a currency board), bank supervision agencies were set up, a new national currency was introduced, new private banks entered the market, and there was a remarkably successful development of micro-credit institutions. In the social sectors, education and health services were restored, a degree of pension reform was achieved, and some cross-Entity cooperation has been realized.

In other areas, however, results have been less satisfactory, particularly in creating a supportive environment for private sector development, despite concerted efforts of the Bank and many other donors. Bank support to privatization has not turned out well. The Bank initially endorsed voucher privatization for

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Para aumentar la eficacia de sus intervenciones durante el período de reconstrucción, el Banco estableció una misión residente a principios de 1996, contrató personal profesional local competente para ayudar a supervisar proyectos

y creó Unidades de Administración de Proyectos (UAP) que fueron esenciales en el clima que existía después del conflicto. Casi todos los proyectos de reconstrucción tuvieron éxito. Se estima que, al dar apoyo a la reconstrucción en Bosnia y Herzegovina, el desempeño del Banco fue oportuno y sumamente pertinente y constituye un ejemplo de cómo contribuir a la reconstrucción después de un conflicto.

Desde el principio, el Banco fue plenamente consciente de la necesidad de establecer una base para el crecimiento económico sostenible, la generación de empleo y el alivio de la pobreza. Como sucedió en el caso de las otras economías en transición, el desafío principal era la transición del socialismo a una economía de mercado. Incluso en los primeros proyectos de la AIF hubo elementos de política y reformas institucionales orientadas a hacer que Bosnia y Herzegovina avanzara hacia la consecución de este objetivo y estos aspectos se recalcaron cada vez más después del período de reconstrucción. Se han logrado algunos progresos. En materia de gobernabilidad y gestión económica, por ejemplo, con la asistencia del Banco se logró mejorar un poco la administración del presupuesto y la armonización tributaria, aunque la evasión de impuestos y la corrupción siguen siendo problemas graves. En el sector financiero, se estableció un Banco Central (que funciona como junta monetaria), se crearon organismos de superinten-

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l'UE et les États-Unis ont fourni à la Bosnie-Herzégovine plus d'aide que l'IDA.

Pour améliorer l'efficacité de ses interventions au cours de la période de reconstruction, la Banque a ouvert une mission résidente au début de 1996, recruté des cadres locaux compétents pour superviser les projets et mis en place des unités de gestion de projet, qui étaient indispensables dans le contexte de l'après-guerre. Pratiquement tous les projets de reconstruction ont été menés à bonne fin. Les résultats obtenus par la Banque en matière d'appui à la reconstruction en Bosnie-Herzégovine sont jugés opportuns et particulièrement bien adaptés aux réalités et devraient servir d'exemple de bonne pratique en matière de reconstruction dans les pays sortant d'un conflit.

La Banque a pleinement pris conscience, dès le début, de la nécessité de mettre en place la base nécessaire à une croissance économique durable, à la création d'emplois et à la lutte contre la pauvreté. Tout comme dans les autres économies en transition, le principal enjeu était le passage d'un système socialiste à l'économie de marché. Même les tout premiers projets de l'IDA comportaient des volets de réforme des politiques et des institutions visant à acheminer la Bosnie-Herzégovine vers cet objectif, et ces volets ont été de plus en plus privilégiés après la période de reconstruction. Quelques progrès ont été accomplis. Par exemple, dans le domaine de la gouvernance et de la gestion économique, l'aide de la Banque a quelque peu réussi à améliorer la gestion budgétaire et harmoniser l'imposition, mais l'évasion fiscale et la corruption continuent de poser de graves problèmes.

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small and medium-size enterprises, with disappointing results, and its support for privatization of large-scale enterprises has become bogged down. The regulatory environment still retains many of the restrictive aspects of the former Yugoslav system.

The *overall outcome* of the Bank's assistance is rated as *satisfactory*, and the *institutional development impact* is rated as *modest*, under very difficult circumstances. The *sustainability* of the Bank's program is judged to be *non-evaluable because of considerable uncertainties in the process of creating a single economic space and promoting growth and employment generation*. Although achievements at the sectoral level are mostly considered sustainable, the sustainability of all donor support over the past eight years depends largely on how the country responds to several serious challenges: the transition to a market economy, declining aid flows, dealing with domestic debt and trade imbalances, and continuing the reform process leading to association with—and eventual accession to—the EU.

In the future, the Bank should concentrate on governance and public sector management issues and on reducing the remaining barriers to private sector development. The Bank should rethink its approach to privatization, and give greater attention to imposing hard budget constraints on State-owned enterprises (SOEs) and to removing the legal and institutional barriers to privatization—finalizing an acceptable bankruptcy law, reforming commercial courts, resolving the ownership

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dencia de bancos, se introdujo una nueva moneda nacional, entraron al mercado nuevos bancos privados, y tuvo un éxito notable el desarrollo de las instituciones de microcrédito. En los sectores sociales se restauró la educa-

ción y los servicios de salud, se pudo realizar en parte la reforma del sistema de pensiones y se logró cierta cooperación entre las “Entidades”.

No obstante, en otros ámbitos los resultados han sido menos satisfactorios, particularmente en cuanto a la creación de un clima propicio para el desarrollo del sector privado, pese a los esfuerzos concertados del Banco y muchos otros donantes. El apoyo dado por el Banco a la privatización no ha tenido éxito. El Banco apoyó inicialmente la privatización mediante cupones para empresas pequeñas y medianas con resultados desalentadores, y su apoyo a la privatización de las empresas de gran envergadura se ha estancado. La reglamentación oficial sigue conservando muchos de los aspectos restrictivos del antiguo sistema yugoslavo.

El *resultado global* de la asistencia del Banco se valora como *satisfactorio* y el *impacto sobre el desarrollo institucional* se considera *modesto*, en circunstancias muy difíciles. Se considera *imposible evaluar la sostenibilidad* del programa del Banco, *debido a las grandes incertidumbres que existen en el proceso de creación de un espacio económico único y de promoción del crecimiento y la generación de empleo*. Aunque la mayoría de los logros a nivel sectorial se consideran sostenibles, la sostenibilidad de todo el apoyo proporcionado por los donantes durante los últimos ocho años depende en gran medida de cómo

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Dans le secteur financier, une banque centrale a été instituée (et fonctionne comme un conseil monétaire), des institutions de supervision bancaire ont été mises en place, une nouvelle monnaie nationale a été mise en circulation,

de nouvelles banques privées ont fait leur entrée sur le marché, et l'on a assisté à un développement particulièrement efficace d'institution de micro-crédit. Dans les secteurs sociaux, les services d'éducation et de santé ont été rétablis, un certain niveau de réforme de la retraite a été réalisé et une certaine coopération a été réalisée entre Entités.

Dans d'autres domaines, les résultats ont cependant été moins satisfaisants, particulièrement en ce qui concerne la création d'un environnement propice au développement du secteur privé, en dépit de l'action concertée de la Banque et de nombreux autres bailleurs de fonds. Le soutien apporté par la Banque à la privatisation n'a pas été couronné de succès. Elle a, dans un premier temps, approuvé un programme de privatisation par distribution de coupons pour les petites et moyennes entreprises et les résultats ont été décevants. De même, la privatisation de grandes entreprises qu'elle a également appuyée, s'est enlisée. Le cadre de réglementation conserve de nombreux aspects restrictifs de l'ancien système yougoslave.

Le *résultat global* de l'aide de la Banque est considéré *satisfaisant*, et l'*impact sur le développement institutionnel* est jugé *modeste*, dans un contexte particulièrement difficile. La *viabilité* du programme de la Banque est considérée *non évaluable en raison des incertitudes considérables qui pèsent sur le pro-*

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and debt status of strategic enterprises, and helping to strengthen the role of the privatization agencies.

A solution needs to be found for PMUs. Although essential during reconstruction, they should now be integrated

into the government structure. However, given that the differentials between PMU compensation and government salaries are extremely large, this could only be successful if done in concert with civil service reform. This is an issue that the Bank should consider a priority.

Before BiH could join the Bank in 1996, a solution had to be found for the stock of International Bank for Reconstruction and Development (IBRD, generally referred to as the World Bank) debt the country had assumed as its share of the debts of the former Socialist Federal Republic of Yugoslavia (SFRY); over 80 percent of this amount was in arrears by the end of the war. The Bank agreed to restructure this debt as new IBRD loans and assumed that, following economic recovery, BiH would be creditworthy for further IBRD borrowing. Thus, the need for exceptional IDA commitments would be only temporary. BiH has been servicing this restructured IBRD debt but has not yet been declared creditworthy for new IBRD loans. Because of significant debt relief from other creditors, however, the IBRD debt plus the rapid build-up in IDA credits has resulted in the Bank Group holding close to 50 percent of BiH's total external debt. Furthermore, once the IDA commitment level is reduced to the BiH "norm" of \$30–35 million annually, beginning in FY05, BiH's IBRD and IDA debt service payments could

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responda el país a varios desafíos importantes: la transición a la economía de mercado, la disminución de las corrientes de ayuda, el problema de la deuda interna y los desequilibrios en el comercio exterior, así como la

continuación del proceso de reforma hasta que se consiga la asociación con la UE y, en su debido momento, el ingreso a la misma.

En el futuro, el Banco debería concentrarse en cuestiones de gobernabilidad y de gestión del sector público y en reducir las barreras restantes al desarrollo del sector privado. El Banco debería reconsiderar la forma en que aborda la privatización y hacer más hincapié en la imposición de limitaciones presupuestarias a las empresas estatales y la eliminación de las barreras jurídicas e institucionales a la privatización mediante una ley aceptable en materia de quiebra, la reforma de los tribunales mercantiles, la resolución de los problemas relativos a la propiedad y la deuda de las empresas estratégicas y el suministro de ayuda para fortalecer el papel de los organismos encargados de la privatización.

Se debe encontrar una solución a las UAP. Aunque fueron esenciales durante la reconstrucción, se deberían integrar ahora en la estructura del gobierno. No obstante, dada la enorme diferencia entre las remuneraciones que conceden las UAP y los sueldos que paga el gobierno, esto sólo se podría lograr conjuntamente con la reforma de la administración pública. Es un tema al que el Banco debería dar prioridad.

Antes de que Bosnia y Herzegovina pudiera ingresar en el Banco, en 1996, fue preciso encontrar una solución al saldo de su deuda con el

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cessus de création d'un espace économique unique, de promotion de la croissance et de création d'emplois. Certes les réalisations au plan sectoriel sont essentiellement considérées viables, mais la viabilité de

l'appui de tous les bailleurs de fonds au cours des huit dernières années est en grande partie tributaire de la manière dont le pays fait face à de nombreux défis majeurs : la transition vers une économie de marché, la régression des flux d'aide, la dette intérieure et les déséquilibres commerciaux et la poursuite du processus de réforme devant aboutir à l'association avec l'UE et, en fin de compte, à l'entrée dans celle-ci.

À l'avenir, la Banque devrait privilégier les questions de gouvernance et de gestion du secteur public et s'attacher à réduire les obstacles auxquels continue de se heurter le développement du secteur privé. Elle devrait revoir ses idées sur la privatisation et insister davantage sur l'adoption d'une discipline budgétaire rigoureuse par les entreprises publiques. Elle devrait aussi accorder une attention accrue à la suppression des obstacles juridiques et institutionnels à la privatisation, en contribuant à mettre au point une loi acceptable sur les faillites, réformer les tribunaux de commerce, régler le problème de la propriété et de la dette des entreprises stratégiques et à renforcer le rôle des organismes de privatisation.

Il faudrait trouver une solution au problème des unités de gestion de projet. Bien qu'elles aient joué un rôle essentiel pendant la reconstruction, elles devraient désormais être intégrées dans la structure gouvernementale. Toutefois, étant

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soon exceed IDA disbursements. Even if BiH were to be declared creditworthy for new IBRD loans, the already high Bank Group exposure could limit lending and make it difficult to avoid negative net transfers.

In spite of the country's limited achievements in transition and the uncertain future noted above, progress may still be possible in areas where past results have been disappointing. The governments of BiH, under the leadership of the State, have invested considerable efforts in the Poverty Reduction Strategy Paper (PRSP) process over the past two years, including wide consultations with civil society and donors, and have incorporated the PRSP into the country's economic and social development strategy. In addition, the prospect of entering into a Stabilization and Association Pact with the EU, and possible future EU membership, provides strong incentives for implementing reforms that have stalled in the past. The Bank should leverage its more limited assistance through support for the EU association/accession process. Also, the future Bank strategy should be anchored in the PRSP in order to support greater government ownership of the reform process.

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Banco Internacional de Reconstrucción y Fomento (BIRF, conocido generalmente como Banco Mundial, de la que el país se había hecho cargo como su parte de las deudas de la antigua República Federativa Socialista de Yugoslavia; más del 80% de esta suma estaba en mora al final de la guerra. El Banco estuvo de acuerdo en reestructurar esta deuda en forma de nuevos préstamos del BIRF y dio por sentado que, después de la recuperación económica, Bosnia y Herzegovina tendría la capacidad de pago necesaria para contraer nuevos préstamos con el BIRF. Por ello, la necesidad de que la AIF comprometiera sumas excepcionales no sería más que temporal. Bosnia y Herzegovina ha estado efectuando pagos por servicio de esta deuda reestructurada del BIRF pero aún no se le ha declarado solvente para obtener nuevos préstamos del BIRF. Sin embargo, debido al importante alivio de la deuda concedido por otros acreedores, la deuda del BIRF, sumada a la rápida acumulación de los créditos de la AIF, han hecho que el Grupo del Banco sea el tenedor de cerca del 50% de la deuda externa total de Bosnia y Herzegovina. Además, una vez que el nivel de los compromisos de la AIF se ajuste a la "norma" de Bosnia y Herzegovina de US\$30 millones-US\$35 millones anuales a partir del ejercicio de 2005, dentro de poco los pagos de servicio de la deuda de Bosnia y Herzegovina al BIRF y a la AIF podrían ser superiores a los desembolsos de la AIF. Aunque se declarase a Bosnia y Herzegovina apta para contraer nuevos préstamos del BIRF, como el riesgo del Grupo del Banco ya es elevado, la posibilidad de otorgar préstamos podría ser limi-

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donné l'écart considérable qui existe entre la rémunération offerte par ces unités et les salaires de l'État, cette intégration ne pourrait réussir que si elle est menée de concert avec la réforme de la fonction publique. C'est

une question à laquelle la Banque devrait s'intéresser en priorité.

Avant que la Bosnie-Herzégovine ne puisse devenir membre de la Banque en 1996, il avait fallu trouver une solution au problème de l'encours de la dette qu'elle avait contractée à la Banque internationale pour la reconstruction et le développement (BIRD, généralement appelée Banque mondiale) au titre de sa part des dettes de l'ancienne République fédérative socialiste de Yougoslavie ; plus de 80 % de ce montant était en arriéré de remboursement à la fin de la guerre. La Banque avait décidé de restructurer cette dette sous forme de nouveaux prêts de la BIRD, en supposant qu'après le redressement économique, la Bosnie-Herzégovine serait solvable pour pouvoir emprunter de nouveau à la BIRD. La nécessité d'engagements exceptionnels de l'IDA ne devait donc avoir qu'un caractère provisoire. La Bosnie-Herzégovine assure le service de cette dette de la BIRD restructurée, mais n'a pas encore été déclarée solvable pour pouvoir bénéficier de nouveaux prêts de la BIRD. Toutefois, suite à l'allègement substantiel de la dette d'autres créanciers, le Groupe de la Banque détient désormais près de 50 % de la dette totale de la Bosnie-Herzégovine, du fait des créances de la BIRD et de l'accroissement rapide des crédits de l'IDA. En outre, lorsque le niveau d'engagement de l'IDA sera réduit à la norme de la Bosnie-Herzégovine de 30 à 35 millions de dol-

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tada y tal vez sea difícil evitar las transferencias netas negativas.

A pesar de que el país no ha logrado más que una transición limitada y el futuro que se describe más arriba aún es incierto, todavía se podría

progresar en aspectos en los que los resultados fueron decepcionantes en el pasado. En los dos últimos años los gobiernos de Bosnia y Herzegovina, bajo la dirección del Estado, han dedicado considerables esfuerzos al proceso de los documentos de estrategia de lucha contra la pobreza (DELP), que incluyen consultas amplias con la sociedad civil y los donantes, y han incorporado los DELP en la estrategia económica y de desarrollo social del país. Además, las perspectivas de concluir un pacto de estabilización y asociación con la UE, así como el posible ingreso del país a la UE, constituyen incentivos poderosos para la ejecución de reformas que se habían estancado en el pasado. El Banco debería potenciar su asistencia, ahora más limitada, dando apoyo al proceso de asociación y adhesión a la UE. Convendría, además, que el Banco anclara su futura estrategia en los DELP y promoviera una mayor identificación del gobierno con el proceso de reforma.

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lars par an à partir de l'exercice 05, ses paiements du service de la dette de la BIRD et de l'IDA pourraient très vite dépasser les décaissements de l'IDA. Même si la Bosnie-Herzégovine devait être déclarée solvable pour de

nouveaux prêts de la BIRD, les engagements déjà élevés du Groupe de la Banque pourraient limiter les prêts et le pays pourrait avoir du mal à éviter les transferts nets négatifs.

En dépit du succès limité en matière de transition et de l'avenir incertain évoqués plus haut, il est encore possible d'enregistrer des progrès dans des domaines où les résultats passés ont été décevants. Sous la direction de l'État, les pouvoirs publics ont consacré, au cours des deux dernières années, des efforts considérables au processus d'élaboration du Document de stratégie de lutte contre la pauvreté (DSLPL), notamment en organisant de vastes consultations avec la société civile et les bailleurs de fonds. Ils ont aussi intégré le DSLPL dans la stratégie nationale de développement économique et social. En outre, les perspectives d'entrer dans le Pacte de stabilisation et d'association avec l'UE et l'éventuelle entrée dans l'Union constituent de solides incitations à la mise en oeuvre de réformes qui n'ont pas abouti dans le passé. La Banque doit mettre à profit son aide plus limitée en appuyant le processus d'association/accession. De même, elle doit axer sa stratégie future sur le DSLPL, afin de permettre au gouvernement de maîtriser davantage le processus de réforme.



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ACRONYMS AND ABBREVIATIONS

AAA	Analytical and advisory activities
BAC	Business Environment Adjustment Credit
BHP	Basic Health Project
BiH	Bosnia and Herzegovina
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
CEEC	Central and Eastern European Countries
CG	Consultative Group
CIDA	Canada International Development Agency
DA	Dayton Accords
DFID	Department for International Development (U.K.)
EBPAC	Enterprise and Bank Privatization Credit
EBRD	European Bank for Reconstruction and Development
EDP	Education Development Project
EDRP	Emergency Demobilization and Reintegration Project
EHSP	Emergency Hospital Services Project
EMIS	Education Management Information System
ERP	Education Reconstruction Project
ERP	Emergency Recovery Project
ESW	Economic and sector work
EU	European Union
FBH	Federation of Bosnia and Herzegovina
FIAS	Foreign Investment Advisory Service
FIHF	Federal Health Insurance Fund
FM	Family medicine
GDP	Gross domestic product
IBRD	International Bank for Reconstruction and Development (World Bank)
ICR	Implementation Completion Report
IDA	International Development Agency
IFC	International Finance Corporation
IGA	Investment Guarantee Agency
ILO	International Labour Organization
IMF	International Monetary Fund
IMR	Infant mortality rate
KfW	Kreditanstalt für Wiederaufbau
LIP	Local Initiatives Project (micro-finance)
LSMS	Living Standards Measurement Survey
MCOs	Micro-credit organizations
MIGA	Multilateral Investment Guarantee Agency
NATO	North Atlantic Treaty Organization
NGOs	Nongovernmental organizations
ODA	Official development assistance
OHR	Office of the High Representative
PA	Poverty Assessment
PAD	Project Appraisal Document
PEIR	Public Expenditure and Institutional Review
PELRP	Pilot Emergency Labor Redeployment Project
PFSAC	Public Finance Structural Adjustment Credit
PIC	Peace Implementation Council
PMU	Project Management Units
PPAR	Project Performance Assessment Report
PRSP	Poverty Reduction Strategy Paper
PSD	Private sector development

PTAC	Privatization Technical Assistance Project
QAG	Quality Assurance Group
RS	Republika Srpska
SAA	Standards and Assessment Agency
SAC	Structural Adjustment Credit
SEED	Southeast Europe Enterprise Development
SFOR	Stabilization Force
SFRY	Socialist Federal Republic of Yugoslavia
SITAP	Social Insurance Technical Assistance Project
SMEs	Small and medium-size enterprises
SOEs	State-owned enterprises
SOSAC	Social Sector Adjustment Credit
SOTAC	Social Sector Technical Assistance Credit
TA	Technical assistance
TAC	Transition Assistance Credit
TATF	Technical Assistance Trust Funds (IFC)
TFBH	Trust Fund for Bosnia and Herzegovina
UNDP	United Nations Development Program
UNHCR	United Nations High Commissioner for Refugees
USAID	U.S. Agency for International Development
WBTF	World Bank trust fund
WVRP	War Victims Rehabilitation Project



Background

The Break-up of Yugoslavia and Its Impact on Bosnia and Herzegovina

Bosnia and Herzegovina (BiH) was one of the poorest and the most ethnically diverse of the republics of the former Socialist Federal Republic of Yugoslavia (SFRY).¹ Following President Tito's death in 1980, the SFRY experienced progressive deterioration in both economic and political stability, finally breaking apart in 1991, when the republics of Slovenia and Croatia declared independence.

The ensuing war in Croatia between Croats and indigenous Serbs spilled over into Bosnian territory, contributing to political and security destabilization. In BiH, elections in November 1990 resulted in a Parliament sharply divided among the three leading ethnic parties, especially over the question of independence. A referendum on independence, held on March 1, 1992, was boycotted by the Bosnian Serbs, resulting in a turnout of slightly less than two-thirds of voters. Nevertheless, 99 percent of those voting favored independence, which was immediately announced, followed by admission to the United Nations and international recognition from the European Union (EU) and the United States. The Bosnian Serb population refused to accept these actions. In April 1992, local Serb militias, supported by elements of the SFRY national army, began a war that rapidly spread to involve all three ethnic groups.

The War in Bosnia and Herzegovina

The war in BiH lasted for three and one-half years, until the end of 1995. While completely accurate information on the human and material costs of the war is impossible to compile, there is general agreement that the human suffering and physical devastation were on a scale not seen in Europe since World War II. An estimated 10 percent of the population were under arms at the end of the war. As many as 250,000 were killed, 200,000–400,000 wounded, and over 2 million either fled the country or were internally displaced. As an indicator of the war's devastating impact on health, Bosnia's Infant Mortality Rate (IMR) rose from 7.4 per thousand live births in 1991 to 14.0 by 1995.

The war caused widespread physical damage.

The devastation and human suffering of the war were on a scale not seen in Europe since World War II.

Over two-thirds of homes were damaged, with one-fifth totally destroyed. An estimated 30–40 percent of hospitals were destroyed and 30 percent of health care professionals were lost to death or emigration. At the end of 1995, up to 70 percent of school buildings had been destroyed, damaged, or requisitioned for other uses, and large numbers of teaching staff had been lost.

By the end of the war, industrial output had fallen to an estimated 5 percent of the 1990 level, with 45 percent of the industrial plant destroyed; electricity and coal production were at 10 percent of pre-war levels; and the livestock herd had shrunk to 30 percent of the pre-war numbers. By 1994 the gross domestic product (GDP) and GDP per capita had plummeted to less than 20 percent of the pre-war level, significantly lower in relation to the 1989–91 base than in any other country in Eastern Europe or the Former Soviet Union. At war's end, unemployment and poverty were widespread.

The Peace Agreement and the New Government Structure

Peace was achieved at the end of 1995 through determined efforts of the United States and the European Union. The Dayton Accords (DA),² which were agreed on November 25, 1995, and formally signed in Paris on December 14, 1995, had to recognize the extreme distrust and bitterness fostered by the violent conflict. The Dayton Accords established a constitution for BiH with multiple levels of government, reflecting the wishes of the three main ethnic groups to retain as much control as possible over their own affairs. An Office of the High Representative (OHR) was established, with extraordinary powers (see box 1.1). The government of the State of BiH was given only minimal powers.³ Most authority was vested in the two *Entities*—the Bosniak/Croat Federation of Bosnia and Herzegovina (FBH) and the Bosnian Serb Republika Srpska (RS).⁴ These Entities retain authority over separate armies and police forces,⁵ and over virtually all fiscal revenues, banking supervision, and provision of social services.⁶ The State depends on the Entities for

the funds to service external debt—to pay for diplomatic missions abroad, and to cover administrative expenses. The RS government is highly centralized, but the FBH is divided into 10 cantons, which are organized principally on ethnic lines. The canton governments have prime ministers and cabinets. They retain control over most of the revenues raised within their territories and are responsible for, among other functions, education and health services, including higher education. Below the Entity and canton levels there are further subdivisions into municipalities and towns.

In summary, the political scene is characterized by multiple layers of government, short terms of office (elections were held every two years until 2002), a large number of political parties (16 in FBH and 15 in RS parliaments), and frequent reluctance or refusal of the political leadership to cooperate on what should have been issues of common interest. These factors have adversely affected the ability of the Bank and other donors to contribute effectively to economic and social progress in BiH over the entire post-conflict period.

The International Reconstruction Effort

Following the signing of the Dayton Accords, the Bank, the EU, U.N. agencies, other multilateral and bilateral aid agencies, nongovernmental organizations (NGOs), and private foundations responded quickly to the critical reconstruction needs of BiH. Many U.N. agencies and NGOs had been active in BiH throughout the war, providing food aid and other humanitarian relief to refugees and other war victims, and had prepared assessments of reconstruction requirements and costs. Based on these assessments, the Bank and the EU presented an estimate of \$5.1 billion for the donor assistance required for reconstruction.⁷ A first donor group meeting was held in Brussels in late December 1995, followed by four more meetings during 1996–99. These meetings generated pledges of almost \$5 billion and disbursements of \$3.7 billion during 1996–99 from 48 donor countries and 14 international organizations (Annex A, table A3), a remarkable response that supported substan-

Box 1.1**International Oversight of Peace in Bosnia and Herzegovina**

A Peace Implementation Council (PIC), comprising the 55 countries and international organizations that participated in the Dayton Accords, was established to oversee the peace agreement; it still meets several times a year. The PIC established the Office of the High Representative (OHR), resident in Sarajevo since January 1996, which is charged with monitoring and overseeing the implementation of the civil aspects of the Dayton Accords. The OHR has been accorded extraordinary governing powers by the PIC, including the authority to impose laws and regulations and dismiss or arrest public officials who have acted illegally or have failed to carry out their duties. The OHR has been involved in the entire spectrum of economic and political activity: for example, civil institutions, elections, refugee returns, labor laws, government compensation, pensions, payments bureaus, health

and education reforms, judicial reforms, regulation of the private sector, and banking reforms. While the initial focus of the OHR was primarily on political and humanitarian concerns, in recent years it has expanded to include economic reforms.

The PIC has also enforced its peace-keeping role by stationing foreign police and military units in BiH. A U.N. international police force introduced in 1996 was replaced by a 500-person EU police mission in 2002. A military force of 60,000 troops, drawn primarily from NATO (North Atlantic Treaty Organization) nations, but including representatives from other countries, was established in early 1996. This Stabilization Force (SFOR) has been gradually reduced in size, to 16,000 in 2003, and will be replaced in 2004 by a smaller force drawn from EU countries.

tial rehabilitation of housing, infrastructure, and social services. By 2000, roads, power supply, telecommunications, water supplies, and schools were reconstructed to near pre-war standards.

The initial response of the BiH economy to the reconstruction effort was strongly positive, as reflected in the estimates of recovery in GDP and GDP per capita in the early post-war years (table 1.1). However, these high growth rates were from a very low level; by 1999 aggregate GDP and GDP per capita had recovered only to

an estimated 60 percent of the pre-war level.⁸ While the extreme poverty that affected the majority of the population at the end of the war had been significantly reduced, the poverty incidence in BiH remained higher than in neighboring countries.⁹

Unemployment has also remained high.

The initial response of the economy to the reconstruction effort was strongly positive, but by 1999 GDP has recovered only to an estimated 60 percent of the pre-war level.

Table 1.1**GDP and GDP per Capita Estimates for BiH**

	1995	1996	1997	1998	1999	2000	2001	2002	2003 ^a
Real GDP growth rate	32.4	61.9	30.0	15.8	9.6	5.5	4.4	5.5	3.5
Real GDP as percentage of 1990 GDP	.22	.36	.47	.55	.60	.64	.66	.70	.72
GDP per capita in constant 1995 \$	546	981	1,298	1,445	1,551	1,595	1,632	1,671	

a. Projected.

Sources: World Bank and IMF databases.



World Bank Strategy and Assistance Program

Preparing for World Bank Support to Bosnia and Herzegovina

The rapid response of the Bank, following the end of hostilities, was possible in part because, beginning in late 1994, Bank staff met frequently with BiH officials outside the country. After October 1995, Bank staff were able to work with the government and agencies based in the country to develop estimates of reconstruction needs and to prepare specific reconstruction projects.¹ In addition, the Bank had observer status at the November 1995 Dayton Accords meetings.

In early 1996, the Bank established the \$150 million Trust Fund for Bosnia and Herzegovina (TFBH) from World Bank profits so that loans and grants for emergency projects could be made before BiH became a member of the Bank² and, despite lingering concerns over personal safety in the immediate post-conflict period, opened a Resident Mission in Sarajevo in January 1996 to oversee the rapidly growing portfolio from the field.

BiH was admitted to membership in the Bank on March 12, 1996, effective from February 25, 1993. Membership hinged on resolving the issue of outstanding International Bank for Reconstruction and Development (IBRD) debt (see box 2.1).

World Bank Strategy and Objectives

The first priority of the Bank's assistance from 1996 through 1999 was to support reconstruc-

tion across all sectors of the economy. Other strategic objectives were to establish and sustain a viable macroeconomic framework and to support BiH's transition from a socialist to a market economy. Additional objectives, implicit from the beginning, but more explicit starting in 2000, were to strengthen governance and establish affordable and equitable social services. Underlying these primary objectives were such essential building blocks as sound fiscal and monetary policies; reforms of the tax system; privatization of state-owned enterprises (SOEs), including banks; deregulation of an over-regulated economy; and institutional and policy reforms in government administration, in the judicial system, and in delivery of social services, including health, education, and social welfare benefits.

Transition to a market economy was endorsed by the political leaders of BiH, but it is question-

Box 2.1

Membership and IBRD Debt

In February 1993 the Bank terminated the membership of the SFRY and divided its capital subscriptions and IBRD debt among the five successor republics. As one of the conditions of membership, each republic was required to assume and clear outstanding arrears on its share of the allocated IBRD debt (there was no IDA or International Finance Corporation debt). Having paid no debt service during the war, BiH's IBRD debt had risen to \$620.6 million at the end of 1995, of which over 80 percent represented arrears on principal and interest (the total external debt of BiH at the end of 1995 was estimated to be approximately \$3.5 billion, with \$2 billion in arrears). The Bank agreed to an exceptional refinancing of the entire IBRD debt, including principal not yet due, in the form of three new IBRD loans on relatively concessional terms (25-year maturity as opposed to 20 years on the earlier borrowings). The Bank anticipated that this IBRD debt might be reduced by some \$60 million through contributions from donors on BiH's behalf. But only \$25 million was received, which reduced the total outstanding debt to \$595 million.

The Bank projected that BiH's reliance on IDA resources would be temporary, and that BiH would recover to well above the IDA-eligibility ceiling and to restored creditworthiness for IBRD borrowing as early as 1998.^a Accordingly, the Bank projected that new IBRD lending, starting in FY98, could increase to almost \$200 million per year by 2004. On the basis of these projections, and with principal repayments on the restructured IBRD debt starting in 2001, the Bank would sustain a positive, but rapidly diminishing, net transfer to BiH. However, these as-

sumptions were soon modified. By 1997 Bank management was projecting that BiH creditworthiness for IBRD borrowing was unlikely before 2000. Then, in July 1998, the Bank acknowledged that BiH would continue to be an IDA borrower through FY02. In 2000, Bank management suggested that creditworthiness might be achieved in FY03; but by 2002 the Bank was making no explicit reference to future IBRD borrowing. It is clear that the Bank was over-optimistic about the pace of sustained economic progress in BiH and the prospects for new IBRD loans.

BiH has been servicing its IBRD debt (interest only during 1996–2000 and interest plus amortization since 2001), although at times with some difficulty. However, for the future, the issue of creditworthiness is not the major concern facing the Bank in BiH; rather, the issue is exposure. Thanks to generous debt relief from other creditors, particularly the London and Paris Clubs, BiH's external debt-to-GDP ratio has been reduced to below 50 percent, and debt service-to-exports to below 10 percent. With the rapid pace of IDA disbursements over the past eight years, and IBRD debt, the Bank Group now accounts for almost 50 percent of BiH's external debt. If IDA commitments are reduced to the "norm" level in FY05 (see below), BiH's debt service payments to the Bank Group will eventually exceed inflows from existing and new IDA credits. Even if BiH were found creditworthy for new IBRD lending, and the Bank wished to avoid a situation of negative net transfers to the country, it is not clear that additional IBRD lending would be prudent given the already high Bank Group exposure (see Annex A, tables A9a and A9b).

a. Given this expectation, management proposed that BiH be treated as a blend country, with IDA maturities of only 25 years. These were less concessional terms than for other blend countries (35 years).

able whether they fully accepted the case for transformation or were fully committed to the process—to managing its costs and benefits, and to confronting the entrenched vested interests benefiting from the status quo. Also, as a result of the war, BiH was more than five years behind other transition countries in starting the transformation process. While this late start could have provided opportunities to observe and learn from the experiences of others, BiH officials had been somewhat insulated from this experience, given their preoccupation with war and post-war reconstruction. In addition, the transition

process in BiH, and the Bank's efforts to support transition, had to confront the complex government structure and the unique characteristics of the SFRY system—social ownership and worker self-management.

The Bank's strategy and objectives for BiH were highly relevant for the country situation and were closely integrated with the approaches of other donors. But the Bank and the donor community had to work with the complex government structure created by the Dayton Accords, which has meant dealing primarily with the Entity governments rather than the State. In

working within this structure, the Bank has had to accept many second-best outcomes from an economic or social standpoint. Furthermore, while the Bank has made strong efforts to build government commitment and ownership of the reform program, with some success, it must be acknowledged that the objectives and strategies described above were essentially developed by the Bank and were not linked to formal statements of *country or government* objectives. This is not surprising, given that the newly formed and frequently changing governments of BiH lacked a consensus on national objectives.

An Overview of IDA Lending

As of December 31, 2003, the Bank had committed \$983.1 million in IDA and TFBH resources to BiH for 47 projects. Of this total, \$696.4 million was committed for 30 projects during the reconstruction period (FY96–99) and \$286.7 million in the post-reconstruction period (FY00–03). In addition to establishing the \$150 million TFBH, the Bank made an exceptional IDA allocation to BiH of \$400 million for the period FY96–99. With a per-capita income of around \$500 in 1995, BiH was clearly IDA-eligible,³ but the total of \$550 million of IDA and TFBH resources represented a fourfold increase over what would have been a “normal” IDA allocation for a country with BiH’s population. Bank management justified this exceptional IDA allocation as essential for the Bank to play a central role in BiH’s reconstruction. In 1997 Bank management added a further \$120 million in IDA resources for FY98–99. In 2000, Bank management proposed continuing exceptional IDA support

to BiH of \$300 million for FY00–02, approximately three times the norm, no longer justified for reconstruction, but by the need to continue Bank leadership on policy reform. In 2002, the Bank allocated IDA support of SDR 128 million for FY03–05, above the norm of SDR

75 million. However, management affirmed that BiH’s IDA allocation would be reduced to the norm of SDR 25 million yearly in FY05. The relationship between planned commitment authority and actual commitments is presented in table 2.1, which shows that the Bank *exceeded* the IDA authorization during the reconstruction period, but that commitments have begun to lag behind plans in the post-reconstruction period.

In responding rapidly to the urgent reconstruction needs of BiH, the Bank approved seven emergency projects for \$160 million (\$150 million of TFBH and \$10 million of IDA funding) during FY96, and nine more projects totaling \$196.4 million during the first half of FY97 (for a description of each of these operations see OED 2000). Some 73 percent of this total was disbursed by the end of FY97. A conscious decision was made to fund separate projects in each sector rather than a single omnibus reconstruction project, and to seek donor co-financing for each of these operations. The Bank also decided to submit projects for Board approval whether fully funded or not, which

Transition to a market economy was endorsed by the political leaders of BiH, but it is questionable whether they fully accepted the case for transformation or were fully committed to the process.

Table 2.1

Planned vs. Actual Commitments

	FY96–99		FY00–02		FY03–04 ^a	
	Planned	Actual	Planned	Actual	Planned	Actual
FY96–99 strategy	670.0	696.4				
FY00–02 strategy			300.0	264.0		
FY03–05 strategy					102.0	22.7

a. Planned and actual commitments only through 12/31/03.

sometimes led to underfunded activities, but significantly reduced the Bank's response time. These emergency projects involved rehabilitation of industries, infrastructure, housing, schools, and hospitals; establishment of micro-credit institutions; landmine clearance; and support for war victims and demobilized combatants. In addition, the FY97 *Transition Assistance Credit* (TAC) of \$90 million was intended to provide foreign exchange for budget support and debt service.

An important element of Bank strategy in the reconstruction period was the establishment of Project Management Units (PMUs) for every project to offset weaknesses in government structures and staffing. The Bank was successful in hiring well-qualified local staff for these PMUs by offering compensation well above that paid to civil servants. The competence of these PMUs, along with close supervision of all projects from the field, enabled the Bank to carry out its fiduciary responsibility effectively. While the Bank attempted to persuade other donors providing parallel funding for IDA projects to operate through the same PMU, this effort was not always successful. Some projects have been managed by two or more PMUs, and a number of issues have arisen over time regarding PMUs (see Chapter 5).

The initial group of reconstruction projects was followed by a second phase of emergency operations, including a comprehensive reconstruction project for the RS, where lending had been

Consistent with the Bank's objectives for reconstruction, transformation, and improvements in social service delivery, the share of Bank lending has been relatively high in finance and private sector development, the social sectors, and infrastructure.

restricted until after the 1996 elections. The sectoral distribution of IDA lending during FY96–03 is shown in Annex A, table A4b. Consistent with the Bank's objectives for reconstruction, transformation, and improvements in social service delivery, the share of Bank lending has been relatively high in finance and private sector development, the social sectors, and infrastructure.

In addition, since FY96 the Bank has approved six adjustment operations for \$339 million, or 34 percent of total lending. Including the above-mentioned TAC, there were four adjustment operations during the FY96–99 reconstruction phase, for a total of \$275 million, or 39 percent of lending. This is a significantly higher share of adjustment lending than the 23 percent originally planned and also higher than in most other post-conflict countries. Given the mixed results of these adjustment loans (discussed in the following sections), it is questionable whether this was the best use of IDA funds for reconstruction.

Overall performance of the Bank's portfolio has been satisfactory. As of December 31, 2003, 19 projects were under implementation and 28 projects had been closed. None of the projects currently under implementation is considered to be a problem project or project at risk. Trends on problem projects, projects at risk, and disbursement ratios are shown in table 2.2. The very high disbursement ratios in the early years reflect the rapid rate of disbursement on reconstruction projects, plus the pace of new project approvals during each year. The disbursement rate has remained satisfactory in the post-reconstruction period except for a one-time dip in FY02. Of the closed projects, 26 have been rated by OED, and despite one project rating of highly unsatisfactory (*Emergency Landmines Clearance Project*), BiH ratings compare favorably with Eastern Europe and Central Asia Region (ECA) and Bankwide averages (Annex A, table A5a). However, four credits are the subjects of ongoing Project Performance Assessment Reports (PPARs), and some of the ratings may change.

IDA lending to BiH has been substantial, by any measure. In BiH, the Bank and the donor community expected the Bank to take a leading role in reconstruction. In the four years following the conflict, BiH received one of the highest per capita allocations of *total donor assistance* to any post-conflict country, second only to Timor Leste, and IDA's share of ODA disbursements during this period was about 10 percent (Annex A, tables A3a and A3b). Only the EU and the United States disbursed more aid to BiH

Table 2.2 Portfolio Ratios for BiH

	FY96	FY97	FY98	FY99	FY00	FY01	FY02	FY03
Problem projects (%)	0	0	0	0	0	0	0	0
Number of projects at risk (%)	0	0	6.3	11.1	0	0	0	0
Project amount at risk (%)	0	0	2.8	7.8	0	0	0	0
Disbursement ratio	na	429	105	50.1	28.3	26.5	10.9	18.1

during the reconstruction period, and over the entire post-conflict period, than did IDA. Thus it appears that the Bank did play a central role in donor efforts. However, when IDA commitments are compared, not with total donor assistance to BiH, but with the Bank's response in other post-conflict countries, the exceptional nature of the BiH case stands out starkly. In FY96–99, annual commitments to BiH (including TFBH) were \$47 per capita, far higher than in any other recent post-conflict situation (table 2.3 and Annex A, table A3c.). In addition, IDA commitments in the post-reconstruction period were \$264 million (FY00–02), or \$23 per capita annually, more than double the norm of \$10.

Lending in Relation to Objectives

This section reviews assistance for the key sectors linked most closely to the Bank's objectives for BiH—governance and economic management, private sector development and finance, the social sectors (education, health, and social protection), and infrastructure.

Economic Policy, Economic Management, and Governance

The Bank addressed its objectives in governance and economic policy and management through a combination of economic and sector work (ESW), policy dialogue, technical assistance (TA), and lending. The Bank has worked closely with the IMF and the other members of the Economic Policy Working Group (OHR, EU, USAID) on economic policy issues. The principal lending instruments were adjustment operations. Initially the Bank intended to negotiate a Structural Adjustment Credit (SAC) that would support the establishment of institutions of fiscal management at the State, FBH, and cantonal levels; the start of reforms of pensions, health finance, and social insurance; a start to privatization of SOEs; and initiation of restructuring and privatization of banks, along with development of a legal and institutional framework for the financial system. This proved to be far too ambitious an agenda. A TAC was prepared instead, covering

Table 2.3 Average Annual per Capita IDA Commitments for Post-Conflict Countries

Country name and years	Per capita annual average (US\$)
Bosnia and Herzegovina (1996–99)	47.0
Timor Leste (1999–02)	35.4
West Bank and Gaza (1994–97)	19.7
Rwanda (1994–97)	5.3
Eritrea (1994–97)	3.4
Cambodia (1992–95)	2.4

only the State and the FBH, with a much reduced reform agenda dealing with unification of the customs administration (with technical assistance from the EU), presentation of a privatization law to Parliament, adoption of a banking law, and merger of payments bureaus.

Subsequently, the Bank approved two *Public Finance Adjustment Credits* (PFSAC, FY98 and PFSAC II, FY99), which dealt with funding of the State budget, development of debt management capacity, improved efficiency and transparency in budget operations, linking annual budgets to a medium-term economic framework, and reform and harmonization of tax policies and administration. Some of the most important achievements of the PFSACs have been in budget management: the establishment of a Treasury System whereby all receipts and expenditures pass through a single Treasury account (supported by technical assistance from the U.S. Treasury and USAID), and the establishment of Auditors General and Supreme Audit Institutions at the State and Entity levels. These programs were comprehensive and well designed. Tax reform and harmonization have contributed to the effort to create a “single economic space” within BiH, and pension reform has been important for the financial sustainability of the system and the well-being of pensioners. Bank support for pension reform and establishment of a Federal Health Insurance Fund (FHIF) have contributed to the effort to find solutions to the inequalities in intercantonal finances in the FBH, although several aspects of this issue remain unresolved.

Over the course of these adjustment operations, the Bank has substantially tightened its insistence on adherence to conditionality. Under the TAC, which was a single-tranche operation, the Bank weakened a pre-Board condition, then changed it to a condition of effectiveness, and then, although it was not fully met, disbursed the funds anyway. There was also diversion of TAC funds to finance activities not intended in the credit, including deficits of SOEs. In the PFSAC, a two-tranche operation, there were minor delays in tranche release and the Bank requested a waiver of two second-

tranche conditions (this decision is criticized in the forthcoming PPAR), although the waiver was not required. However, under *PFSAC II*, a three-tranche credit, the Bank has adhered strictly to the negotiated conditions, without waivers, and both the second and third tranches were delayed, the latter substantially. A follow-up adjustment operation to the two PFSACs, originally proposed for FY02 to deal with reforms of public administration and the civil service and fiscal decentralization, has been under discussion for the past two years, and no agreement has yet been reached with the BiH governments. The Bank clearly has become more determined to push for full compliance with essential reforms in economic policy and management.

The Bank has not been directly involved in other areas of governance, such as judicial reforms, largely because these areas have been under the mandate of the OHR, although the Bank has carried out a survey of corruption in BiH at the request of the government.

Private Sector Development

In BiH, as in other parts of the SFRY, enterprises were socially owned and managed by workers’ councils. The BiH economy had a large industrial base, with half of output and employment generated by large-scale industry. The pre-war economy was dominated by 10 large conglomerates responsible for more than half of GDP. Following the war, new private enterprises emerged, mostly in construction, trade, and transport, but many socially owned and mixed enterprises had closed. The structure of the surviving SOEs remained essentially the same as in the SFRY. SOEs continued to own the largest banks in both the FBH and RS, which lent primarily to their parent companies, usually without regard to creditworthiness. In addition, separate legal frameworks for regulating the private sector developed within the FBH and the RS; these were a patchwork of inconsistent laws and regulations, dating back to the SFRY and wartime administrations. Finally, the private sector faced a highly restrictive regulatory environment, a heavy tax burden, and inconsis-

tent tax treatment, none of which was conducive to private sector development.

In the post-reconstruction phase, a significant share of Bank financial and technical assistance focused on developing market-based institutions and creating a favorable environment for private sector development (PSD). Three areas of essential reforms were identified: (i) developing a business environment that promotes competition; (ii) privatizing socially owned and state-owned assets; and (iii) developing a disciplined and competitive financial sector. Many donors have also supported PSD. USAID has provided funds for on-lending to small and medium-size enterprises (SMEs) and participated, as did the EU, in efforts to privatize large enterprises. The EBRD and International Finance Corporation (IFC) have provided equity finance to selected private enterprises. Bilateral donors (Austria, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, and the United Kingdom) have supported IDA-funded projects for PSD as well as their own programs.

The Bank pursued these objectives through lending, TA, and ESW. The ESW identified the constraints to private sector development, leading to the design of specific lending operations and policy conditionality.⁴ Through a variety of lending instruments the Bank supported PSD reforms and provided financial resources, TA, and training to the private sector. Operations that established or strengthened financial institutions providing lines of credit, guarantees, or risk insurance for the private sector are discussed in the next section, “Financial Sector Reform and Restructuring.”

Under the *TAC*, a Privatization Agency Law was adopted in the FBH that provided for the establishment of Entity and cantonal privatization agencies. While the law was adopted by the FBH Parliament in June 1996, cantonal privatization agencies did not begin functioning until mid-1999. Unfortunately, the law and its implementation have not resolved conflict among the agencies or between agencies and the FBH government, which seriously hinders privatization in the FBH. In addition, the project supported the governments’ plans for a voucher (“mass”) privatization program,⁵

despite the Bank’s awareness of the weaknesses of such programs, which had been implemented in other transition countries. This voucher privatization program has had predictably poor results.

The FY99 *Enterprise and Bank Privatization Credit* (EBPAC), in addition to initiating financial sector reforms, focused on completing the institutional and legal framework for privatization, beginning privatization of small and medium-size enterprises, still following the voucher approach, and preparing the ground for privatizing large enterprises, holding companies, and public utilities.

Implementation of reforms under the *EBPAC* was much slower than anticipated and the project closed almost two years later than scheduled. While specific targets under the project were met, the limited extent of subsequent large enterprise privatization has resulted in little positive impact on overall enterprise restructuring and performance. The measures undertaken by government to overcome the deficiencies of mass privatization were inadequate; corporate governance of voucher-privatized firms continues to be poor. The *EBPAC* did not address constraints to new entry of private firms or the barriers to their efficient operation. This neglect can perhaps be attributed to an optimistic assessment of the climate for private business—Bank management at the time claimed that Bosnia was well ahead of other transition countries in setting up

the necessary architecture for private markets and was poised to advance rapidly.⁶ Such an assessment was probably too narrowly based on changes in the regulatory environment for new foreign investment at the State and Entity levels, while not addressing local govern-

The pre-war economy was dominated by 10 large conglomerates responsible for more than half of GDP.

In the post-reconstruction phase, a significant share of Bank financial and technical assistance focused on developing market-based institutions and creating a favorable environment for private sector development.

ment regulatory constraints. Four years after the *EBPAC*, the Bank is still trying to fix these basic constraints.

The FY02 *Business Environment Adjustment Credit* (BAC) was the first project to focus exclusively on improving the environment for PSD. The BAC approach was to (i) facilitate entry by creating a simplified and transparent countrywide registration and licensing system; (ii) streamline the environment for business operations by reducing companies' administrative and regulatory compliance costs through rationalization of inspections and regulations, improving capacity to resolve commercial disputes, and improving enforcement of secured transactions; and (iii) facilitate business exit through strengthened laws governing bankruptcy and liquidation. While progress is being made, the pace of implementation has been slower than anticipated. The original closing date of end-2003 is expected to be extended by a year. It is still too early to tell if and when anticipated improvements in the business environment will be realized.

It is clear that mass privatization of large enterprises and the resulting diffusion of ownership has prevented restructuring and improved corporate governance. The governments now intend to proceed with privatization of large enterprises through a tender process designed to attract strategic investors who can restructure enterprises, expand production and exports, and increase employment. The FY01 *Privatization Technical Assistance Project* (PTAC) supports

The governments now intend to proceed with privatization of large enterprises through a tender process designed to attract strategic investors who can restructure enterprises, expand production and exports, and increase employment.

tender privatization of 45 large state enterprises. Other objectives of the project include assistance in preparing the legal and regulatory framework for divesting utility companies and other public service agencies and assistance in capital market development. The loan became effective only in May 2002, 11 months after approval, due in part to initial parliamentary resistance to

outside involvement in privatizing these enterprises. The delay also reflects that the privatization process is bogged down by unresolved problems of ownership, outstanding debts, political and social concerns over possible workforce reductions, and ethnic rivalries over future ownership. To date, no large-scale privatizations have been completed, although, as of March 2004, bids for four enterprises have been accepted and contracts with the winning bidders are being negotiated.

Financial Sector Reform and Restructuring

In pre-war BiH, as in the rest of the SFRY, commercial banks were controlled by large enterprises, as owners and borrowers. Their orientation was noncommercial, characterized by directed lending and excessive loan concentration. The war severely damaged the banking sector. The freezing of foreign currency deposits of households and firms created deep distrust of banks and deterred deposit mobilization. Separate banking systems and regulatory and supervisory frameworks developed in the FBH and RS. Most of the nonprivate banks were in extremely weak financial condition,⁷ while the small private banks were undercapitalized. Directed lending on a noncommercial basis still prevailed among state-owned banks. Accounting and regulatory standards did not conform to the needs of a market-based banking system.

The primary objective of Bank support was to expand the availability of finance in support of PSD. The secondary objective was to reform and strengthen the financial sector itself. The Bank identified three key areas for reform: (i) strengthening the legal framework; (ii) introducing competition and freedom of entry; and (iii) restructuring and privatizing socially owned banks.

The Bank pursued these objectives through lending (including mobilizing other donor co-financing), TA, training, and analytical work, although there was no formal ESW on the financial sector. The Bank has worked closely with the IMF in developing the legal and regulatory framework for banking in both Entities, and has worked collaboratively with others

supporting financial sector development, such as the EBRD, Kreditanstalt für Wiederaufbau (KfW), and USAID. IFC and the Multilateral Guarantee Agency (MIGA) have also been active in the financial sector in BiH. Thirteen TFBH and IDA projects had improved functioning of financial institutions in BiH as an objective. These included (i) six lines of credit, with a secondary objective of improving the financial condition of participating banks; (ii) two adjustment operations, in which banking reform was an essential component; (iii) two guarantee operations supporting establishment of an insurance agency to underwrite private sector investments and exports; (iv) two projects, designed primarily with social protection and employment objectives, supporting micro-credit institutions (MCOs); and (v) a TA operation, one of whose objectives was the further development of the capital market. The total Bank commitment of resources to these projects was approximately \$296 million.

The lines of credit were largely successful in expanding credit to the private sector. In most cases, enterprises receiving financing through these projects significantly increased their production, employment, and (where applicable) exports. The credits were disbursed quickly, and rates of loan repayment were high.⁸ The satisfactory performance of these lines of credit stands in contrast to Bank operations in other countries that have been less successful in disbursements or repayments. One reason for this difference may be that most of the operations in BiH had at least six co-financiers and involved relatively modest amounts of funds, so issues of over-dimensioning and crowding out were less likely to emerge. In addition, they benefited from unusually close supervision and oversight. Most of these projects also included financing for TA to improve the functioning of the participating financial intermediaries. However, these projects were less successful in this aspect; especially in the early years, they had only a marginal impact on the performance of banks.

Reforms in the financial sector were also supported by two adjustment operations, the

TAC and the *EBPAC*, which accounted for almost 47 percent of total commitments to financial sector operations. The first supported initial steps for improving banking legislation and supervision, while the second was a more comprehensive effort at promoting privatization, restructuring, and consolidation of the state banking sector. The record of implementation of financial sector reforms under both projects was mixed at best. In the *EBPAC*, some of the financial sector reform components were not adequately prepared, and critical conditionality had to be revised before the first tranche was released. Release of the first tranche was held up for almost five months in the RS and for almost eight months in the FBH, and required a waiver. Other conditions of the loan had to be further developed during implementation. As a result, implementation of important reforms was significantly delayed.⁹ The closing date for the loan was extended three times in RS and five times in the FBH; the final closing was two years behind schedule. While conditions for tranche release, particularly involving bank privatization, were met in a technical sense, in some areas substantive reforms remain to be completed.¹⁰

Two IDA operations supported MCOs. Although micro-finance accounted for only 3.5 percent of bank loans at the end of 2001, the sector is growing rapidly. The main objective of the two micro-finance credits (*Local Initiatives Project*, FY97, and *Local Initiatives Project II*, FY01) was to assist economically disadvantaged and poor entrepreneurs in starting or re-starting economic activities. A secondary objective was to strengthen participating MCOs to make them self-sustaining and better able to service a larger group of low-income clients without remaining dependent on donor assistance. A recent impact study found that these projects have assisted over 110,000 clients, about 50 percent of whom are women, and have supported employment of some 200,000 workers. Repayment rates have been extremely high. The average percentage of the portfolio at risk (payments overdue for more than 30 days) remained below 1 percent through 2003. The projects are judged to have

Micro-finance—to assist economically disadvantaged and poor entrepreneurs in starting or restarting economic activities—is growing rapidly.

been highly successful in meeting their primary and secondary objectives.

In two projects, IDA funds were used to stimulate private investments through establishment of a Political Risk

and Guarantee Agency and to support private sector exports from BiH through performance bonds. The Investment Guarantee Agency (IGA), established in 1996 and supported by these operations, has developed a strong international reputation.

Support for the Social Sectors: Education

The Bank's initial support for education focused on rehabilitation of primary schools through two emergency reconstruction operations, the FY96 *Emergency Education Reconstruction Project* (ERP) and the FY98 *Second Education Reconstruction Project* (ERP II). While both operations mobilized substantial donor co-financing, the *ERP II* followed the *ERP* by only 17 months, when it became apparent that co-financing in the first project would fall below expectations. In addition to rebuilding and repairing schools, the operations funded textbooks and teaching materials and supported capacity-building in Entity Education Ministries. The second project included a pilot Quality Fund to help raise teaching quality, and TA for the first major analysis of BiH's post-conflict education system. This report,¹¹ prepared with the Council of Europe, was developed and discussed with the governments, NGOs, and donors in order to build consensus behind its recommendations. The Bank has also analyzed funding inequalities in the education system in the Poverty Assessment.

These initial operations focused on reconstruction, but they also supported analytical work and included pilot components that prepared the ground for basic reforms to improve quality and accessibility of public education. Their outcomes have been rated *satisfactory*, with sustainability judged likely.

The ongoing FY00 *Education Development Project* (EDP) seeks to improve management in the sector by establishing institutions and tools such as the Standards and Assessment Agency (SAA), the Education Management Information System (EMIS), and the Council of Higher Education, which operate across Entities. These structures are important for improved performance of the education system.

There is considerable evidence that this agenda has broad ownership, fostered in part by use of pilots to introduce innovative approaches (such as the Quality Fund pilot), the use of collaborative TA and ESW, and partnerships with agencies such as the Council of Europe and the Organization for Security and Cooperation in Europe.

Support for the Social Sectors: Health

Even before the war, the BiH health system had serious problems, comparable to those in most other transition countries. Its costs were unsustainable because it provided almost universal access to a wide range of services, oriented toward costly curative treatment by specialists, often in hospitals, while giving lower priority to more cost-effective basic health and disease prevention approaches.

The Bank's first health project was the FY96 *War Victims Rehabilitation Project* (WVRP), which was designed to meet the urgent medical needs of the vast numbers of people with war-related physical and mental trauma and to reintegrate them into normal productive life. It sought to do this through a new, cost-effective, decentralized service delivery model, establishing community-based centers for physical and mental rehabilitation within or near existing health centers. This operation was quickly followed by the FY97 *Essential Hospital Services Project* (EHSP), which focused on urgent reconstruction needs, while preparing for subsequent reforms. It sought to restore at least a minimum level of service at essential hospitals and clinical centers by funding (a) physical reconstruction, (b) medical equipment and supplies, and (c) upgrading of clinical skills and practices. It also

provided TA, in collaboration with the EU and the U.K. Department for International Development (DfID), for the design and implementation of reforms of the health finance system to make it sustainable and more equitable, particularly in the FBH, where health financing was split between two ethnically based systems. The outcome of both of these closed projects was rated *satisfactory*. Institutional development impact was rated as modest for *WVRP*, but substantial for *EHSP*. Sustainability is considered likely for both projects. Bank performance was rated *satisfactory* for *WRVP* and *highly satisfactory* for *EHSP*. One area that could have been improved was monitoring, especially for *WVRP*.

The most important achievement of the Bank's assistance program in health to date is the development and introduction of a new model of primary health care delivery through the ongoing FY99 *Basic Health Project* (BHP). This approach, developed in close partnership with the Ministries of Health of the Entities and pilot cantons, the Canada International Development Association (CIDA), and Queens University, Canada, supports the staffing, training, and operation of Family Medicine teams in pilot cantons in the FBH and pilot regions in the RS to deliver more effective and higher-quality primary health care services that are better focused on the health needs of the population. This operation is highly relevant for BiH's needs and appears to be achieving good results.

The health insurance reforms supported under the *EHSP*, particularly the unification of ethnically based funds in the FBH, encountered strong political resistance. A compromise FBH Health Insurance Law was approved in 1997, mandating that the existing funds be replaced by a unified fund in each of the 10 cantons and an FBH-wide "solidarity fund" (FHIF). The FHIF was to cover certain catastrophic illnesses and some additional services, thus permitting some degree of risk pooling across the cantons, and potentially reducing the wide disparities in the revenue base across cantons. However, implementation of this law stalled; by mid-1999 only a few cantons had established their unified funds. Other cantons continued to treat contributions as general budget revenue and allocated them in an unclear

way, while in some cantons different funds covered different municipalities. The FHIF had been legally established, but no decision had been made on how it would be funded or what services it would provide. Given the importance of this issue for overall public resource management, as well as for health finance, the

FY99 *Second Public Finance Structural Adjustment Credit* (PFSAC-II) supported implementation of the 1997 legislation and associated amendments in the FBH, and was successful in getting these measures implemented. The ongoing FY03 *Social Insurance Technical Assistance Project* (SITAP) provides TA for developing capacities and identifying options to resolve the critical finance and insurance problems still facing the health and pension systems.

Support for the Social Sectors: Social Protection and Employment

The former SFRY system provided for virtually guaranteed employment and a generous but unsustainable social protection system. The conflict in BiH shattered this system. Of the 900,000 workers employed in the formal sector in the early 1990s, only 72,000 still had jobs at the end of the conflict, and new categories of the needy—veterans, civilian victims of war, orphans, the disabled, and refugees—emerged. By 1995, with the collapse in employment, the ratio of pensioners to workers had deteriorated from 1:3 to 1:1.3. Pensions were not paid and arrears built up rapidly; social assistance programs collapsed, along with the tax revenues that funded them; and the governments' capacities to manage these programs were also severely weakened. Ethnic tensions were a driving political force behind the fragmentation of social protection programs on ethnic and cantonal lines, with no scope for revenue equalization across administrative boundaries.

Labor market rigidities reduced labor mobility and the ability of firms to respond to

The most important achievement is a new model of primary health care delivery that supports more effective and higher-quality primary health care services that are better focused on the health needs of the population.

market pressures by restricting layoffs and encouraging labor hoarding through a costly “waitlist” system,¹² which resulted in large arrears in wage payments by cash-strapped firms. This complicated privatization and discouraged local and foreign investment.

The Bank viewed PSD as the primary means to expand employment. In addition, the Bank’s program in social protection and employment included (i) a series of direct project interventions designed to protect income or improve employment opportunities in the short term; (ii) three adjustment operations and two related TA projects aimed at making social protection programs more effective, equitable, and financially sustainable and promoting private sector growth and employment by removing labor market rigidities and rationalizing unemployment benefits; and (iii) analytic and advisory work to build understanding, public awareness, and consensus for reforms, leading up to support for the Poverty Reduction Strategy Paper (PRSP) process.

The first intervention was a social protection component of the FY96 *Emergency Recovery Project*, supporting programs for orphans and the disabled, as well as implementation of a cash-transfer program for the neediest, funded by donor grants. This project was rated *satisfactory*. Two projects, the closed FY97 *Emergency Demobilization and Reintegration Project* (EDRP) and the ongoing FY00 *Pilot Emergency Labor Redeployment Project* (PELRP), focused on creating employment opportunities, primarily for demobilized soldiers. While of limited impact (the EDRP, rated *moderately satisfactory*, assisted some 21,000 clients, only 5 percent of the soldiers demobilized in 1996, at an average cost of \$440 each, and the PELRP is assisting only 6,000 clients at a cost of \$3,000 each), a follow-up operation is under preparation with a much broader target group. Two other operations, one closed and rated *satisfactory*, the other ongoing, supported local infrastructure works, usually small-scale and labor-intensive. Finally, the two MCO projects discussed above have had a significant impact on employment creation.

Three adjustment operations, *PFSAC I* and *II* and the FY01 *Social Sector Adjustment Credit* (SOSAC), supported policy and program reforms in social protection and labor markets. One component of *PFSAC I* focused on unification of the two ethnically based pension funds in the FBH and introduced other reforms to improve the financial viability of the system. TA from the Netherlands and Japan helped to design and implement a new pension law and additional reforms. *PFSAC II* deepened pension reforms with particularly strong measures, introduced through support of the OHR, to restore financial balance. It also supported initial work on labor markets, social assistance reforms, and the nationwide LSMS, a major input into subsequent poverty and social program analysis. The SOSAC built on work initiated under *PFSAC II*, focusing primarily on reducing labor market rigidities, including elimination of the waitlist system. SOSAC was accompanied by a TA project (*Social Sector Technical Assistance Credit* (SOTAC)) to support design of a follow-up adjustment operation to deepen reforms in labor markets and social assistance. The FY03 *SITAP* provides TA for longer-term reform of pensions.

Infrastructure

Infrastructure, broadly defined, has been the largest sector of Bank activity in BiH. During FY96–03 the Bank lent \$350 million, or over 35 percent of total IDA commitments, for 14 infrastructure projects, covering public works, energy, transportation, water, and sanitation. Given the extensive destruction of BiH’s infrastructure during the war, the initial emphasis on rapid reconstruction of essential infrastructure services was entirely appropriate. The Bank began implementation of eight emergency infrastructure projects in FY96–97 and added two more in FY98. In the case of energy, initial assistance was provided for electricity, natural gas, district heating, and the coal industry, which was crucial for power generation. Aid to the transport sector was equally broad, covering repair of main and rural roads, rebuilding bridges, restoring public transport in cities through the import of buses,

and repairs to the railway system and to civil aviation infrastructure. Other projects funded water supply, sewage, and solid waste investments. The FY96 *Emergency Recovery Project*, which also included non-infrastructure investments, was confined to the FBH. However, a similar project was undertaken for the RS in FY98. The FY97 *Emergency Public Works and Employment Project* financed over 400 sub-projects in road repair, electricity distribution, and water and sewage. It benefited nearly 90 percent of all municipalities in both Entities. Despite the success of the reconstruction effort, however, there remains a huge backlog of essential rehabilitation and maintenance work to be completed.

Following the reconstruction effort, new projects were funded in water, sanitation, and solid waste, and the Bank is now financing a third round of projects in electricity and road transport, in which the main objectives have shifted from physical reconstruction to institution-building, financial viability of service providers, and unification of services. The Bank's infrastructure portfolio in BiH is impressive for its comprehensive coverage, both sectorally and geographically. These projects were highly relevant to the country's needs, were well designed and appraised, and were executed expeditiously. An earlier report on BiH concluded that "the overall short-term objective of jump-starting the economy was achieved, along with a rapid and visible improvement in the restoration of basic infrastructure" (OED 2000). Of the 10 completed projects, OED rated 8 as *satisfactory* and one as *highly satisfactory*. The *Water, Sanitation and Solid Waste Project* was rated only *moderately satisfactory*. Sustainability was rated *likely* for 9 of these 10 projects, but institutional development was rated *modest* in most cases. Finally, the Bank has prepared an Infrastructure and Energy Strategy Paper (FY03) to guide future assistance in the sector.

Analytical and Advisory Activities

The Bank has produced an impressive variety of work of generally high quality. This includes joint Bank/EU economic reports for the early donors' meetings that established the case for BiH's

reconstruction requirements, two public expenditure reviews, a creditworthiness review, an anti-corruption study, a private sector study, a Foreign Investment Advisory Service (FIAS) study of barriers to investment, a labor market study, support for a household survey using LSMS, a poverty assessment, fiduciary ESW, and support for a PRSP. Bank reports have been, in general, widely disseminated and discussed with governments, in some cases helping to set the reform agenda (such as in PSD) or serving as the basis for agreements under adjustment lending (the BAC). However, in PSD, analytical work examining how loss-making enterprises continue to operate has only recently been initiated, in collaboration with DfID. Also, until recently the Bank had not carried out any formal analysis of the financial sector, which is surprising given the extent of Bank involvement in financial sector reforms, although a review of the banking sector is currently under preparation. The LSMS, a key analytical tool that established a national database for analysis of poverty, was completed in 2001. It also provided credible data for assessing the impact of economic and social policies on the poor. It has thus been a critical input into BiH's PRSP process and the country's resulting Economic Development Strategy. Four formal ESW outputs have been evaluated by the Quality Assurance Group (QAG), all of which were rated *satisfactory*.

Aid Mobilization and Coordination

The Bank was largely successful in mobilizing co-financing for BiH (table 2.4). As indicated earlier, the Bank developed projects across the spectrum of reconstruction activities, determined the amount that IDA would commit to each

The infrastructure portfolio provides comprehensive coverage, both sectorally and geographically. Projects were highly relevant to the country's needs, were well designed and appraised, and were executed expeditiously.

Bank reports have been widely disseminated and discussed with governments, in some cases helping to set the reform agenda.

project, and then solicited co-financing or parallel financing. A significant proportion of the funding mobilized was in the form of donor trust funds, managed by the Bank. In FY96–99 donors funded 54 percent of the cost of projects prepared by IDA, and the unfunded gap was only 12 percent of total project costs. The donors most heavily involved in co-financing with IDA were Canada, Italy, Japan, the Netherlands, Norway, Sweden, and Switzerland.

The Bank has been heavily involved in aid coordination activities in BiH, both at international meetings of donors and in the country. The Bank, in collaboration with the EU, invested large amounts of staff and management time in the donor meetings held from 1995 through 1999, and the effort paid off in pledges, commitments, and disbursements over the reconstruction period. However, despite the success of these early meetings, and repeated government requests to continue them, no further Consultative Group-type meetings have been held since 1999. The reason seems to be donor concerns about governance and disappointment with the slow pace of reforms in the post-reconstruction period. The government has again requested a meeting for sometime in 2004, to present the PRSP as the government's economic and social policy statement.

Local aid coordination has been a challenge from the very beginning, given the large number of donor countries and agencies involved and the pressure to carry out reconstruction work as quickly as possible. Nevertheless, genuine efforts at coordination were made, and the Bank was an active partici-

pant. At the beginning, local donor working groups were established in each sector. The Bank was involved in all the sectors where it had projects, but did not chair any group.¹³ An Economic Task Force organized by the OHR, which included all aid agencies, met infrequently, but it was too large to be effective. Many bilateral donors were also participants in regular meetings of the Peace Implementation Council (PIC), which were primarily political in character. The Bank has also participated in a small economic policy group that also includes the OHR, EU, IMF, OHR, and USAID.

Despite these attempts at coordination on the ground, the results were probably not commensurate with the effort expended. First, there was sometimes communication but not genuine coordination—each donor preferring to proceed with its own projects despite what others were doing. Second, following the intensive reconstruction period most donors have begun to reduce the size and scope of their programs, which diminished the perceived need for, and interest in, coordination. Local aid coordination currently appears to operate on an ad hoc basis. Third, and most important, the governments of BiH, at whatever level, have not been actively involved in aid coordination. The Bank has proposed that the State Ministry of Foreign Trade and Economic Relations take the lead in donor coordination, and the UNDP has been working for the past two years on a new structure for government-led aid coordination through this same ministry, but without notable progress. The EU has proposed the Coordination Board for Economic Development and European Integration as the focus for donor

Table 2.4

Contribution of IDA and Other Donors to IDA Projects

Fiscal year	Project cost (\$m)	IDA + TFBH (\$m)	IDA + TFBH (%)	Bank-managed donor trust funds (\$m)	Other co-financing (\$m)	Donor (%)	Gap (\$m)
1996–97	1,162	356	30.7	237	418	56.3	151
1998–99	867	340	39.2	122	319	50.9	86
1996–99	2,028	696	34.3	359	736	54.0	237
2000–03	541	287	53.0	6	232	44.0	17

coordination. A hopeful sign, however, is the effort of the State government over the past two years to involve donors in consultations on the PRSP, which has been very well received by donors. If the government carries out a plan to convert the PRSP preparation unit, possibly merged with the above-

mentioned Coordination Board, into a permanent Economic Policy and Planning Unit (EPPU), this would be the logical base for government-led aid coordination.

Governments of BiH, at whatever level, have not been actively involved in aid coordination.



Outcomes

Overall Economic Performance

Following reconstruction, when growth was primarily aid-driven, the momentum of economic growth slowed significantly, with an estimated average GDP growth rate for 2000–03 of 4.7 percent. This has left GDP and GDP per capita substantially below the pre-war level (table 1.1). It also suggests that there has been limited progress on further poverty reduction. There are some positive factors in the current economic situation, such as a stable currency, low inflation brought about by sound monetary policy (the Central Bank operating as a currency board), and a falling fiscal deficit.

There are, however, many other worrying trends, such as continued high unemployment,¹ low domestic savings and investment,² a declining rate of growth of industrial production, and an unsustainable trade deficit (table 3.1). While there appears to have been an upswing in private foreign investment inflows in the past two years, the level is still far below that needed to substantially increase the growth rate.

Economic Policy, Economic Management, and Governance

The Bank has had some successes in reforming economic policies and management in BiH. A great deal was achieved under *PFSAC* and *PFSAC II* in budget management, tax harmonization, and coordination, including establishment of a common external tariff, as well as reductions in

overall tax rates. In spite of some delays in reaching the desired results, OED considers that the intensive efforts expended in preparation and supervision of these credits rate as best practice. The Bank also provided substantial amounts of TA for a broad range of issues taken up by these credits, and this TA had the added benefit of creating opportunities for bringing officials from the Entities together to discuss common problems. In the future it is possible that a significant impact on economic policy-making and economic management will also come from the PRSP process, which has focused the attention of both State and Entity governments on a priority reform program for

TA had the added benefit of creating opportunities for bringing officials from the Entities together to discuss common problems.

Table 3.1	Post-Reconstruction Economic Trends in BiH					
	1998	1999	2000	2001	2002	2003 ^a
Fiscal deficit/GDP (%)	-7.5	-8.9	-7.0	-2.5	-2.0	0.4
Growth rate of industrial production (%)	23	14	11	-5	12	4.5 ^b
Official unemployment: RS (%)		40.5	40.3	40.9	38.3	38.2
Official unemployment: FBH (%)		39.0	38.9	39.9	42.7	43.3
Trade balance/GDP (%)	-48.8	-43.3	-44.9	-40.4	-49.9	45.3 ^c
Current account balance/GDP (%)	-9.0	-8.9	-12.5	-16.0	-18.9	-17.4

a. Estimated.

b. Six months data.

c. Nine months data.

Source: PRSP, World Bank and IMF data.

economic recovery and EU integration. The State Council of Ministers intends to convert the PRSP preparation unit into a future Economic Policy and Planning Unit that, if supported by the Entities, could develop statewide policies leading to a “single economic space.”

Progress has been made in some areas of public sector management, not all of which were areas of direct Bank involvement, but in which the Bank was associated with the IMF, OHR, EU, and other key donors. These include efforts to improve collection of customs duties, which have seen only partial success. A State Border Service was established in 2001 to control smuggling, but its control remains weak. Estimates of customs revenues lost to smuggling each year are as high as Euro 250 million. Tax evasion on indirect taxes has been reduced over the years through harmonization of tax rates, but remains a serious problem. It is anticipated that introduction of a Value Added Tax (VAT) by 2006 will be a major step in improving revenue performance. Whether the VAT could or should have been introduced sooner, and whether the Bank and IMF should have pressed harder on this issue, is subject to debate, but the majority view in BiH is that this could not have been accomplished any sooner. While budget deficits have been reduced from a high of over 10 percent of GDP to 2 percent in 2002, there remain problems in the composition of government spending—for example, defense spending still absorbs too high a share of Entity budgets (approximately 6 percent of

GDP compared with an average for EU countries of 1.5 percent). A positive outcome is the establishment of Supreme Audit Institutions in 2000, supported by *PFSAC II*, but government, including parliamentary, follow-up on audit findings has been weak.

In governance and anti-corruption, the Bank has prepared the diagnostic report on corruption referred to earlier. The government issued an action plan for combating corruption in 2002, but little concrete action has been evident. Corruption remains a serious problem in BiH, as confirmed by the most recent Transparency International Survey.

Private Sector Development

While the Bank's credit projects have contributed to PSD, the Bank's efforts to support SOE privatization and reforms to the business environment have had much less success. It is true that, after a slow start, large numbers of small enterprises were privatized through use of vouchers; by May 2003, about 78 percent of small enterprises in the Federation, and 55 percent in the RS, had been privatized.³ But the outcome of mass privatization of large enterprises has been generally unsatisfactory. Out of 1,850 large SOEs, over 1,000 have been sold through mass privatization schemes, with the generally unsatisfactory outcomes mentioned above. Another 440 large enterprises (263 in the Federation and 177 in the RS) have been designated for tender privatization to strategic investors, and one-

third of these are to be privatized with the help of the international community, including the Bank. So far, only 15 of these enterprises in the FBH and 4 in the RS have been sold. There is opposition to involvement of donors in privatization and to privatization in general because of concerns about the fate of workers and the local community, as well as because of the popular perception that state assets are being stripped by managers. Potential investors are also discouraged by lack of clear ownership of many SOEs and by heavy enterprise debts, including liabilities for unpaid wages and pension contributions. Without an agreed framework for addressing these issues, it is likely that potential foreign partners will be reluctant to buy large state enterprises.

The environment for PSD remains unfriendly. The heavy official tax burden on enterprises discourages economic activity in the formal sector. The rules governing entry and operation of businesses still include unnecessary and overlapping regulations and inspections, which provide governments with significant power over private businesses. Corruption remains a major problem, undermining the activities of efficient and honest businesses, while benefiting the less efficient and corrupt. Efforts are now under way to address these constraints, but they are still at an early stage. According to the EBRD's estimate, the private sector's share in GDP rose from 35 percent in 1998 to 50 percent in 2002,⁴ but it remains one of the lowest percentages among transition countries. And an estimated two-thirds of formal employment is still in the public sector.

An EBRD analysis of the progress in transition countries (in large-scale and small-scale privatization, governance and enterprise restructuring, and the share of the private sector in GDP) shows that BiH ranks near the bottom of the group. In privatization (small- and large-scale), BiH belongs to the lowest-performing 5 countries out of 27, and in terms of governance and enterprise restructuring, only 5 countries rank below BiH, although it has improved its standing somewhat since 1998 (EBRD, various years).

Overall, the Bank's assistance program in PSD is rated *unsatisfactory*. It did not make acceptable progress in two of its major objectives. First, the overall privatization program to date must be judged unsuccessful.⁵ The voucher-privatized firms have shown little incentive to restructure

and become more productive, defeating the main objective of privatization, and the privatization of "strategic" enterprises through tenders has barely begun. Second, the business environment has not improved significantly, and remains one of the more unfriendly regimes in the region. The legal, regulatory, and tax regimes remain burdensome and difficult for the private sector.

Finally, the Bank did not focus sufficiently on the problem of loss-making SOEs that have continued to operate. Experience elsewhere has shown that the continuing operations of insolvent SOEs hampers development of private sector activity by absorbing scarce financial resources or adds to domestic debts that will inevitably become the responsibility of government. Until recently there has been no analytical work by the Bank on this problem, and there have been insufficient efforts to force the closure of such enterprises.

Finance

The outcome of the Bank's assistance program in the financial sector is judged *moderately satisfactory*. Acceptable progress was made in reforming and privatizing the banking sector. New commercial banking laws were adopted in both Entities and independent banking supervision agencies were established. Minimum capital requirements have been raised substantially and the banking agencies in both Entities have recently intervened to place weak banks, both public and private, under provisional administration. A state-level deposit insurance fund was introduced in October 2002, and over

There is opposition to privatization because of concerns about the fate of workers and the local community, as well as because of the popular perception that state assets are being stripped by managers.

half of the commercial banks now participate in the fund. Merger and consolidation of banks is under way; the total number of banks fell from 72 in 1998 to 37 in 2003. Privatization of state-owned banks began in 1998. All state-owned banks are now in the RS, and all but seven in the FBH (including two development banks) have been privatized. The government share in bank capital had fallen to less than 1 percent in the RS and to 13 percent in the FBH at end-2003. The participation of foreign capital in banks has increased to 68 percent in the FBH and to 65 percent in the RS; most of the new investors are large, reputable European banks. In addition, although there was initial skepticism in the Bank and in the country about the MCO operations, the evidence shows that they have been highly successful.

Nevertheless, challenges remain in the financial sector. A few problem banks, both public and private, still operate. While the capital position of the major banks is satisfactory, there are too many small, undercapitalized banks, and further consolidation is likely. There are weaknesses in the banking agencies, and a need for stricter enforcement of prudential regulations, establishment of new accounting and auditing standards, and a stronger legal framework for secured transactions.

The Bank's strategy in the financial sector was to support reforms to improve mobilization of savings and their reallocation to the private business sector. The reforms have not yet led to these results. Table 3.2 shows that currency outside banks has risen sharply as a

proportion of the money supply, indicating a lack of public confidence in the banking system. At the same time, commercial bank credit to the private sector (households, nonfinancial enterprises, and others) in relation to GDP declined between 1997 and 2003. In addition, much of this credit has been extended to households, and a large share of this credit undoubtedly finances informal sector economic activity. The inescapable conclusion is that significant expansion of bank credit to the *formal* private sector is not yet taking place.

The EBRD's transition indicators for the financial sector include progress in banking reform and interest rate liberalization combined with judgments on the solvency of commercial banks, adequacy of the legal and regulatory framework for banking and bank supervision, and reductions in the importance of directed and subsidized credit. In 2003, among all transition countries, only Belarus, Russia, Tajikistan, Turkmenistan, and Uzbekistan were ranked below BiH.

Education

The overall outcome of Bank assistance in the education sector is considered *satisfactory*. The program has made reasonable progress toward the relevant objectives. The two reconstruction projects directly assisted in bringing the *net* primary school enrollment rate to about 93 percent by 2001.⁶ This represents remarkable progress from the situation at war's end, bringing BiH close to

Table 3.2

Size of Intermediation and Credit to the Private Sector, 1997-03

	1997	1998	1999	2000	2001	2002	2003
Currency outside banks/M2 (%)	9.6	10.5	23.8	26.4	35.9	34.2	28.9
Private sector credit/GDP (%)	40.1	38.3	31.9	31.0	31.6	38.7	43.2 ^a
Claims on private sector nonfinancial enterprises and cooperatives/GDP(%)	38.0	34.9	28.7	26.7	24.6	24.9	25.7 ^a

a. October 2003 data.

Source: Second and Third Reviews under Standby Arrangement, IMF, April 28, 2002, table 4, p. 38. Central Bank of BiH Monetary Survey (latest years) on Web site.

other EU accession countries (table 3.3). Another positive factor, shown by the LSMS survey data, is that public spending on primary education benefits the poor more than the better-off,⁷ partially offsetting the wide disparities in per-student spending brought about by the highly decentralized system of intergovernmental finance, especially in the FBH, and the wide differences in revenue capacity across the country.

In addition, preliminary reports from an ongoing assessment of the Education Development Project's Quality Fund suggest that useful innovations in teaching and learning are being introduced in many schools throughout the country. The decision of the RS government to allocate additional budget resources to maintain spending on this program as IDA funds are phased out indicates significant support for and ownership of this program. Drawing on collaborative analytical work with the Council of Europe and EU specialists, the assistance program has helped to establish strategically important institutions that operate across the entire country (such as the Higher Education Council and the Standards and Assessment Agency). There is substantial cooperation between the Ministries of Education across Entity lines, in part because of these new local institutions, as well as the convening power of the Bank.

Health

Since the end of the conflict, the broad indicators of the health status of Bosnia's population have improved substantially, to levels close to or better than pre-conflict levels, and well within the range of comparator countries. The infant mortality rate (IMR) has fallen steadily from 14.0 per 1,000 in 1996 to 7.6 in 2001, only slightly above the pre-conflict level of 7.4. Life expectancy for men and women has risen to 71 and 75 years, respectively, slightly above pre-conflict levels, and also within the range of comparator countries (World Bank 2002b). While these results cannot be attributed only to the Bank's assistance program or to Bosnia's health system, they indicate that the system has recovered sufficient functionality to support the restoration of these relatively good health indicators.

The outcome of the Bank's interventions in the health sector can be regarded as *satisfactory*. The Bank's speed of response through the two emergency projects contributed significantly to the reconstruction objectives in the sector. In addition to focusing on such urgent post-war problems as assistance to war victims, the Bank's involvement in the health sector has also included developing a new, cost-effective

The broad indicators of the health status of Bosnia's population have improved substantially.

Table 3.3

Enrollment Rates, Most Recent Estimate

Country	Primary	Secondary	Tertiary
Latvia	92.3	68.5	46.5
BiH	92.8	72.6	24.2
Lithuania	95.5	64.8	39.2
Slovenia	97.4	93.3	51.0
Estonia	97.5	71.9	45.0
Czech Republic	97.7	75.9	26.0
Slovak Republic	107.5	80.0	22.5

Note: BiH data are *net* enrollment rates for 2001; all others are *gross* enrollment rates (for 1999), and hence overstate enrollments relative to BiH. Catic estimates RS and FBH gross primary enrollments at 98.4 and 99.1 percent, respectively. Data ranked by primary school enrollment rates.

Sources: For BiH, LSMS, 2001; all others from *Expenditure Policies Toward EU Accession*.

model of primary health care, helping to rehabilitate the tertiary system to ensure at least a minimal level of urgently needed services, and preparing the technical groundwork for reforms of health insurance. The highly promising results under the Basic Health Project—which pilots a new model, based on Family Medicine Teams, for delivering primary health care and providing gatekeeper functions for the rest of the system—contribute directly to the objective of affordable and equitable social services, as well as to more efficient use of public resources and better governance. The increased cooperation across ethnic boundaries in a number of areas is a welcome development in its own right, and serves the goal of strengthening BiH's weak and fragmented governance arrangements.

Despite the significant progress outlined above, the BiH health system still has serious, deep-rooted problems. These are reflected in its high costs: public spending on health was 7.7 percent of GDP in 2000, compared with a recent average for comparator Central and Eastern European Countries (CEEC) in transition of under 5 percent. In 2002, spending on health rose to 7.9 percent of GDP. These high averages are driven by the high costs of operating in the decentralized and fragmented structures of FBH, where spending rose from 8.4 to 9.1 percent of GDP. In contrast, health spending in the RS fell slightly, from 5.8 percent to 5.6 percent of GDP. When payments for private services and legally mandated co-payments for public services and other out-of-pocket payments are included, total costs are still higher.⁸ As a result, financial sustainability of the system remains a serious issue.

Achievements in health finance have also been limited. The replacement of the two ethnically based Health Insurance Funds in the FBH by 10 canton funds and the Entitywide FHIF represents only very limited progress toward a unified, uniform system of health insurance across the entire Entity. That even this imperfect solution required the leverage of *PFSAC II* is indicative of the intensity of ethnic divisions at the time. More recently, however, there has been progress in cooperation and coordination

across ethnic boundaries in ways that should contribute to more effective management and delivery of health services in the future.

Social Protection and Employment

There have been some significant gains in pension reform: a system of pay-as-you-go has been introduced, which limits pensions to contribution receipts in the previous month. This has achieved some financial balance and has stopped the rise in arrears. In addition, the minimum basic pension is now more adequate and better protected. As a result of these changes, and in contrast to many other transition countries, those over retirement age have a lower incidence of poverty than the general population (13.0 percent versus 19.5 percent). In addition, the ethnically based pension funds in FBH have been merged, greatly assisting labor mobility and removing one source of ethnic division.

Nevertheless, a large reform agenda remains. The underlying system is still unstable, with accrual rates and pensioner/contributor ratios that are too high in both Entities. Contribution compliance is low, and firms have strong incentives to evade contributions. Weak links between contributions and benefits reinforce this trend. Substantial arrears have accumulated in contributions from firms under stress, which undermines stability and complicates privatization. While contribution rates are not out of line with those of other transition countries, as a tax on labor they discourage labor-intensive growth. Reducing these rates does not seem to be a near-term option, but should be considered as a part of broader reforms. Finally, there remain issues of pension portability across Entities. Analysis of these pension finance issues is being supported by the *Social Insurance Technical Assistance Project*.

In labor markets, the two Micro-credit Organization projects have achieved significant results in employment generation. Other positive outcomes include reducing rigidities imposed by the previous labor code and reforming the system of unemployment benefits. Firms can now hire workers on a wider range of terms, especially on contract,

and release workers without as many restrictions. The waitlist process has been abolished, and there has been a substantial reduction in the number of waitlisted workers: in the FBH the number declined from nearly 88,000 in 1997 to 8,800 in 2001. There is some evidence that removal of these labor market restrictions facilitated specific foreign investments and acquisitions, and a survey of 12 private start-up and newly privatized companies found that managers now viewed these laws as liberal, and no longer a constraint to doing business. In addition, collective wage agreements no longer apply automatically to private firms, and others that did not take part in the agreement (although it is likely that these agreements continue to have a large influence through informal pressures). Rationalization of unemployment benefits (reducing the level and duration of benefits) and introduction of cash rationing led to a two-thirds reduction in benefits but has insured the financial stability of the system. The result is a system that is more affordable and less distortionary. The legislation is harmonized across Entities. In the FBH, a Federal Employment Institute fund is allocated 30 percent of all unemployment insurance tax revenue, which it reallocates to the cantonal funds on the basis of need. The new institutional framework will eliminate ethnically based employment services. Effective participatory processes and partnerships, especially with the International Labor Organization (ILO), were instrumental in building consensus behind these labor market and social protection reforms. The outcome of Bank assistance in social protection, employment, and labor markets is judged *satisfactory*.

Infrastructure

The IDA-financed infrastructure projects have had a major impact in rebuilding capacity and restoring levels of service. The overall outcome in these sectors is rated *satisfactory*. Electricity production from Electroprivreda BiH's (EPBiH) rehabilitated power plants rose by two-thirds by the time of completion of the first *Emergency Electric Power Project*. Coal production doubled between 1996 and 1998, keeping pace with the

needs of the power sector. Thus, within a two-year period, electricity supply returned almost to pre-war levels in all major towns, meeting one of the crucial preconditions for resumption of economic growth. At completion of the *Water, Sanitation and Solid Waste Urgent Works Project* it was estimated that it had resulted in improved water supplies for 300,000 people in 26 municipalities and the supply coverage had been expanded for another 60,000 people. The first emergency transport project financed works in the FBH for the rehabilitation of road sections on about 900 kilometers of the main network and reconstruction of 32 bridges. At completion of this project, there were no longer any physical obstacles to the functioning of the railway system. From a situation in which no civilian flights could use Sarajevo Airport in the spring of 1996, 10 carriers had resumed services to Sarajevo by the end of the project. The runway had been repaved, the airport area cleared of mines, the control tower rebuilt, and safety as well as fire fighting equipment provided.

In summary, the infrastructure projects were successful in meeting their physical objectives, and the development impact of the infrastructure portfolio was strongly positive. The rapid revival of economic activity in 1996–99 could not have occurred without these investments. Equally, the welfare gains to the entire population from the restoration of normal electricity, heating, water supply, and public transport services were enormous.

But serious institutional and policy issues remain. BiH pays a heavy economic price for the fragmentation of infrastructure services between Entities and the associated proliferation of government oversight and coordination agencies. For example, BiH has five public sector companies involved in gas supply, three electricity utility companies, and three

There have been some significant gains in pension reform, but the underlying system remains unstable.

The rapid revival of economic activity in 1996–99 could not have occurred without these investments in infrastructure.

electricity regulators. This is clearly excessive for a country with a population of less than 4 million. Apart from the cost of duplication and difficulties of coordination, such fragmentation also works against improving financial viability and raising the investment resources that are badly needed. The present institutional arrangements do not appear to be sustainable over the medium to long term.

Overall Rating

The overall outcome of Bank assistance in BiH is rated *satisfactory*. This rating is influenced in part by the highly satisfactory outcomes in reconstruction, a major focus of Bank assistance in the first half of the period under review, balanced against the more mixed outcomes, mostly satisfactory but some less so (such as in PSD), at the sectoral level.

Institutional Development Impact

The overall institutional development impact (IDI) of the Bank's assistance program is rated as *modest*, in an exceptionally difficult context. However, IDI varies by sector and thematic area, as discussed in the following paragraphs.

In macroeconomic management, the IDI of the Bank's support to capacity building in budgets, tax policy, debt management, and accounting and auditing is rated *substantial*. The Bank has also contributed to the accumulation of knowledge and expertise in pensions, social security, and labor issues.

In PSD, the IDI of the Bank's program is *modest* at best. The Entity and cantonal privatization agencies remain weak and underfunded, the Privatization Investment Funds are passive, and agencies for registration of new businesses and inspections are slow to reform.

There has been *substantial* IDI in the Bank's program in the financial sector. The Bank, along with other donors such as USAID, provided significant support to the banking supervision agencies in both Entities through its line of credit projects and adjustment operations, and both agencies are performing their functions satisfactorily. A satisfactory legal and regulatory framework, together with effective supervision agencies, should help

maintain a sound banking system. The Bank was also instrumental in establishing the Investment Guarantee Agency for issuing guarantees and credit risk insurance in support of BiH enterprises; the institution is doing well, and it is expected that over time it will become BiH's export credit agency. The strong growth of micro-finance institutions owes much to the Bank's catalytic role through the two local initiatives projects. These institutions compare favorably with similar institutions worldwide and play an important role in alleviating the conditions of poorer and disadvantaged entrepreneurs.

IDI in the education sector can be rated as *substantial*, especially given the development of inter-Entity institutions (Standards and Assessment Agency and HECB) and systems (Education and Management Information System) that are important for designing and implementing subsequent reforms. It can also be rated as *substantial* in the health sector, given the new model for primary health care and the increased cooperation across Entities and ethnic boundaries.

IDI has arguably been *high* in the areas of social protection and labor markets: many developments in these areas supported the capacity in BiH to work across boundaries, a significant institutional change. Outstanding examples include carrying out the LSMS in a uniform way across Entities; unification of the pension systems, replacing the ethnically based systems that had existed in the FBH; reform of the unemployment benefits system and elimination of the waitlist; and the PRSP process, which used participatory approaches and strengthened economic policymaking at the State level.

In infrastructure, IDI was not a key priority in the immediate post-conflict period—and this was entirely appropriate. Seven of the 10 completed projects had only a *modest* IDI. Nevertheless, even under the emergency operations in the electricity sector, some positive results in IDI were achieved early on. The emphasis that the first project placed on cost recovery, tariff adjustments, and improvements in revenue collection led to significantly

improved financial performance by EPBiH. This was important, as it signaled to consumers that they had to be prepared to contribute to the restoration of a satisfactory power supply. The project also triggered key preparatory studies for power sector restructuring and an improved legislative framework for electricity, which were to prove useful in the subsequent phase of sector rehabilitation. The underlying philosophy of the second project was to promote technical collaboration and then economic transactions across community lines. It led, inter alia, to the creation of a coordination center, jointly owned by the three power companies, to facilitate national and international electricity trading. The later projects, particularly those still being implemented, have much more ambitious institutional development objectives and generally seek to promote national integration through support for economically rational and efficient infrastructure organizations.

Sustainability

The overall sustainability of the Bank's assistance is rated *non-evaluable* because of considerable risks at the country level. At the individual project and sectoral levels, most outcomes are considered *sustainable*.

In PSD, the small gains achieved are likely to be *sustainable*. Continued international pressure, particularly the EU association process, will strengthen the role of the private sector in the economy. Also, the private sector has an inherent resilience; despite adverse conditions, it has grown faster than other sectors of the economy. Progress achieved in the financial sector is also likely to be *sustainable*. First, a key financial institution, the Central Bank, is independent, and its independence is protected by the constitutional arrangements agreed under the Dayton Accords. Second, bank supervision agencies and a deposit insurance system have been developed and function reasonably well.

In the social sectors, sustainability of the achievements in social protection, labor markets, education, and health is rated *likely*. The key reforms in social protection and labor

markets are owned by the government, expressed formally through the PRSP and less formally in strong indications of support from key ministry officials. In education, there is evidence of substantial ownership of the program, a program that is consistent with both the new Economic Development Strategy and the process of EU association. RS funding to offset the phase-out of IDA funding for the Education Department's Quality Fund is an example of this ownership. The Education Management and Information System and Standards and Assessment Agency are fledgling institutions that have not yet demonstrated their sustainability, but their continued operation is anchored in upcoming IDA projects. In health, government ownership of the main elements of the assistance program also appears clear, particularly since they have been incorporated into the PRSP. This is especially true of the reforms in primary health care.

In infrastructure, prospects for sustainability are *mixed*. The railways and coal sub-sectors face serious financial problems,⁹ as does the water supply sector, where progress in cost recovery has been poor. Technical operations of water supply systems are satisfactory, but weak finances hamper regular maintenance and urgent repairs of the systems.¹⁰

Beyond the sustainability of specific projects and sector programs, the sustainability of the Bank's program, and all donor assistance, at the country level is considered *non-evaluable*, because it depends primarily on factors not directly related to the inherent quality of past interventions. There are still uncertainties regarding the political situation and the capacity of governments to agree on and implement needed reforms, particularly with respect to creating a single economic space and transition to a market economy. Aid inflows have fallen significantly since reconstruction, and are going to fall still further, which means that BiH policymakers must shift their focus from aid dependency to internally generated growth, at the same time that individual donors, including IDA, with fewer resources at their command, will have less ability to influence outcomes. In addition, the BiH

governments will have to come to grips with a series of unresolved problems, including domestic debt and an unsustainable trade deficit. This latter problem could be exacer-

bated by the establishment of complete free trade with all BiH's neighbors and with the EU, as well as from the eventual end of the currency board arrangement.



Contributions to Outcomes

The Bank's Role

On balance, IDA operations have been well designed, relevant, and have had satisfactory outcomes. This is commendable, given that the Bank has had to work in a very complex and difficult environment—a fragmented government structure and the underlying ethnic divisions. However, while the results in terms of physical reconstruction have been impressive, the outcomes in economic reforms and in transformation to a market economy have been disappointing in comparison with the effort and resources expended by the international community.

It seems clear that outside pressures, whether from the Peace Implementation Council, OHR, EU, World Bank, IMF, or other agencies, have been instrumental in most of the reform measures adopted. A unique aspect of the BiH situation is that the OHR is prepared and capable of enacting reform measures, overriding governments that are unprepared to take them. But whether government “ownership” can be developed through this means, and whether such measures will be effectively implemented, remains in doubt.

With respect to the basic objective of economic transformation, the Bank was late in addressing some of the impediments to PSD, in particular the enforcement of financial discipline in SOEs and the closure of insolvent firms. The Bank's focus was limited to improving the bankruptcy legislation in both Entities;

however, here the Bank was too easily satisfied with amendments, without focusing adequately on the constraints, such as the inadequate court system (admittedly the responsibility of the OHR and other parties) that prevented implementation of the law. More attention should have been focused on outcomes. More attention should also have been directed to improving tax administration and reducing corruption. Despite the recognition early on that obstacles to business entry, operations, and exit needed to be eliminated to improve the business environment, only limited progress has been achieved.

In the financial sector, Bank performance was mixed. While progress was made in reform of financial sector institutions and in opening commercial banking to private capital, progress in privatization of state-owned banks was

slower, and the Bank sometimes accepted less than full compliance with agreed conditionalities. A variety of lending instruments were adopted, including lines of credit, guarantee operations, adjustment loans, and TA credits. The guarantee operations were also innovative, and the Bank included TA and training in many of its financial sector projects. However, other donors and agencies were also significant actors in the financial sector, including the EBRD, IFC, IMF, KfW, and USAID, and the outcomes cannot be attributed to Bank assistance alone. The mixed outcomes of the Bank's assistance in financial sector reforms may be partially the result of the Bank's focus on the legal requirements of the reforms, or on preparation of plans or laws, rather than on their implementation. The Bank should have followed the Enterprise and Bank Privatization Credit, which initiated banking reform, with stronger conditionality focused on actual outcomes.

In education, the large unfinished agenda remaining after eight years of assistance raises the question of whether the Bank should have focused earlier on critical policy and structural reforms, thus moving BiH further along the reform path. Discussions with clients and Bank staff working in the education sector suggest that this would not have been productive. Divisions within and across governments and the initial lack of full "ownership" of reforms meant that there was probably no alternative to pursuing limited but feasible objectives, while working to build commitment for more ambitious reforms. For example, after initial efforts in the early IDA operations to deal with such ethnically sensitive issues as a uniform curriculum, a common language for textbooks, and joint schools, the Bank chose to downplay these issues and to withdraw from textbook financing, since pushing harder on these issues appeared to inflame ethnic tensions and to be counterproductive.

In health, the Bank introduced new approaches, such as primary care based on family medicine teams, and tried to work across Entity boundaries. More recently, the Bank has begun to address systemic issues and to try to

identify solutions, in the recently approved *Social Insurance Technical Assistance Project* (FY03). Although it will take years before reforms are fully implemented and their impact felt, it was probably not possible to address the larger issues any earlier.

In the area of social protection and employment, the Bank has worked effectively with partners and has made important contributions to pension reform, to rationalization of unemployment benefits, and to improvements in labor market regulations.

The Bank has made a major impact in infrastructure. The Bank has addressed critical reconstruction needs across all the infrastructure sub-sectors, mobilized large amounts of donor co-financing, and closely supervised these operations to assure successful outcomes. However, with respect to the remaining issues of developing inter-Entity coordination, operating efficiency and financial viability of key infrastructure service providers, there is much outstanding work facing the Bank and other donors.

Other Donors

It is clear that the donor community as a whole has achieved notable success in contributing to the physical reconstruction of BiH. As noted earlier, the volume of aid mobilized for BiH was almost without precedent in recent post-conflict situations. All major donor countries were engaged, as well as U.N. organizations, hundreds of NGOs, and private foundations. Coordination of this massive support was difficult, but the fact that the outcome of the reconstruction effort was so successful must be credited to the commitment of both the donors and the Bosnian people, and also demonstrates that the flaws in donor coordination were not fatal. However, as has been the case for the Bank, the accomplishments of the donor community in supporting the transition to a market economy are more mixed.

Collaboration between the Bank and other donors has been substantial across all sectors of the BiH economy. In health, education, social protection and labor markets, infrastructure, finance, and public sector management,

bilateral donors—including Austria, Canada, Germany, Italy, Japan, Sweden, Switzerland, the Netherlands, Norway, and the United Kingdom—co-financed IDA-funded projects, as well as managing their own programs. Bilateral donors were also important contributors of TA, on a grant basis, linked to IDA projects.

Among development partners, the EU has been one of the major aid contributors and has also taken a leadership role among donors (Annex A, table A3a). In the coming years the EU's influence will increase. At a time when other donor aid flows, including IDA's, are declining, the EU can expand its support to finance investments needed to prepare BiH for association with, and possible eventual accession to, the EU. BiH is currently attempting to meet the conditions set out in the EU Feasibility Study, which defines the progress necessary before the country and the EU could begin negotiations for an association agreement. Given this predominant role of the EU, it will be necessary for the Bank, with reduced financial resources meaning reduced scope for conditionality, to attempt to align its activities with those of the EU. That this is possible is indicated by the effective collaboration established by the Bank and EU in other transition countries.

The Client

While the record of the BiH governments in post-conflict reconstruction was satisfactory, performance has been weak in addressing some of the key economic and social reforms, and particularly in creating the conditions for dynamic private sector-led development. There has been some progress in recent years on collaboration within

and across Entities and in setting up some State-wide institutions and moving responsibilities to the State level, but the political situation is still difficult. Even when political leaders may wish

to implement reforms, governments face powerful interest groups—veterans, strong labor unions, and political party bosses, as well as criminal elements—that can block progress. And BiH governments face a dilemma that has confronted other transition countries. In a situation of already high unemployment, governments are extremely hesitant to downsize the civil service and privatize or close SOEs, unless the economy is growing dynamically and providing new jobs. But the prospects for private sector-led growth are diminished as long as reforms are postponed. However, there are definite indications that the governments may play a more positive role in the future, such as the support for the PRSP process and the policy recommendations that flow from it, and the commitment of both State and Entity governments to the Action Plan of Priority Reforms adopted and promulgated by the Coordination Board for Economic Recovery and EU Integration in July 2003.

In conclusion, the successful reconstruction effort in BiH can be credited to the joint efforts of the country and the donor community, while the lagging reform efforts and the disappointing economic performance since 2000 must be largely attributed to the reluctance or inability of the political leadership in BiH to implement effectively the reform agenda.

The donor community as a whole has achieved notable success in contributing to the physical reconstruction of BiH.



Recommendations

The BiH case provides important lessons for the Bank on best practice in dealing with post-conflict reconstruction.¹ The Bank was prepared to take risks, and the risks paid off. As a result, the Bank was a major contributor to the reconstruction process. Essential for this successful outcome were the close involvement of senior management; strong support from key constituents on the Board; and, perhaps most important, the dedication of Bank staff to helping the people of BiH. This commitment has been widely recognized and appreciated within the country. Although not all operations met their objectives, the overall effort was truly “the Bank at its best.”

The Bank was overly optimistic regarding the prospects for recovery of the BiH economy. In developing the future country strategy, it will be essential for the Bank to adopt a more realistic assessment of both economic growth prospects and the pace of reforms, and to avoid any possibility of over-commitment of IBRD or IDA resources.

With respect to the transition process, this Country Assistance Evaluation (CAE) finds that the Bank could have done more to address problems of governance, particularly the weak customs administration, tax evasion, and smuggling, and should now rethink its approach to PSD. Greater attention should be given to imposing hard budget constraints on SOEs and removing legal and institutional barriers to privatization—finalizing an acceptable bankruptcy law, reforming commercial courts, resolving the ownership and debt status of strategic enterprises, and helping to

strengthen the privatization agencies.

All Bank investment projects are still being implemented through PMUs.² While they may have been essential during reconstruction because of a lack of government capacity, they can no longer be justified on this basis. They should be integrated into the government structures. This is a recommendation the CAE mission heard repeatedly in BiH, and one that is endorsed by the government in its commentary on the CAE (see Annex D).

In the future, the Bank should align its country strategy closely with the PRSP to foster BiH ownership of the Bank program and the reform efforts the Bank is supporting. With more limited resources the Bank will need to work in close collaboration with other agents, in particular the IMF and the EU, to present a common approach on critical reforms.

ANNEX A: STATISTICAL TABLES AND FIGURES

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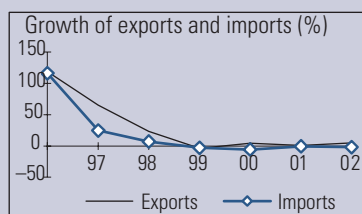
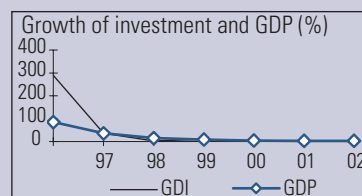
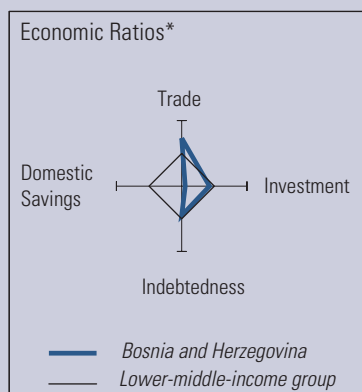
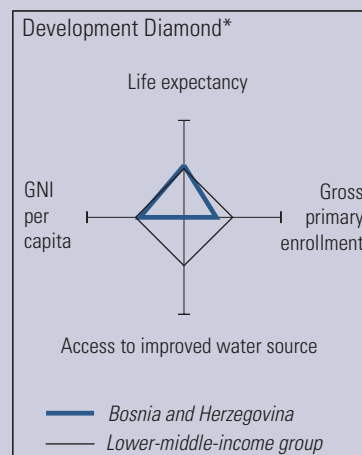
Table A.1 Bosnia and Herzegovina at a Glance

	Bosnia and Herzegovina	Europe and Central Asia	Lower-middle-income	
POVERTY and SOCIAL				
2002				
Population, mid-year (millions)	4.1	476	2,411	
GNI per capita (Atlas method, US\$)	1,270	2,160	1,390	
GNI (Atlas method, US\$ billions)	5.2	1,030	3,352	
Average annual growth, 1996–02				
Population (%)	2.5	0.1	1.0	
Labor force (%)	2.8	0.4	1.2	
Most recent estimate (latest year available, 1996–02)				
Poverty (% of population below national poverty line)	20	..	..
Urban population (% of total population)	44	63	49	
Life expectancy at birth (years)	74	69	69	
Infant mortality (per 1,000 live births)	15	25	30	
Child malnutrition (% of children under 5)	4	..	11	
Access to an improved water source (% of population)	..	91	81	
Illiteracy (% of population age 15+)	..	3	13	
Gross primary enrollment (% of school-age population)	74	102	111	
Male	74	103	111	
Female	74	101	110	
KEY ECONOMIC RATIOS and LONG-TERM TRENDS				
	1982	1992	2001	2002
GDP (US\$ billions)	..	..	4.8	5.2
Gross domestic investment/GDP	..	..	..	20.9
Exports of goods and services/GDP	..	..	..	26.9
Gross domestic savings/GDP	..	..	..	-2.8
Gross national savings/GDP	..	..	..	5.7
Current account balance/GDP	..	..	-19.8	..
Interest payments/GDP	..	..	1.8	1.1
Total debt/GDP	..	..	46.3	51.9
Total debt service/exports	..	..	19.0	9.0
Present value of debt/GDP	..	..	33.1	..
Present value of debt/exports	..	..	101.3	..
	1982–92	1992–02	2001	2002
(average annual growth)				
GDP	..	20.6	4.5	3.9
GDP per capita	..	18.0	2.4	2.4
Exports of goods and services	..	27.5	0.8	5.3
	1982	1992	2001	2002
STRUCTURE of the ECONOMY				
(% of GDP)				
Agriculture	..	..	14.3	..
Industry	..	..	29.6	..
Manufacturing	..	..	..	..
Services	..	..	56.1	..
Private consumption	..	..	..	..
General government consumption	..	..	..	..
Imports of goods and services	..	..	52.1	50.6
	1982–92	1992–02	2001	2002
(average annual growth)				
Agriculture	..	8.0	..	..
Industry	..	26.2	..	..
Manufacturing	..	17.0	..	..
Services	..	37.2	..	..
Private consumption	..	..	..	..
General government consumption	..	..	..	..
Gross domestic investment	..	35.6	..	..
Imports of goods and services	..	13.1	-0.6	-1.9

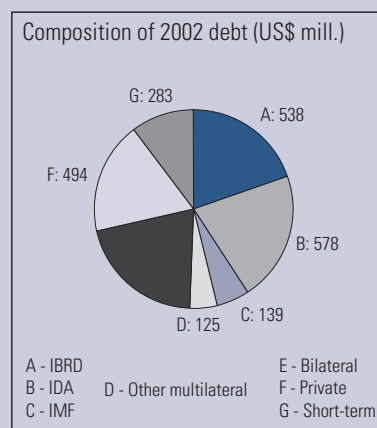
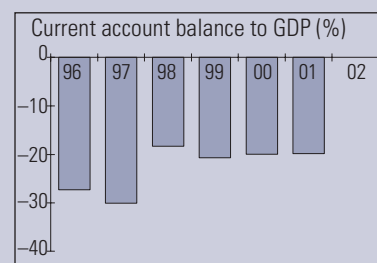
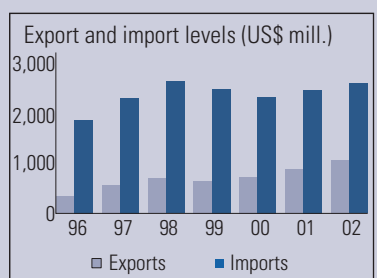
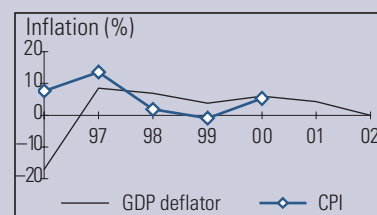
Note: 2002 data are preliminary estimates.

This table was produced from the Development Economics central database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.



PRICES and GOVERNMENT FINANCE	1982	1992	2001	2002
Domestic prices (% change)				
Consumer prices
Implicit GDP deflator	4.3	0.0
Government finance (% of GDP, includes current grants)				
Current revenue	33.4	37.9
Current budget balance	-0.6	0.7
Overall surplus/deficit	-7.2	-8.1
TRADE	1982	1992	2001	2002
<i>(US\$ millions)</i>				
Total exports (fob)	877	1,070
n.a.
n.a.
Manufactures
Total imports (cif)	2,485	2,619
Food
Fuel and energy
Capital goods
Export price index (1995=100)
Import price index (1995=100)
Terms of trade (1995=100)
BALANCE of PAYMENTS	1982	1992	2001	2002
<i>(US\$ millions)</i>				
Exports of goods and services	1,274	1,471
Imports of goods and services	2,617	2,809
Resource balance	-1,343	-1,338
Net income	223	252
Net current transfers	168	204
Current account balance	-952	..
Financing items (net)	953	..
Changes in net reserves	-1	-38
Memo:				
Reserves including gold (US\$ millions)
Conversion rate (DEC, local/US\$)	2.2	2.1
EXTERNAL DEBT and RESOURCE FLOWS	1982	1992	2001	2002
<i>(US\$ millions)</i>				
Total debt outstanding and disbursed	2,225	2,725
IBRD	540	538
IDA	443	578
Total debt service	299	165
IBRD	36	45
IDA	3	4
Composition of net resource flows
Official grants	431	..
Official creditors	-109	72
Private creditors	4	6
Foreign direct investment	222	..
Portfolio equity	0	..
World Bank program
Commitments	124	102
Disbursements	62	97
Principal repayments	5	23
Net flows	56	74
Interest payments	34	25
Net transfers	22	49



Note: This table was produced from the Development Economics central database.

Table A.2a**Bosnia-Herzegovina, Economic Indicators, 1994-02**

	1994	1995	1996	1997	1998	1999	2000	2001	2002
GDP growth (annual %)	..	20.8	85.9	36.6	15.6	9.6	5.6	4.5	3.9
GNI per capita, Atlas method (current US\$)	..	..	800	1,020	1,150	1,200	1,280	1,270	1,270
GNI per capita, PPP (current international \$)	1,330	1,760	3,200	4,220	4,700	5,110	5,450	5,620	5,800
Agriculture, value added (% of GDP)	35.85	24.64	20.51	16.90	14.85	13.32	11.71	14.29	..
Industry, value added (% of GDP)	25.86	26.96	25.72	25.30	25.96	24.40	24.87	29.65	..
Services, etc., value added (% of GDP)	38.29	48.41	53.77	57.80	59.20	62.27	63.42	56.07	..
Exports of goods and services (% of GDP)	15.45	20.41	24.01	28.41	29.33	25.59	25.96	..	26.87
Imports of goods and services (% of GDP)	86.40	71.47	83.11	73.89	66.11	58.14	55.39	52.12	50.64
Private capital flows, total (% of GDP)	0	0	0	0	2.33	1.92	3.29	4.17	5.33
Current account balance (% of GDP)	-14.10	-10.34	-27.29	-30.06	-18.37	-20.69	-19.95	-19.83	-16.81
Total debt service (% of exports of goods and services)	..	..	..	..	..	10.98	19.22	19.08	..
Gross international reserves in months of imports	..	..	..	..	..	..	2.1	5.0	4.7
Gross domestic savings (% of GDP)	..	-31.07	-17.21	-4.19	-0.92	-12.58	..	..	-2.84
Inflation, consumer prices (annual %)	..	..	..	..	-0.3	3.4	5.1	3.1	0.3
Current public revenue, excluding grants (% of GDP)	..	..	51.9	39.9	46.3	47.7	46.8	44.4	46.5
Public expenditure, total (% of GDP)	..	..	56.5	62.4	54.9	59.8	57.3	..	..
Overall budget balance, including grants (% of GDP)	..	..	..	..	..	..	-10.0	-5.8	-4.3

Note: GNI = gross national income; PPP = purchasing power parity.

Source: World Bank database as of December 9, 2003 and IMF statistics.

Table A.2b Bosnia and Herzegovina, Social Indicators, 1992-02

	Bosnia-Herzegovina		Albania		Croatia		Serbia-Montenegro		Georgia		Macedonia		Low-middle-income countries		
	1992	1995 2000-02a	1992	2000-02	1992	2000-02	1992	2000-02	1992	2000-02	1992	2000-02	1992	2000-02	
Population, total	4.1	3.4	4.1	3.3	3.2	4.8	4.4	10.5	10.7	5.4	5.2	1.9	2.0	2,172.5	2,410.7
Population growth (annual %)	0.5	3.4	0.9	-0.6	1.0	0.0	-0.2	0.3	0.1	-0.3	..	0.4	0.5	1.3	0.9
Urban population (% net)	39.9	40.9	43.9	37.3	43.6	54.7	58.6	51.1	51.9	55.5	56.8	58.6	59.5	43.0	49.4
School enrollment, primary (% net)	..	..	92.8	..	..	..	..	..	..	..	..	..	..	..	..
School enrollment, primary (% gross)	..	..	..	99.9	107.0	85.6	..	72.7	93.0	86.5	95.5	97.1	98.9	111.5	..
Immunization, DPT (% of children under 12 months)	58	55	91	94.0	97.0	83.0	..	..	..	58.0	86.0	..	90.0	86.7	84.3
Life expectancy at birth, total (years)	72.2	72.7	73.9	71.3	74.0	71.2	73.8	71.4	72.7	72.6	73.4	72.0	73.4	68.1	69.4
Fertility rate, total (births per woman)	1.60	1.60	1.60	2.9	2.2	1.5	1.5	1.9	1.7	1.8	1.1	2.2	1.8	2.3	2.1
Mortality rate, infant (per 1,000 live births)	7.4	14	7.6	34.2	23.0	11.6	0.7	21.7	17.0	24.0	24.0	30.6	22.0	40.6	30.4
Mortality rate, under-5 (per 1,000 live births)	..	19	18	..	25.0	14.0	0.8	24.6	19.0	..	29	32.3	26.0	..	36.6

a. Latest figure.

Source: World Bank database as of December 9, 2003, and Bosnia and Herzegovina 2001 LSMS.

Figure A.1 Life Expectancy

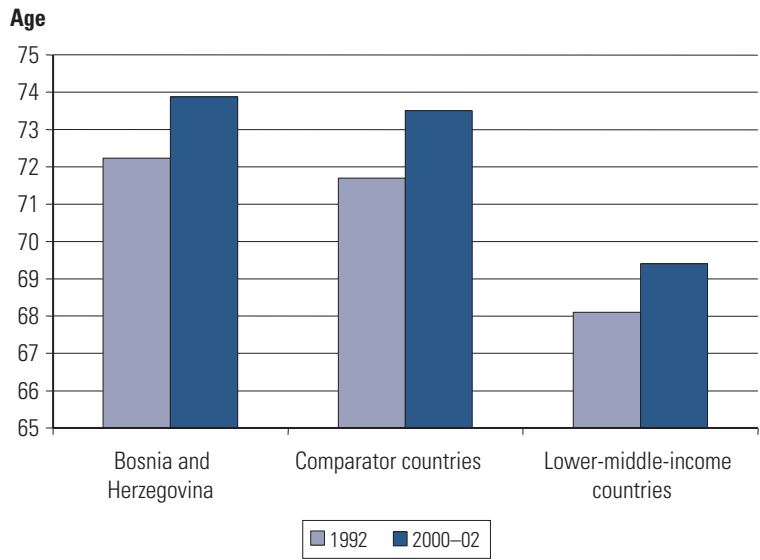


Figure A.2 Mortality Rate, Infant

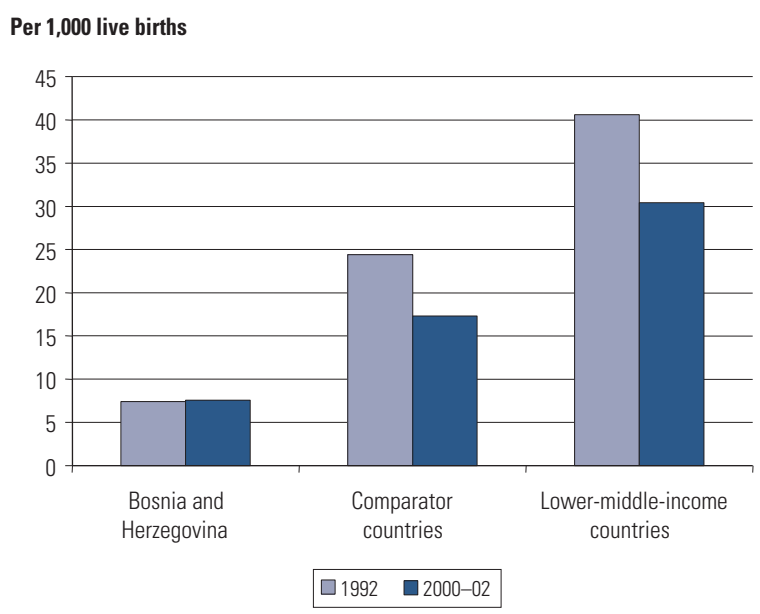


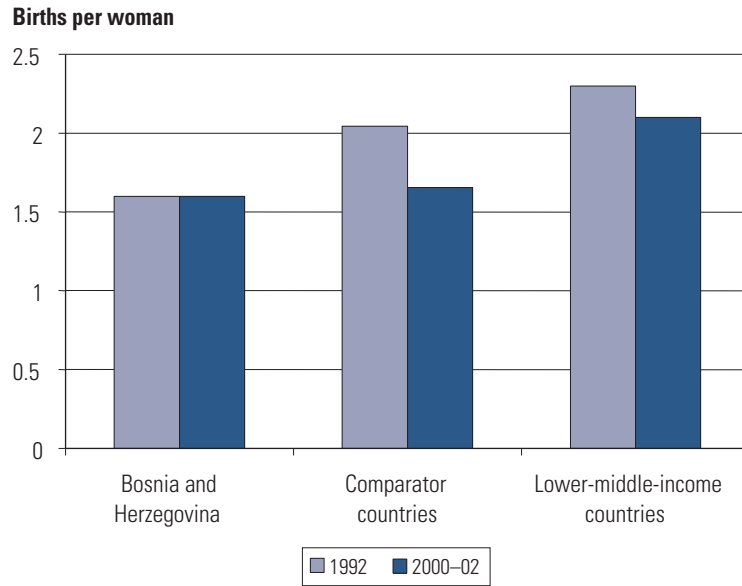
Figure A.3 Fertility Rate, Total

Table A.3		External Assistance to Bosnia, Total Net ODA Disbursements, 1996-02, in US\$ million						
Donor	1996	1997	1998	1999	2000	2001	2002	Total
Austria	96.8	44.9	38.5	28.5	22.5	14.2	10.9	256.3
Belgium	2.6	4.3	4.0	5.7	1.3	6.0	1.9	25.8
Canada	-	8.2	12.3	14.3	5.5	10.6	6.9	57.8
Denmark	-	4.0	2.5	2.1	2.7	7.9	0.4	19.6
Finland	15.0	8.8	8.9	8.1	4.3	4.8	4.7	54.6
France	7.2	5.0	5.1	115.7	19.9	2.1	2.4	157.4
Germany	39.9	33.0	43.7	65.0	91.5	27.0	19.4	319.5
Greece	7.2	10.4	22.2	2.0	6.3	8.8	5.7	62.6
Ireland	5.9	2.3	0.2	0.2	2.2	1.5	1.6	13.9
Italy	67.4	7.8	16.7	6.0	33.0	5.0	6.4	142.3
Japan	25.0	34.2	57.3	36.4	24.4	9.6	14.7	201.6
Luxembourg	0.9	1.4	1.4	1.2	0.9	0.6	0.3	6.7
Netherlands	88.3	84.1	77.2	77.0	43.3	52.9	37.3	460.1
Norway	46.8	40.8	27.9	31.6	30.8	16.9	23.8	218.6
Portugal	-	0.1	1.0	0.9	1.1	0.9	2.2	6.2
Spain	12.2	6.1	22.9	30.3	34.8	25.2	27.8	159.3
Sweden	30.1	31.2	24.6	30.4	23.9	29.0	27.0	196.2
Switzerland	19.9	7.1	12.9	18.0	11.2	12.5	15.8	97.4
United Kingdom	0.6	1.8	3.4	6.9	7.1	6.1	7.3	33.2
United States	135.0	185.0	216.4	218.9	85.8	135.1	75.8	1,052.0
Total bilateral	601.0	520.5	599.1	699.2	452.2	376.7	292.3	3,541.0
EBRD	0.7	2.0	3.9	2.5	0.5	1.9	1.7	13.2
EC	64.8	216.8	133.5	239.4	196.1	154.3	153.1	1,158.0
IDA	109.6	65.2	134.9	68.0	44.1	61.7	96.8	580.3
IFAD	6.0	0.3	3.8	7.5	2.3	-	1.1	21.0
OTHER U.N.	8.2	0.5	-	-	0.2	0.3	0.0	9.2
UNDP	3.6	4.8	5.0	5.3	-2.3	0.2	1.1	17.7
UNFPA	0.4	0.2	0.2	0.3	0.1	0.1	0.1	1.4
UNHCR	-	-	-	-	24.1	22.3	19.7	66.1
UNICEF	11.5	1.6	2.4	1.6	0.9	0.4	0.5	18.9
UNTA	0.6	0.5	0.9	0.6	0.3	0.9	0.4	4.2
Arab agencies	1.0	-	0.1	0.1	-	0.1	0.0	1.3
Total multilateral	206.3	291.8	284.5	325.2	266.4	242.1	274.5	1,890.8
EC + EU members	439.0	462.0	405.7	619.5	490.7	346.4	308.5	3,071.8
Other donors	37.5	49.6	21.6	15.9	18.5	20.3	20.5	183.9
TOTAL DONORS	844.8	861.9	905.2	1,040.3	737.1	639.2	587.4	5,615.9

Source: Geographical Distribution of Financial Flows to Aid Recipients, OECD, CD 2003.

Table A.3a	Summary of External Assistance to Bosnia, Total Net ODA Disbursements, 1996–02, in US\$ million							
	1996	1997	1998	1999	2000	2001	2002	Total
Total donors	844.8	861.9	905.2	1040.3	737.1	639.2	587.0	5,615.5
Total bilateral	601.0	520.5	599.1	699.2	452.2	376.7	292.0	3,540.6
Total multilateral	206.3	291.8	284.5	325.2	266.4	242.1	274.5	1,890.9
o/w IDA	109.6	65.2	134.9	68.0	44.1	61.7	96.8	580.3
IDA as % of total donors	13	8	15	7	6	10	16	10

Source: Geographical Distribution of Financial Flows to Aid Recipients, OECD, CD 2003.

Table A.3b	Average Annual per Capita Official Assistance (Net Disbursements) for Post-Conflict Countries		
	Country name and years	Total cumulative amount, US\$ million	Average population, million	Per capita annual average, US$
Timor Leste (1999–02)	800.3	0.8	264.0
Bosnia and Herzegovina (1996–99)	3,652.2	3.7	246.3
West Bank and Gaza (1994–97)	2,111.5	2.5	214.5
Rwanda (1994–97)*	2,114.6	5.9	89.0
Eritrea (1994–97)	589.0	3.6	40.6
Cambodia (1992–95)	1,394.1	10.2	34.1

a. Underestimate, because considerable assistance channeled to refugees outside Rwanda.

Note: Figures are from OECD DAC database and are considerably higher than World Bank and IMF data.

Source: OECD and SIMA.

Table A.3c	Average Annual Per Capita IDA Commitments for Post-Conflict Countries		
	Country name and fiscal years	Total cumulative amount (US\$ million)	Average population, million	Per capita annual average (US$)
Bosnia and Herzegovina (1996–99)	697.6	3.7	47.0
Timor Leste (2000–03)	107.3	0.8	35.4
West Bank and Gaza (1994–97)	193.5	2.5	19.7
Rwanda (1994–97)	127.0	5.9	5.3
Eritrea (1994–97)	48.8	3.6	3.4
Cambodia (1992–95)	99.7	10.2	2.4

Source: World Bank data as of February 5, 2004, and SIMA.

Table A.4a**List of Credits Approved
for Bosnia-Herzegovina**

Project	Approval FY	Commitment amount (US\$ M)	Status
Emergency Recovery	1996	45.0	Closed
Emergency Farm Reconstruction	1996	20.0	Closed
Emergency Water Supply	1996	20.0	Closed
Emergency Transport Reconstruction	1996	35.0	Closed
Emergency War Victims	1996	10.0	Closed
Emergency Education Reconstruction	1996	10.0	Closed
Emergency District Heating (incl. 24026)	1996	20.0	Closed
Emergency Landmine Clearance	1997	7.5	Closed
Emergency Housing Repair	1997	15.0	Closed
Emergency Power Rehabilitation	1997	34.4	Closed
Demobilization Support and Reintegration	1997	7.5	Closed
Public Works and Employment	1997	10.0	Closed
Transition Assistance Credit	1997	90.0	Closed
Emergency Industry Re-Start Guarantee	1997	10.0	Closed
Microenterprise/Local Initiatives	1997	7.0	Closed
Essential Hospital Services	1997	15.0	Closed
Transport Reconstruction II	1998	39.0	Closed
Education Reconstruction II	1998	11.0	Closed
Emergency Natural Gas	1998	10.0	Closed
Reconstruction Assistance Project (RS)	1998	17.0	Closed
Forestry	1998	7.0	Closed
Emergency Pilot Credit (RS)	1998	5.0	Closed
Power II	1998	25.0	Closed
Public Finance I (Structural Adjustment)	1998	63.0	Closed
Local Development Project	1999	15.0	Open
Basic Health Project	1999	10.0	Open
Enterprise & Bank Privatization Credit	1999	50.0	Closed
Enterprise Export Facility Project	1999	12.0	Closed
Pilot Cultural Heritage Project (LIL)	1999	4.0	Open
Public Finance II (Structural Adjustment)	1999	72.0	Closed
Education Development Project III	2000	10.6	Open
Mostar Water and Sanitation	2000	12.0	Open
Emergency Labor Redeployment Project	2000	15.0	Open
Trade and Transport Facility in SEE	2001	11.0	Open
Social Sector SAC (SOSAC I)	2001	20.0	Closed
Social Sector Technical Assistance (SOTAC)	2001	3.6	Open
Local Initiative II	2001	20.0	Open
Electric Power 3	2001	35.0	Open
Community Development	2001	15.0	Open
Privatization TA	2001	19.8	Open
Private Sector Credit	2002	10.0	Open
Road Management Safety	2002	30.0	Open
Business Environment Enabling Credit	2002	44.0	Open
Solid Waste Management	2002	18.0	Open
Small Scale Comm. Agric.	2003	12.0	Open
Forest Dvlp. & Conservation TA	2003	3.7	Open
Social Insurance TA (SITAP)	2003	7.0	Open
Total		983.1	

Table A.4b		World Bank Commitments Including WBTF by Sectors for FY96-03, US\$ million								
Sector group	1996	1997	1998	1999	2000	2001	2002	2003	Total	%
Economic policy		90							90	9.1
Education	10		11		10.6				31.6	3.2
Energy and mining	20	35.6	35			35.0			125.6	12.8
Environment							18.0		18	1.8
Financial sector			5	50		20.0	10.0		85	8.6
Health, nutrition and population	10	15		10				7.0	42	4.3
Private sector development	45	10		12		19.8	44.0		130.8	13.3
Public sector governance			63	72					135	13.7
Rural sector	20		7					15.7	42.7	4.3
Social protection		24.5			15	38.6			78.1	7.9
Transport	35	7.5	39			11.0	30.0		122.5	12.4
Urban development		15	17	19					51	5.2
Water supply and sanitation	20				12				32	3.3
Total	160	197.6	177	163	37.6	124.3	102	22.7	984.3	100

Source: World Bank data as of December 9, 2003.

Table A.4c

Economic and Sector Work and CAS List
for Bosnia-Herzegovina, 1980-03

Report Title	Date
Economic and Sector Reports	
Economic Issues and Priorities	FY96
Priorities for Recovery and Growth	FY96
Toward Economic Recovery (CEM)	FY96
From Recovery to Sustainable Growth (CEM)	FY97
The Priority Reconstruction Program: From Emergency to Sustainability	FY97
Vol I- An Overview of Progress and Challenges for 1997	
Vol II- The Economic Vision and Near Term Tasks Towards Sustainable Recovery and Growth	
Vol III- Reconstruction Sector Reports	
Implementation of the Priority Reconstruction Program in 1996	FY97
Vol I- Status Report to the Donor Community	
Vol II- 1996 Achievements and 1997 Objectives	
New Foundations. Private Sector Development in Post-War Bosnia and Herzegovina	FY97
Reconstruction Assessment	FY99
Public Expenditure Review, Vol. 1 and 2	FY98
Oil Import Review	FY00
Poverty and Income Vulnerability Note	FY00
Anti-Corruption Diagnosis and Strategy	FY01
FIAS Barriers to Investment Study	FY01
Country Procurement Assessment Report	FY02
Creditworthiness Review	FY02
Labor Market Study and TA	FY02
Public Expenditure and Institutional Review	FY02
Local Level Institutions Study	FY02
Country Financial Accountability Assessment	FY03
Local Government Finance Study	FY03
Local Level Institutions and Social Capital Study	FY03
Poverty Assessment	FY03
CAS Documents	
Bosnia and Herzegovina - Country Assistance Strategy	FY98
Bosnia and Herzegovina - Country Assistance Strategy Progress Report	FY99
Bosnia and Herzegovina - Country Assistance Strategy	FY00
Bosnia and Herzegovina - Country Assistance Strategy Progress Report	FY02
Bosnia and Herzegovina - Country Assistance Strategy Progress Report	FY03
Other Non-Lending Activities	
Donors Conferences (December 1995, April 1996, July 1997)	
Priority Reconstruction Procurement Bulletin (periodic)	
Implementation of the Priority Reconstruction Program: Status Report to the Donor Community (quarterly)	
Sectoral Project and Financing Needs (periodic)	
EDI Seminars on Project Implementation (Fall 1996) and Private Sector Development (March 1997)	
Priorities for Recovery and Growth, Discussion Paper #1	FY96
Priorities for Recovery and Growth: Sectoral Annexes, Discussion Paper #2	FY96
Priority Needs for the First Quarter of 1996, Discussion Paper #3	FY96
Labor Legislation TA	FY00
Economic Development Strategy TA	FY01
Household Survey (LSMS) TA	FY02
IDF Grant- Statistics	FY02
IDF- Treasury	FY02
Reconstruction and Development Program in Bosnia and Herzegovina: Progress Update	FY02
IDF- Environmental Action Plan	FY03
Labor Market in Postwar Bosnia and Herzegovina - How to Encourage Businesses to Create Jobs and Increase Worker Mobility	FY03
Trade Policies and Institutions in the Countries of South Eastern Europe in the EU Stabilization and Association Process	FY03

Source: World Bank Imagebank database and CASs and CAS Progress Reports.

Table A.5a OED Ratings, Approval FY96-03									
Country	Total evaluated (no.)	Total evaluated (\$m)	o/w Adjustment (\$m)	Outcome (no.)		IDI (no.)		Sustainability (no.)	
				% Sat.	% Sat. adj.	% Substan.	% Substan. adj.	% Likely	% Likely adj.
Bankwide	598	59,332	46,066	79	80	51	47	75	77
ECA	198	13,804	11,606	81	81	53	57	83	86
Bosnia-Herzegovina	26	506	293	96	100	38	80	84	80
Albania	10	184	120	80	100	60	75	80	75
Croatia	6	209	83	100	100	67	100	83	100
Georgia	12	311	203	75	25	58	25	91	75
Macedonia	11	216	84	73	100	50	50	78	50
Serbia and Montenegro	2	159	159	100	100	50	50	100	100

Source: World Bank data as of April 20, 2004.

Table A.5b Portfolio at Risk for Active Projects				
Country	No. of projects	Net commitment (\$m)	Projects at risk (%)	Commitment at risk (%)
Bankwide	1,400	94,359	18	17
Eastern Europe and Central Asia Region	282	13,616	11	13
Bosnia-Herzegovina	19	296	0	0
Albania	21	286	5	4
Croatia	11	448	0	0
Georgia	16	297	19	21
Macedonia	9	156	22	40
Serbia and Montenegro	11	249	0	0

Source: World Bank data, December 17, 2003.

Table A.6a		Cost Tables for 1996-03: Bank Budget					
Total	FY 96-99		FY 00-03		Total		
	US\$m	%	US\$m	%	US\$m	%	
Bosnia-Herzegovina							
Lending	7.2	54	5.2	27.9	12.4	38.7	
Supervision	4.4	33	8.3	44.5	12.7	39.7	
ESW	1.1	8	2.4	12.9	3.5	10.9	
Other	0.7	5	2.7	14.7	3.4	10.7	
Total	13.5	100	18.6	100.0	32.0	100.0	
ECA					FY96-03		
Lending					235.0	33.8	
Supervision					231.1	33.2	
ESW					122.7	17.6	
Other					107.4	15.4	
Total					696.1	100.0	
Bank							
Lending					1,014.4	26.3	
Supervision					1,244.4	32.3	
ESW					614.6	16.0	
Other					976.9	25.4	
Total					3,850.3	100.0	

Table A.6b Cost Tables for 1996-03: Bank Budget and Trust Funds						
Total	FY 96-99		FY 00-03		Total	
	US\$m	%	US\$m	%	US\$m	%
Bosnia-Herzegovina						
Lending	14.4	60	8.0	32.0	22.4	45.6
Supervision	6.6	28.0	11.3	45.0	17.9	36.5
ESW	1.6	7.0	2.5	10.0	4.1	8.3
Other	1.2	5.0	3.1	12.0	4.3	8.7
Total	23.8	100	24.8	100	48.6	99.1
ECA					FY96-03	
Lending					351.5	37.8
Supervision					274.5	29.5
ESW					141.7	15.3
Other					161.7	17.4
Total					929.3	100.0
Bank						
Lending					2,566.2	36.6
Supervision					1,533.2	21.8
ESW					967.2	13.8
Other					1,951.2	27.8
Total					7,017.8	100.0
Note: Composition of other costs (%)	BiH		ECA		Bank	
	FY 96-99	FY 00-03	FY 96-99	FY 00-03	FY 96-99	FY 00-03
Other	%	%	%	%	%	%
Technical assistance	32.6	35.2	45.5	33.8	45.2	37.2
Country program support	19.2	54.7	14.3	53.6	31.2	42.7
Client training	48.2	10.1	40.2	12.5	23.7	20.0

Source: Bank data as of December 12, 2003.

Table A.6c Average Costs of Lending (Bank Budget), Data for 1996-03

Region/country	Total cost, \$m	Number of projects	Net commitment, \$m	Net commitment for satisfactory and nonrisky projects, \$m	Average cost per project, \$1,000	Average costs \$ per \$1,000 of net commitment	Average costs \$ per \$1,000 of net commitment for satisfactory and nonrisky projects	Memo: Average project size, \$m
Bosnia-Herzegovina	32	42	834	795	763	38	40	20
ECA	696	474	33,721	21,561	1,469	21	32	71
Bank	3,850	1,976	168,873	125,188	1,949	23	31	85

Source: World Bank data as of December 18, 2003.

Table A.6d Average Costs of Lending (Bank Budget and Trust Funds), Data for 1996-03

Region/country	Total cost, \$m	Number of projects	Net commitment, \$m	Net commitment for satisfactory and nonrisky projects, \$m	Average cost per project, \$1,000	Average costs \$ per \$1,000 of net commitment	Average costs \$ per \$1,000 of net commitment for satisfactory and nonrisky projects	Memo: Average project size, \$m
Bosnia-Herzegovina	49	42	834	795	1,157	58	61	20
ECA	929	474	33,721	21,561	1,961	28	43	71
Bank	7,018	1,976	168,873	125,188	3,552	42	56	85

Source: World Bank data as of December 18, 2003.

Table A.7**Bosnia-Herzegovina: Bank's Senior Management, 1995-03**

Year	Vice president	Country director	Chief/resident representative
1995	Wilfried Thalwitz	Kemal Dervis	
1996	Johannes F. Linn	Christine Wallich	Rory O'Sullivan
1997	Johannes F. Linn	Christine Wallich/Christian Poortman	Rory O'Sullivan
1998	Johannes F. Linn	Christian Poortman	Rory O'Sullivan
1999	Johannes F. Linn	Christian Poortman	Rory O'Sullivan
2000	Johannes F. Linn	Christian Poortman	Joseph K. Ingram
2001	Johannes F. Linn	Christian Poortman	Joseph K. Ingram
2002	Johannes F. Linn	Christian Poortman	Joseph K. Ingram
2003	Johannes F. Linn	Orsalia Kalantzopoulos	Dirk Reinermann

Source: The World Bank Group Directory, 1995-03.

Table A.8**Bosnia-Herzegovina: Millennium Development Goals**

	1990	1995	2001	2002
1 Eradicate extreme poverty and hunger	<i>2015 target = halve 1990 \$1 a day poverty and malnutrition rates</i>			
Population below \$1 a day (%)	..	..	..	..
Poverty gap at \$1 a day (%)	..	..	..	..
Percentage share of income or consumption held by poorest 20%	..	..	..	..
Prevalence of child malnutrition (% of children under 5)	..	..	4	..
Population below minimum level of dietary energy consumption (%)	..	..	..	..
2 Achieve universal primary education	<i>2015 target = net enrollment to 100</i>			
Net primary enrollment ratio (% of relevant age group)	..	..	..	..
Percentage of cohort reaching grade 5 (%)	..	..	..	..
Youth literacy rate (% ages 15-24)	..	..	..	..
3 Promote gender equality	<i>2005 target = education ratio to 100</i>			
Ratio of girls to boys in primary and secondary education (%)	..	..	..	..
Ratio of young literate females to males (% ages 15-24)	..	..	..	..
Share of women employed in the nonagricultural sector (%)	..	..	..	..
Proportion of seats held by women in national parliament (%)	..	..	29	7
4 Reduce child mortality	<i>2015 target = reduce 1990 under-5 mortality by two-thirds</i>			
Under-5 mortality rate (per 1,000)	22	19	18	..
Infant mortality rate (per 1,000 live births)	18	16	15	..
Immunization, measles (% of children under 12 months)	52	53	92	..
5 Improve maternal health	<i>2015 target = reduce 1990 maternal mortality by three-fourths</i>			
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	15	..	..
Births attended by skilled health staff (% of total)	97.4	..	99.6	..

(Table continues on the following page.)

Table A.8

Bosnia-Herzegovina: Millennium Development Goals (continued)

	1990	1995	2001	2002
6 Combat HIV/AIDS, malaria and other diseases	<i>2015 target = halt, and begin to reverse, AIDS, etc.</i>			
Prevalence of HIV, female (% ages 15-24)	..	..	..	..
Contraceptive prevalence rate (% of women ages 15-49)	..	..	..	..
Number of children orphaned by HIV/AIDS	..	..	..	..
Incidence of tuberculosis (per 100,000 people)	..	..	90.5	..
Tuberculosis cases detected under DOTS (%)	..	..	47	..
7 Ensure environmental sustainability	<i>2015 target = various (see notes)</i>			
Forest area (% of total land area)	44.6	..	44.6	..
Nationally protected areas (% of total land area)	..	0.4	0.5	0.5
GDP per unit of energy use (PPP \$ per kg oil equivalent)	..	4.5	4.7	..
CO ₂ emissions (metric tons per capita)	1.1	1.2	1.2	..
Access to an improved water source (% of population)	..	..	..	..
Access to improved sanitation (% of population)	..	..	..	..
Access to secure tenure (% of population)	..	..	..	..
8 Develop a Global Partnership for Development	<i>2015 target = various (see notes)</i>			
Youth unemployment rate (% of total labor force ages 15-24)	..	..	..	..
Fixed line and mobile telephones (per 1,000 people)	..	70.6	168	..
Personal computers (per 1,000 people)	..	..	..	..
General indicators				
Population	4.5 million	3.4 million	4.1 million	4.1 million
Gross national income (GNI) (\$)	..	2.8 billion	5.1 billion	5.2 billion
GNI per capita (\$)	..	800	1,270.00	1,270.00
Adult literacy rate (% of people ages 15 and over)	..	..	..	..
Total fertility rate (births per woman)	1.7	1.6	1.6	1.6
Life expectancy at birth (years)	71.4	72.7	73.6	73.9
Aid (% of GNI)	..	57.4	12.7	..
External debt (% of GNI)	..	..	44.1	..
Investment (% of GDP)	..	20	20	20.9
Trade (% of GDP)	..	91.9	81.3	77.5

Note: In some cases the data are for earlier or later years than those stated.

Goal 1 targets: Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day. Halve, between 1990 and 2015, the proportion of people who suffer from hunger.

Goal 2 target: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.

Goal 3 target: Eliminate gender disparity in primary and secondary education, preferably by 2005, and to all levels of education no later than 2015.

Goal 4 target: Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate.

Goal 5 target: Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio.

Goal 6 targets: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS. Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.

Goal 7 targets: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources. Halve, by 2015, the proportion of people without sustainable access to safe drinking water. By 2020, to have achieved a significant improvement in the lives of at least 100 million slum dwellers.

Goal 8 targets: Develop further an open, rule-based, predictable, non-discriminatory trading and financial system. Address the Special Needs of the Least Developed Countries. Address the Special Needs of landlocked countries and small island developing states. Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long term. In cooperation with developing countries, develop and implement strategies for decent and productive work for youth. In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries. In cooperation with the private sector, make available the benefits of new technologies, especially information and communications.

Source: World Development Indicators database, April 2002.

Table A.9a			
Bosnia-Herzegovina: IDA Disbursements and Net Transfers (Including Billable Trust Funds), FY97-03 (millions of US\$ as of February 2, 2004)			
Fiscal year	Gross disbursements	Net disbursements^a	Net transfers^b
1996	68.2	68.2	68.2
1997	175.3	175.3	174.4
1998	87.9	87.9	86.1
1999	117.4	117.4	114.7
2000	80.8	80.8	77.1
2001	69.7	69.7	65.8
2002	43.4	43.4	39.2
2003	82.3	82.3	77.2
Total	725.1	725.1	702.7

a. Net disbursements are gross disbursements minus principal repayments.

b. Net transfers are net disbursements minus interest and fees .

Source: World Bank data.

Table A.9b			
Bosnia-Herzegovina: IBRD Principal Repayments and Interest, FY97-03 (millions of US\$ as of February 2, 2004)			
Fiscal year	Principal repayments	Interest	Total
1997	0	30.0	30.0
1998	0	35.5	35.5
1999	0	34.9	34.9
2000	0	32.6	32.6
2001	0	33.4	33.4
2002	16.7	26.2	42.9
2003	23.8	18.8	42.6
Total	40.5	211.5	251.9

Source: World Bank data.

ANNEX B: LIST OF PEOPLE INTERVIEWED

Government and Former Government Officials

- Ms. Azra Hadziahmetovic, Former Minister of Foreign Trade & Economic Relations
- Mr. Mirsad Kurtovic, Former Minister of Foreign Trade & Economic Relations
- Mr. Amir Hadziomeragic, Head of Statistics Section, Central Bank
- Ms. Ljiljana Marjanovic, Banking Supervision Coordinator, Central Bank
- Ms. Snezana Janjic, Economist, Research & Development Section, Central Bank
- H.E. Marin Kvarternik, Minister of Health and Social Welfare, RS
- Dr. Gordan Jelic, Director, Health PMU, RS
- Mr. Zarko Mionic, Assistant Minister of Finance, RS
- H.E. Gojko Savanovic, Minister of Education and Culture, RS
- Mr. Zdravko Marjanovic, Director, Education PMU, RS
- Mr. Srecko Bogunovic, Executive Director, RS Development & Employment Foundation
- Mr. Ranko Labovic, Former Director., RS Reconstruction Assistance Project, PMU
- Mr. Rajko Klickovic, Ministry of Labor and Veterans Affairs, RS
- Mr. Radomir Graonic, Ministry of Labor and Veterans Affairs, RS
- Mr. Milorad Dodik, Former Prime Minister, RS
- Mr. Omer Brankovic, Deputy Prime Minister, RS
- Mr. Branislav Zugic, Secretary, Ministry for Economic Relations and Secretary Coordination, RS
- Ms. Gordana Prastalo, Ministry of Finance, RS
- H. E. Ljerka Maric, Minister of Finance, BiH
- Mr. Miroljub Krunic, Assistant Minister of Finance, BiH
- Ms. Bejita Delic, Ministry of Finance, BiH
- Ms. Vera Letica, Ministry of Finance, BiH
- H.E. Ahmet Hadzipasic, Prime Minister, Federation of BiH
- Mr. Enver Trepic, Deputy Minister of Finance, Federation of BiH
- Ms. Sefika Hafizovic, Advisor to Prime Minister of Federation of BiH
- H.E. Mladen Ivanic, Minister of Foreign Affairs, BiH
- Mr. Pero Bosnic. Former Assistant Minister of Finance, Federation of BiH
- H.E. Tomo Lucic, Minister of Health, Federation of BiH
- Dr. Goran Cerkez, Assistant Minister of Health, Federation of BiH
- Ms. Lamija Kozaric-Rahman, General Manager, Investment Guarantee Agency
- Mr. Kerim Karabdic, PMU Director, Education, Federation of BiH
- Mr. Stevan Stevic, Head, Education Standards & Assessment Agency
- Mr. Zlatko Hurtic, PRSP Coordinator, Ministry of Foreign Trade, BiH
- Mr. Munever Imamovic, Former PMU Director
- Dr. Ibrahim Ramic, General Manager, Health PMU, Federation of BiH
- Mr. Resad Zutic, Director, Federation Privatization Agency
- Mr. Zlatko Bars, Director, Federation Banking Agency
- Mr. Marko Pejcinovic, Former Assistant Minister of Social Affairs
- Mr. Amrudin Nurak, Deputy Director, Pilot Emergency Labor Redeployment Project
- Ms. Kasema Catovic, Assistant Minister, Federation Ministry of Energy, Mining & Industry
- Mr. Mirsad Niksic, Assistant Minister, Federation Ministry of Energy, Mining & Industry
- Mr. Mile Srdanovic, Assistant Minister, Federation Ministry of Energy, Mining & Industry

Private Sector

- Mr. Slobodan Pesic, Manager, Vitaminka (Banja Luka)

Mr. Dragan Damjanovic, Executive Director, VS Bank (Banja Luka)
 Ms. Ljiljana Panic, Internal Auditor, VS Bank (Banja Luka)
 Mr. Mirko Risovic, CEO, Tropic Ribarstvo (Banja Luka)
 Mr. Damir Miljevic, Employers' Association, RS
 Mr. Aleksandar Kremenovic, Director, Micro-Fin, Banja Luka
 Ms. Amina Kurbegovic, Financial Manager, Akova Impex (Sarajevo)
 Mr. Asim Omanic, Director, Federation Investment Bank (Sarajevo)

International Organizations/Donor Agencies

Mr. Serban Ghinescu, Head of Office, EBRD
 Mr. Wulf Goretzsky, Program Manager, GTZ
 Mr. Seid Turkovic, UNDP
 Mr. John Ging, OSCE
 Mr. Alexander Paine, General Manager, SEED
 Mr. Merritt Broady, Office Director, USAID
 Mr. Peter Flynn, Senior Program Coordinator, USAID
 Mr. Donald Hays, Principal Deputy High Representative, OHR
 Mr. Renzo Daviddi, Head, Economic & Political Section, EC
 Mr. Peter Paproski, Head of Technical Cooperation, CIDA
 Mr. Almir Tanovic, Program Officer, CIDA
 H.E. Rob Bosscher, Ambassador, Embassy of the Netherlands
 Mr. Jan de Boer, Second Secretary, Embassy of the Netherlands
 Mr. Nedim Bukvic, Program Officer, SIDA
 Mr. John Hansen, Project Manager, DfID

NGOs

Ms. Nejira Nalic, Executive Director, MI-BOSPO
 Mr. Zarko Papic, Independent Bureau for Humanitarian Issues
 Mr. Greg Aubbery, Catholic Relief Services

World Bank

Mr. Dirk Reinermann, Country Manager
 Mr. Goran Tinjic, Project Officer
 Ms. Mirjana Karahasanovic, Project Analyst
 Mr. Jean-Luc Bernasconi, Senior Economist

Ms. Irina Smirnov, Research Analyst
 Mr. Steve Dimitriyev, Consultant
 Mr. Tarik Sahovic, Consultant
 Ms. Vesna Francic, Disbursement Officer
 Andras Horvai, Country Program Coordinator
 Siew Chai Ting, Lead Financial Management Specialist
 Christiaan Poortman, Former Country Director for BiH
 Martin Slough, Senior Financial Specialist
 Michael Koch, Lead Financial Officer
 Orsalia Kalantzopoulos, Country Director for BiH
 Roger Robinson, Country Manager (Armenia)
 Neil Simon Gray, Lead Country Officer
 Sonya Brajovic-Bratanovic, Lead Financial Sector Specialist
 Saumya Mitra, Lead Economist
 Ulrich Hewer, Senior Economist
 Christine Wallich, Former Country Director, BiH
 Egbert Gerken, Consultant
 Johannes Linn, Former Vice President, ECA
 Joseph Ingram, Former Country Manager, BiH
 Vladimir Kreacic, Lead Technical Specialist
 Rory O'Sullivan, Former Resident Representative
 Michel Noel, Lead Financial Specialist
 Sebnem Akkaya, Senior Country Economist
 Betty Hanan, Task Manager for Health Projects
 Kinnon Scott, LSMS
 Philip O'Keefe, Social Protection Task Manager
 James Stevens, Senior Operations Manager
 Emily Andrews, Lead Evaluation Officer
 Robert Palacios, Senior Economist
 Verdon Staines, Senior Economist
 Kendra Gregson, Consultant
 Misha Belkindas, Lead Statistician
 Christian Bodewig, Consultant
 Alan Abrahart, Consultant
 Ian Bannon, Manager, Conflict Prevention & Reconstruction
 Ruslan Yemtsov, Senior Economist
 Sergei Shatalov, Senior Economist
 Marcelo Bisogno, Country Economist
 Roy Gilbert, Lead Evaluation Officer
 Maniza Naqvi, Senior Operations Officer
 Csaba Feher, Senior Economist

IMF

Pierre Lazar
 Ms. Berina Selimovic-Mehmedbasic

ANNEX C: GUIDE TO OED'S COUNTRY ASSISTANCE EVALUATION METHODOLOGY

This methodological note describes the key elements of OED's Country Assistance Evaluation (CAE) methodology.¹

CAEs rate the outcomes of Bank assistance programs, not clients' overall development progress.

An assistance program needs to be assessed on how well it met its particular objectives, which are typically a sub-set of the client's development objectives. If an assistance program is large in relation to the client's total development effort, the program outcome will be similar to the client's overall development progress. However, most Bank assistance programs provide only a fraction of the total resources devoted to a client's development by donors, stakeholders, and the government itself. In CAEs, OED rates only the outcome of the Bank's program, not the client's overall development outcome, although the latter is clearly relevant for judging the program's outcome.

The experience gained in CAEs confirms that program outcomes sometimes diverge significantly from the client's overall development progress. CAEs have identified assistance programs that had:

- Satisfactory outcomes matched by good client development
- Unsatisfactory outcomes with clients that achieved good overall development results, notwithstanding the weak Bank program
- Satisfactory outcomes with clients that did not achieve satisfactory overall results during the period of program implementation.

Assessments of assistance program outcome and Bank performance are not the same.

By the same token, an unsatisfactory assistance program outcome does not always mean that

Bank performance was also unsatisfactory, and *vice-versa*. This becomes clearer once we consider that the Bank's contribution to the outcome of its assistance program is only part of the story. The assistance program's outcome is determined by the *joint* impact of four agents: (a) the client, (b) the Bank, (c) partners and other stakeholders, and (d) exogenous forces (such as events of nature, international economic shocks, and so on). Under the right circumstances, a negative contribution from any one agent might overwhelm the positive contributions from the other three, and lead to an unsatisfactory outcome.

OED measures Bank performance primarily on the basis of contributory actions the Bank directly controlled. Judgments regarding Bank performance typically consider the relevance and implementation of the strategy; the design and supervision of the Bank's lending interventions; the scope, quality, and follow-up of diagnostic work and other analytical and advisory activities; the consistency of Bank's lending with its non-lending work and with its safeguard policies; and the Bank's partnership activities.

Evaluation in Three Dimensions

As a check on the inherent subjectivity of ratings, OED examines a number of elements that contribute to assistance program outcomes. The consistency of ratings is further tested by examining the country assistance program across three dimensions:

- (a) A *Products and Services Dimension*, involving a "bottom-up" analysis of major program inputs—loans, analytical and advisory activities, and aid coordination
- (b) A *Development Impact Dimension*, involving a "top-down" analysis of the principal

- program objectives for relevance, efficacy, outcome, sustainability, and institutional impact
- (c) An *Attribution Dimension*, in which the evaluator assigns responsibility for the program outcome to the four categories of actors.

Rating Assistance Program Outcome

In rating the outcome (expected development impact) of an assistance program, OED gauges the extent to which major strategic objectives were relevant and achieved, without any shortcomings. Programs typically express their goals in terms of higher-order objectives, such as poverty reduction. The Country Assistance Strategy (CAS) may also establish intermediate goals, such as improved targeting of social services or promotion of integrated rural development, and specify how they are expected to contribute toward achieving the higher-order objective. OED's task is then to validate whether the intermediate objectives produced satisfactory net benefits and whether the results chain specified in the CAS was valid. Where causal linkages were not fully specified in the CAS, it is the evaluator's task to reconstruct this causal chain from the available evidence and assess relevance, efficacy, and outcome with reference to the intermediate and higher-order objectives.

Evaluators also assess the degree of client ownership of international development priorities, such as the Millennium Development Goals, and Bank corporate advocacy priorities, such as safeguards. Ideally, any differences in dealing with these issues would be identified and resolved by the CAS, enabling the evaluator to focus on whether the tradeoffs adopted were appropriate. However, in other instances, the strategy may be found to have glossed over certain conflicts or avoided addressing key client development constraints. In either case, the consequences could include a diminution of program relevance, a loss of client ownership, and/or unwelcome side-effects, such as safeguard violations, all of which must be taken into account in judging program outcome.

Ratings Scale

OED utilizes six rating categories for **outcome**, ranging from highly satisfactory to highly unsatisfactory:

Highly Satisfactory: The assistance program achieved at least acceptable progress toward all major relevant objectives, **and** had best practice development impact on one or more of them. No major shortcomings were identified.

Satisfactory: The assistance program achieved acceptable progress toward all major relevant objectives. No best practice achievements or major shortcomings were identified.

Moderately Satisfactory: The assistance program achieved acceptable progress toward *most* of its major relevant objectives. No major shortcomings were identified.

Moderately Unsatisfactory: The assistance program did *not* make acceptable progress toward *most* of its major relevant objectives, *or* made acceptable progress on all of them, but either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.

Unsatisfactory: The assistance program did not make acceptable progress toward *most* of its major relevant objectives, *and* either (a) did not take into adequate account a key development constraint or (b) produced a major shortcoming, such as a safeguard violation.

Highly Unsatisfactory: The assistance program did not make acceptable progress toward *any* of its major relevant objectives and did not take into adequate account a key development constraint, while also producing at least one major shortcoming, such as a safeguard violation.

The **institutional development impact (IDI)** can be rated as: *high*, *substantial*, *modest*, or *negligible*. IDI measures the extent to which the program bolstered the client's ability to make more efficient, equitable, and sustainable use of its human, financial, and natural resources. Examples of areas included in judging the institutional development impact of the program are:

- The soundness of economic management
- The structure of the public sector and, in particular, the civil service
- The institutional soundness of the financial sector
- The soundness of legal, regulatory, and judicial systems

- The extent of monitoring and evaluation systems
 - The effectiveness of aid coordination
 - The degree of financial accountability
 - The extent of building NGO capacity
 - The level of social and environmental capital.
- Economic resilience
 - Social support (including conditions subject to safeguard policies)
 - Environmental resilience
 - Ownership by governments and other key stakeholders
 - Institutional support (including a supportive legal/regulatory framework, and organizational and management effectiveness)
 - Resilience to exogenous effects, such as international economic shocks or changes in the political and security environments.

Sustainability can be rated as *highly likely*, *likely*, *unlikely*, *highly unlikely*, or, if available information is insufficient, *non-evaluable*. Sustainability measures the resilience to risk of the development benefits of the country assistance program over time, taking into account eight factors:

- Technical resilience
- Financial resilience (including policies on cost recovery)

ANNEX D: COMMENTS FROM THE GOVERNMENT

BOSNA I HERCEGOVIA
VIJEĆE MINISTARA
PREDSJEDAVAJUĆI



BOSNIA AND HERZEGOVINA
COUNCIL OF MINISTERS
CHAIRMAN

Sarajevo, April 12, 2004

THE WORLD BANK
Operations Evaluation
Mr. Gregory K. Ingram
Director-General

Re: Bosnia and Herzegovina – Country Assistance Evaluation

Dear Mr. Ingram:

Thank you on your letter of March 10, 2004 and opportunity to comment a draft OED report entitled “Bosnia and Herzegovina Country Assistance Evaluation”, which assesses World Bank assistance to Bosnia and Herzegovina during the period 1996 – 2003.

In general I share the analysis of the World Bank strategy and overall economic performance. The governments in Bosnia and Herzegovina regard the World Bank contribution to the recovery of our country as immeasurable. The World Bank has played a pivotal role in providing the country with necessary financing and technical assistance. However, extremely good job has been done in the area of donor mobilization and co-ordination. Given this I would share your analysis that in Bosnia, the World Bank was “at its best”, and that experience from the Bank’s involvement in our country could be regarded as “best practice”. For the future Bank’s involvement in post conflict situations I would recommend the same approach to be taken -- early involvement and strengthening of the government capacity should remain the main elements of the future strategy.

The positive impact of the Bank’s involvement in post conflict society like Bosnia and Herzegovina is noticeable in all areas and sectors. Bosnia and Herzegovina represents good case where co-coordinated donor assistance, together with building local capacities of the post conflict society, could improve situation economically and politically.

The privatization of the banking sector in Bosnia and Herzegovina is one of the success stories. However, insufficient results in privatization of companies could be regarded as not satisfactory. Despite efforts made by the World Bank this area remains the matter for biggest concern. The World Bank failed to make satisfactory impact on the previous governments to successfully close the privatization process of the companies.

One of the reasons for this was the “lack of the ownership on the Bank side”. The Bank should have not allowed having so many players on the donor’s side involved in

“helping” the country to speed up the privatization. This area has traditionally always been the area where the Bank has comparative advantage. Together with government’s indecisiveness, this contributed to creation of the big corporate debt, which is the biggest problem and risk for the Bosnia economy today. Therefore, I hope that Bank will not continue making the same mistake and will impose itself as main player in the forthcoming process of helping the governments to implement corporate restructuring plan, which is under preparations. This would be a clear recommendation from our side.

I would also like to support the recommendations to integrate the PIU structure into the governments and to make sure that the future Bank’s country assistance will be in line with the Medium Term Development Strategy of BiH (PRSP) and the EU integration process.

Yours Sincerely,

Adnan Terzić

A handwritten signature in black ink, appearing to read "A. Terzić", with a horizontal line underneath it.

Copy: Mr. Andrianus P.W. Melkert, Executive Director for BiH
Mr. Ajay Chhibber, Director, OED
Mr. R. Kyle Peters, Senior Manager, OED
Ms. Orsalia Kalantzopoulos, Country Director for BiH
Mr. Dirk Reinermann, Country Manager for BiH

ANNEX E: IFC'S ASSISTANCE TO BOSNIA AND HERZEGOVINA IN FY97–03

Bosnia and Herzegovina (BiH) became a member of IFC in April 1996. IFC's strategy in the country has been to support public and private efforts to bring about a dual transformation in BiH, facilitating on the one hand post-conflict rehabilitation and reconstruction and, on the other hand, the transition from a socialist to a market economy. The strategy thus encompassed all sectors of the economy, but particularly areas of pre-war strength (SMEs, wood processing, agribusiness) and post-war development needs (financial markets and infrastructure). Early on in its involvement, IFC recognized that serious deficiencies in BiH's business climate with regard to privatization and the regulatory environment needed to be addressed through non-investment operations, and that all investment projects in BiH required substantial technical assistance if they were to become bankable prospects. Accordingly, IFC followed a multidimensional approach, combining investment operations in strategically targeted areas with various non-investment operations.

Investments were made directly and through the IFC Small Enterprise Fund (SEF), a facility specializing in financing SMEs in a selected group of countries throughout the world covered by the FY96–approved "Extending IFC's Reach" initiative. Between FY97 and FY03, in line with the strategy, IFC approved US\$100 million (including US\$8 million in syndicated loans) in 16 projects in financial markets (including microfinance and collective investment vehicles), cement and construction, wood processing, food and beverages, chemicals, and trade. This led to 13 commitments with a total value of US\$70 million. While BiH's FY97–03 approvals and commitments trailed some other Southern European countries¹ (Croatia, Bulgaria, and Romania) in dollar amounts, BiH nevertheless ranked seventh among all transition

countries² in the ratio of IFC approvals and commitments to average GDP for the period and outranked other Southern European countries except Macedonia and, in the case of approvals, Albania. In approvals and commitments per capita, BiH was among the top five transition countries and third among Southern European countries.

While only three projects so far have had their outcomes evaluated, this Operations Evaluation Group (OEG) review complemented evaluation findings with data from supervision documents and credit risk ratings (CRRs) to arrive at judgments regarding the development and investment outcomes of the 10 mature projects. The findings indicate that IFC's strategy was mostly appropriate, especially with respect to financial markets development. Both projects in the banking sector, a microfinance bank and a special purpose vehicle for commercial bank privatization, have had significant and far-reaching development impacts and justify IFC's continued involvement in the sector, evidenced by new commitments. Projects in the food and beverages sector have likewise delivered good results. The only significant shortfall in the strategy appears to have been the emphasis on the wood-processing sector. Both IFC projects in the sector have performed extremely poorly and had minimal or negative development impacts. Reasons for the poor performance include the historical ownership structure and organization in BiH's wood processing industry, where companies were part of a state conglomerate that controlled centralized marketing, accounting, and production functions. As a result, companies did not lend themselves easily to privatization and lacked essential management and marketing skills. Technical assistance provided by IFC proved insufficient to overcome these weaknesses. By the time

the BiH agency line was approved, the agency line instrument (practically discontinued in IFC by now) had a well-established IFC-wide track record of poor outcomes, but it was ignored and another poor outcome resulted. Overall, IFC's operations in BiH made a significantly negative contribution to IFC's net profit inclusive of IFC's own-account TA expenditures, and put BiH near the bottom in profit contribution ranking among transition countries.

Non-investment operations were undertaken by the Foreign Investment Advisory Service (FIAS); Southeast Europe Enterprise Development (SEED), a project development facility managed by IFC; and by project consultants funded through IFC's Technical Assistance Trust Funds (TATF).

FIAS undertook four operations during FY98–03, starting with assistance to the government in drafting an investment policy law, and also including assistance in the development of an institutional framework for the newly established Foreign Investment Promotion Agency (FIPA). FIAS also carried out two studies of administrative barriers to investigate the procedural impediments to the establishment and operation of investment projects, including one performed in conjunction with the World Bank Business Environment Adjustment Credit (BAC). While most of these are too recent to have been covered by the joint OED-OEG evaluation of FIAS in 1998, evidence from other sources suggests that the delivery and outcomes of these operations are satisfactory and impacts are forthcoming.

Since its inception in mid-2000, SEED has provided investment services (including preparation of internal enhancement and investment plans) and capacity building services (including training) to SMEs and local business associations. It has also sought to improve the business enabling environment for SMEs by working with government agencies and international donors on policy, legal, and regulatory reform efforts. In addition to BiH, the facility also operates in Albania, Kosovo, FYR Macedonia, and Serbia and Montenegro. However, BiH is its largest client, accounting for 51 percent of the entire SEED workforce and more than 40 percent of projects in each category of services it provides. An independent mid-term evaluation

of SEED conducted by OEG in 2003 found that most SMEs are satisfied with the investment and SME capacity building services provided by SEED and reported improved performance as a result of changes catalyzed by SEED in their strategy or operations. The study also concludes that SEED has contributed to specific reforms aimed at enhancing the business environment, a critical priority for BiH. Going forward, it recommends, most importantly, that SEED focus its efforts to provide more intensive services to clients and consider reorganizing its operations based on countries and service lines.

In terms of TATF volume, BiH is the fourth-largest client among transition countries after Russia, Ukraine, and Belarus, and the largest among Southern European countries in both absolute volume and ratio of TATF funding to GDP. Between FY97 and FY03, IFC arranged TATF funding for 20 operations. Most of these (16, or 80 percent) were linked to specific investment projects, with virtually every investment project entailing a TA component. Faced with BiH's difficult business climate, IFC made an appropriate choice of instruments in complementing investment operations with non-investment support. Yet the bulk of both funds (52 percent) and of projects (45 percent) related to the wood processing sector, and, in retrospect, considering the minimal impact of TA in the sector, the funding could have been allocated more efficiently to projects in other sectors (especially financial markets, where TA has been shown to have had a significant impact on private sector development).

Among the lessons IFC has derived to date from its investment and non-investment operations in BiH are (1) the need to take into account relevant specific country risks when screening projects and to hold off disbursement if fundamental project weaknesses are not first resolved; (2) the need to critically assess, in light of lessons of experience, the ability of state-owned companies to function independently in a market environment following their split-off from a state conglomerate; and (3) the critical importance of streamlined design and local expertise in planning non-investment operations, and of attentive monitoring of such operations to be able to make timely adjustments.

Table E.1 IFC Approvals and Commitments in BiH in FY97-03 by Sector, Year, Number, and Volume																
A. Approvals	FY97		FY98		FY99		FY00		FY01		FY02		FY03		Total, FY97-03	
	US\$ M	No.	US\$ M	No.	US\$ M	No.	US\$ M	No.	US\$ M	No.	US\$ M	No.	US\$ M	No.	US\$ M	No.
Cement and construction	-	-	-	-	-	-	-	-	-	-	29.1	1	-	-	29.1	1
Chemicals	-	-	-	-	2.7	1	-	-	2.3	1	-	-	-	-	5.0	2
Financial markets	2.6	2	-	-	0.3	1	-	-	14.1	2	17.5	2	-	-	34.5	7
Food and beverages	8.1	1	2.1	1	2.4	1	-	-	-	-	-	-	-	-	12.6	3
Industrial (wood)	-	-	16.0	2	-	-	-	-	-	-	-	-	-	-	16.0	2
Trade	-	-	2.5	1	-	-	-	-	-	-	-	-	-	-	2.5	1
Total for FY	10.7	3	20.6	4	5.3	3	-	-	16.4	3	46.6	3	-	-	99.6	16

Note: Amounts for food and beverages in FY97 and for cement and construction in FY02 include US\$3 M and US\$5 M in syndicated loan approvals, respectively.

B. Commitments	FY97		FY98		FY99		FY00		FY01		FY02		FY03		Total, FY97-03	
	US\$ M	No.	US\$ M	No.	US\$ M	No.	US\$ M	No.	US\$ M	No.	US\$ M	No.	US\$ M	No.	US\$ M	No.
Cement and construction	-	-	-	-	-	-	-	-	-	-	-	-	9.8	1	9.8	1
Chemicals	-	-	-	-	2.4	1	-	-	2.1	1	-	-	-	-	4.5	2
Financial markets	-	-	2.5	2	0.3	a	-	-	0.4	a	12.4	1	12.7	1 ^a	28.3	3
Food and beverages	-	-	4.1	1	4.6	2	-	-	-	-	-	-	-	-	8.7	3
Industrial (wood)	-	-	16.4	2	-	-	-	-	-	-	-	-	-	-	16.4	2
Trade	-	-	-	-	2.5	1	-	-	-	-	-	-	-	-	2.5	1
Total for FY	-	-	23.0	5	9.8	4	-	-	2.5	1	12.4	1	22.5	2	70.2	13

a. Amounts for the year include a rights issue that is not considered an individual commitment.

ANNEX F: MIGA GUARANTEE OPERATIONS IN BOSNIA AND HERZEGOVINA

Project enterprise	Investor name	Investor country	Sector	FY issued	Active
CC Beverages Production Services d.o.o.	Coca-Cola Beverages Holdings II B.V.	Netherlands	Manufacturing	2000	No
Coca-Cola Beverages B-H d.o.o.	Coca-Cola Beverages Holding II B.V.	Netherlands	Manufacturing	2000	No
Coca-Cola Beverages B-H d.o.o.	CCB Management Services G, bh	Austria	Manufacturing	2000	No
Faiffeisenbank d.d.	Raiffeisen Zentralbank Osterreich AG	Austria	Financial	2001	Yes
International Dialysis Centers Banja Luka	International Dialysis Centers B.V.	Netherlands	Services	2001	Yes
International Dialysis Centers Banja Luka	International Dialysis Centers B.V.	Netherlands	Services	2001	Yes
Hypo Alpe-Adria-Bank d.d. Bosnia Herzegovina	Hypo Alpe-Adria-Bank AG	Austria	Financial	2001	Yes
Hypo Alpe-Adria-Bank d.d. Bosnia Herzegovina	Hypo Alpe-Adria-Bank AG	Austria	Financial	2001	Yes
Commerce Bank d.d.	Slovene Export Corporation, Inc.	Slovenia	Financial	2002	Yes
Mercator Trzni Centar Sarajevo	Poslovni Sistem Mercator d.d.	Slovenia	Services	2002	Yes
Mercator Trzni Centar Sarajevo d.o.o.	Poslovni Sistem Mercator d.d.	Slovenia	Services	2002	Yes
HVB-Bank Bosnia and Herzegovina d.d.	Bank Austria Creditanstalt AG	Austria	Financial	2003	Yes
Kristal Banks Ad Banja Luka	Hypo Alpe-Adria Bank AG	Austria	Financial	2003	Yes
Raiffeisen Bank d.d. Bosnia Herzegovina	Raiffeisen Zentralbank Osterreich AG (RZB)	Austria	Financial	2003	Yes
Banja Luka D.O.O.	International Dialysis Centers BV	Netherlands	Services	2004	Yes
Raiffeisen Bank d.d. Bosnia i Hercegovina	Raiffeisen Zentralbank Osterreich AG	Austria	Financial	2004	Yes
Raiffeisen Bank d.d. Bosnia Herzegovina	Raiffeisen Zentralbank Osterreich AG	Austria	Financial	2004	Yes

ANNEX G: MANAGEMENT ACTION RECORD

Major Monitorable OED Recommendations Requiring a Response	Management Response
<p>Future country assistance strategies will need to be closely aligned with both the PRSP and EU assistance, in order to leverage reduced IDA assistance and keep BiH focused on EU association and eventual accession.</p>	<p>World Bank has historically worked very closely with the EC, co-chairing five donor conferences for BH. More recently staff, in close collaboration with both the BH authorities and the EC, have successfully helped to ensure that governments' recently completed medium-term development strategy (PRSP) is a single strategy with objectives both of growth and poverty reduction and stabilization and association with the EU. The Bank's new FY05–08 CAS will be firmly rooted in the PRSP and is currently being prepared in close partnership with the EC to ensure assistance is complementary and more selective, given declining IDA flows to BH. It is anticipated future CASs will be prepared and implemented in the same manner.</p>
<p>Future assistance should give priority to governance issues <i>in all sectors</i>. In PSD, for example, this would include focusing on dealing with state-owned enterprises (hard budget constraints, removing legal and institutional barriers to privatization) and strengthening privatization agencies.</p>	<p>Management is placing even greater emphasis on governance in both ongoing and upcoming Bank-supported activities. The new draft CAS proposes programmatic lending whose primary focus in the early years is to support the authorities in solving corporate governance issues in the SOEs to facilitate further privatization and liquidation; in parallel with ongoing complementary efforts to reform public administration and reduce its share within the economy. Nevertheless, it should be noted that this approach still requires strong "ownership" from the BH authorities to succeed.</p>
<p>Use of PMUs should be discontinued and PMUs should be absorbed into government structures. This will in turn require reforms in civil service pay scale.</p>	<p>PMUs have served the Bank well in the immediate post-conflict period, as the CAE also points out. Recognizing the need to further empower governments, the number of PMUs has already been significantly reduced in recent years, and the mainstreaming of some PMU activities into government has taken place. Management clearly recognizes that the time has now come for an accelerated approach to mainstreaming. In the recent 2003 CPPR a decision was made that all new projects should be implemented within government structures. Nevertheless, until significant strengthening of government procedures and processes takes place, certain PMU activities (particularly procurement and financial management) will have to be contracted out to safeguard the Bank's fiduciary obligations.</p>

Major Monitorable OED Recommendations Requiring a Response	Management Response
Bank projections on growth, creditworthiness, and pace of reforms should be made on a more conservative basis than in the past.	Building on the lessons of the past, management intends to be even more cautious in all these areas, making careful assessments of the political economy of reform. Nevertheless the Bank needs to use its leadership and convening power to best effect to help the BH authorities accelerate the reform process to ensure a self-sustaining economy emerges sooner rather than later. Any access to IBRD lending will be predicated on well-defined triggers, which establish that substantive milestones in the reform process will have been achieved.

ANNEX H: CHAIRPERSON'S SUMMARY: COMMITTEE ON DEVELOPMENT EFFECTIVENESS (CODE)

The informal Subcommittee (SC) of the Committee on Development Effectiveness (CODE) met on June 2, 2004 to discuss the Bosnia and Herzegovina (BiH) Country Assistance Evaluation (CAE) prepared by the Operations Evaluation Department (OED).

Background. OED's report noted that the overall outcome of the Bank's contribution to the reconstruction program in BiH was satisfactory. Progress was observed in some areas of public sector management such as fiscal management, tax harmonization and coordination, and restructuring of financial sector. The Bank has successfully supported reforms in health, education, social protection, and infrastructure. However, the report also noted that the transition to a private sector-led, market-based economy had made limited progress. The outcome of mass privatization of large enterprises has been generally unsatisfactory; the environment for PSD remains unfriendly; and problems remain in the financial sector. The evaluation concluded that the Bank's assistance should be focused on improving economic policies and management, supporting the country's efforts toward EU association, closely aligning the Bank's program with the PRSP to strengthen the government ownership of reforms, and paying more attention on weaknesses in governance across all sectors of the economy.

Management broadly concurred with the CAE conclusions and noted that the recommendations will be reflected in the new BiH country strategy. Management noted that (i) the corporate governance issues in the SOEs and privatized firms will be taken up in a new programmatic adjustment operation that will be included in the country strategy ; (ii) the improvement of the business environment, in particular through the

judicial reform, will be intensified in coordination with other donors; (iii) various initiatives were being pursued to phase out PMU's in project implementation but certain PMU activities will remain contracted out to safeguard the Bank's fiduciary responsibilities, especially in procurement and financial management, until significant improvements occur in the institutional capacity of BiH. Management did note, however, the CAE's assessment of Bank assistance to the financial sector had underestimated the leadership role the Bank played in helping the authorities successfully reform the banking sector, and the success acknowledged by the CAE, of a variety of Bank-supported financial instruments to help the real sector.

The Chair representing BiH expressed her appreciation for OED's report and the management comments. She noted that the country faces risks related to the existing complex government structure, external shocks, and the unfinished reform agenda in the areas of labor market, large public enterprises, and competitiveness. She also indicated that her authorities share the conclusions of OED's analysis and appreciate the Bank's timely support since the end of the war and expect further Bank assistance in the privatization process.

Main Conclusions and Next Steps. The Subcommittee welcomed the CAE and agreed with the OED evaluation of Bank assistance. Members commended the management for an outstanding performance during the reconstruction period and encouraged the country team to continue supporting the country's efforts to recover economic growth. Among the major issues discussed at the meeting were the challenges ahead, the vulnerabilities of the economy, and the lessons to be

drawn from this conflict affected country. Members welcomed the timely discussion of the CAE prior to the Board meeting on the PRSP.

The following points were raised:

Bank strategy and assistance. Members noted that the early involvement of the Bank, especially investment in the infrastructure sector, was an important factor in the success of the reconstruction program. Members commended the Bank's adequate assistance in spite of the lack of information and absence of government's strategy in 1995. OED recognized that at the beginning of the exercise there was no blueprint, and there was no real government role because it was very fragmented.

Donor coordination. Several members indicated that BiH is an exceptional case of Bank and donors assistance compared to other post-conflict countries. OED agreed that the international community responded generously. Some members welcomed BiH as best practice for the Bank's involvement in donor coordination, i.e., in organizing Consultative Group meetings for mobilizing funding through trust funds. However, one member stressed that the coordination was not that good in-country or on the ground, and asked for more details on the obstacles to better coordination, on what could have been done differently, and why the Bank did not chair any of the working groups in the country. OED noted that the U.N. and other organizations had been in the country during the conflict; the Bank started its support somewhat later when roles had already been assumed by others. Rather than looking at the past, management proposed to look forward to bringing donor coordination closer to the country; empowering the BiH authorities to take over donor activities themselves, moving donor activities from Brussels to the country office; and adopting a harmonization agenda.

PMU. One member expressed his concern that PMUs may weaken the capacity of the countries rather than strengthen them. Another member asked if the problem of tax evasion and corruption is partially attributed to an incentive for rent-seeking of government officials due to the

relatively low salaries in the public administration compared to the salaries paid to the PMU staff. OED noted that the use of PMUs is a common practice in Bank projects, particularly but not exclusively in post-conflict cases, and a reflection of lack of government capacity and the need to move quickly. Management agreed with the questions posed on corruption and governance, and indicated that the lending program and policy dialogue are geared to enhance the capacity of the public sector; however, results from these efforts should be expected in the medium term. PMUs will gradually become part of the government.

Privatization. Members noted that the limited progress in privatization could be rooted in the lack of adequate information and weak involvement of the Bank in pushing for reforms. A member supported the government request for Bank assistance in implementing a sound privatization program. Management recognized that the size of the public sector is one of the impediments to increasing savings.

Social data. One member asked about the reasons for significant population growth in 1995, and also stressed that the social indicators such as a high rate of immunization do not clearly indicate that there were improvements. OED explained that the surge of population could be explained by the influx of refugees back to the country post war. Management clarified that social indicators as recorded in the CAE were considered to be reasonably accurate given that BiH inherited fairly robust social services from the Former Socialist Republic of Yugoslavia. Nevertheless, there were still significant weaknesses in national statistics—for example, a census had not been carried out since before the war—which were gradually being addressed through ongoing EU, IMF, and Bank supported programs.

Debt analysis. Some members were interested in the adequacy of future financial flows; and others asked whether the country's future negative transfers might indicate an unsustainable debt burden. They also wanted to know how the negative flow will influence the Bank's future relationship with the country. Management replied

that with the three new adjustment credits, net flows will be positive given the continued program performance. One member asked whether the Bank is being overly optimistic regarding the resumption of IBRD lending to BiH. OED noted that BiH inherited IBRD debt as a share of the debt split up from former Yugoslavia. Management added that the debt situation is improving according to the new country strategy projections.

Looking forward. Members overall concurred with the OED recommendations to emphasize the

PRSP priorities, the privatization program, EU integration, improvement of governance, strengthening institutions, and integration of PMUs into the public sector. Members stressed the importance of consolidating market-oriented reforms, and improving the business climate. Management echoed the concerns expressed by the Subcommittee members and OED and indicated that the privatization agenda together with improving the public sector are the two main pillars of the country strategy.

Chander Mohan Vasudev
Chairman

ENDNOTES

Executive Summary

1. The High Representative represents the Peace Implementation Council, which is composed of the nations that undertook to support the peace agreement. The Council also reports to the European Union (EU) and the U.N. Security Council.

2. During calendar year 1996, the Bank initiated 16 emergency reconstruction projects, with a total IDA and trust fund commitment of \$356 million.

Resumen

1. El Alto Representante representa al Consejo de Implementación de la Paz, formado por los países que se comprometieron a respaldar el acuerdo de paz, y que depende asimismo de la Unión Europea y del Consejo de Seguridad de las Naciones Unidas.

2. Durante el año 1996, el Banco inició 16 proyectos de reconstrucción de emergencia, habiéndose comprometido un total de \$356 millones en recursos de la AIF y fondos fiduciarios.

Résumé analytique

1. Le Haut Représentant représente le Conseil de mise en oeuvre de la paix, composé des nations qui se sont engagées à appuyer l'accord de paix. Le Conseil rend également compte à l'Union européenne (UE) et au Conseil de sécurité des Nations Unies.

2. Au cours de l'année civile 1996, la Banque a pris l'initiative de 16 projets de reconstruction d'urgence, qui ont bénéficié d'un engagement de l'IDA et du fonds fiduciaire se chiffrant au total à 356 millions de dollars.

Chapter 1

1. The 1991 population of 4.4 million comprised 43.7 percent Moslems (now referred to as Bosniaks), 31.4 percent Serbs, 17.3 percent Croats, and 7.6 percent "other" ("Yugoslav" or other nationalities).

2. Formally titled "The General Framework Agreement for Peace in Bosnia and Herzegovina."

3. These included foreign relations; customs and foreign trade policy, immigration, inter-entity policies on transport, communications and energy, responsibility for all external debt; and a Central Bank, headed by a non-BiH citizen, which would operate as a currency board for a minimum period of six years. The Dayton Accords gave the IMF control over monetary policy and authority to appoint the governor of the Central Bank.

4. There is also the enclave of Brcko, which is administered separately.

5. The Entity governments have been demobilizing since 1999 under intense pressure from the international community and are moving slowly toward a unified military policy and a single defense force.

6. However, the Dayton Accords did provide that, with the approval of the State Parliament, the State could impose taxes.

7. Referred to as the Priority Reconstruction and Recovery Program. The total was to be divided between the FBH (\$3.7 billion) and the RS (\$1.4 billion), primarily on the basis of population.

8. GDP data are only estimations. The underlying data series are either weak or nonexistent. Current population numbers are also estimates; there has been no census since 1991. The return of refugees and the resettlement of the internally displaced have been carefully documented by United Nations High Commissioner for Refugees, but there has also been significant out-migration. Some sources estimate the current population to be 4.0-4.1 million, but many observers believe that the population has not recovered to that level. This report uses an estimate of 3.8 million.

9. U.N. estimates of poverty incidence in the immediate post-war period range from 50 percent to 70 percent. The only reliable survey of poverty in the country is the 2001 LSMS Household Survey, which gave an overall poverty rate of 19.5 percent (16 per-

cent in FBH and 25 percent in RS), but with another 30 percent of the population only marginally above the poverty line. Poverty incidence for other former SFRY republics for which data are available (for 1999) is reported to be: Croatia, 8 percent; Macedonia, 16 percent; Serbia and Montenegro, 18 percent. See World Bank 2003d.

Chapter 2

1. Because BiH was not yet a member of the Bank, there was no Bank budget for these activities. The BiH Working Group was initially funded by the Netherlands government, and subsequently by the United States as well.

2. Of the TFBH, \$25 million was provided on grant terms and the balance on IDA terms.

3. The cutoff income level for IDA eligibility was a 1994 per capita GNP of \$865.

4. A 1997 World Bank private sector assessment and an FIAS report, *Commercial and Legal Framework and Administrative Barriers to Investment in BiH* (FIAS 2001). The private sector assessment was widely disseminated and discussed at a seminar organized by the World Bank Institute.

5. The government, with the support of key elements of the international community, was strongly in favor of mass privatization, primarily in order to settle significant claims of private citizens against the State that had arisen as a result of the war.

6. In the *EBPAC* documents (see World Bank 2003e), the Bank noted that progress in setting up the appropriate architecture for fostering private markets has greatly outpaced developments in other transition economies, and Bosnia is now poised to advance rapidly. Yet in 1999 a *Wall Street Journal* survey ranked BiH's investment climate 19th among 27 transition countries. The 2001 FIAS study confirmed that the absence of a transparent and predictable legal and regulatory framework was a major impediment to establishing and operating a business in BiH.

7. More than 90 percent of banking sector assets in the FBH were nonperforming in 1996.

8. In RS the *Emergency Pilot Credit Project* was fully disbursed six months ahead of schedule and the repayment rate was 97 percent. More than 50 percent of the credit line under the *Private Sector Credit Project* (PSCP) was disbursed in the first year and, as of October 2003, there had been no default in payment.

However, loans to municipalities have been less successful, and lending to farmers has not had a good repayment record.

9. One reason for the delay could have been the lengthy transition period for the formation of new governments after the fall 2000 elections. But this could have been anticipated and factored into the loan design.

10. For example, in the FBH the full privatization of the PBS Group (Privredna Banka Sarajevo) is still pending, although the largest unit of the PBS Group, Central Profit Bank, was merged with another PBS bank, Travnica Banka, and finally sold to a major Austrian Bank in October 2003.

11. Council of Europe and the World Bank 2000 and other project-related analytical work fed into broader, integrative studies such as World Bank 2002b, 2003d.

12. This system required firms to keep workers they could not employ full time on a "waitlist" and pay them partial compensation and social benefits until such time as the firm could hire them.

13. The Bank did, however, coordinate a Social Protection Task Force.

Chapter 3

1. Official statistics report unemployment rates of over 40 percent, but these data are known to be overstated, because employers have a strong incentive not to report all employees; and those who are unrecorded for wage tax purposes, plus many of the self-employed, report themselves as unemployed and draw unemployment compensation. The LSMS study reported unemployment of 16 percent. However, most observers think that total unemployment is in a range of 20–25 percent. Of most concern is the scant evidence of any significant *decline* in unemployment over time.

2. Private savings were an estimated 0.7 percent of GDP in 2003 (Source: PRSP).

3. EBRD, *Transition Report* 2003, p. 124. This estimate differs from a June 2003 estimate by the World Bank, which stated that small-scale privatization was essentially complete in both the Federation and RS.

4. These figures in particular should be treated with caution, as these are rough estimates based on rough GDP data, and even rougher data on estimated private informal activity. (Source: various EBRD *Transition Reports*.)

5. The government shares this view on the outcome of privatization and states that the Bank should have taken more of a leadership role in the privatization process (see Annex D).

6. The pre-conflict net enrollment ratio was probably close to 100 percent.

7. LSMS data as cited in World Bank 2002b, pp. 92–93.

8. A 1999 Survey indicated that private spending on health was about 4.7 percent of GDP, a very high figure relative to comparator countries (World Bank 2002c, p. 104).

9. The railways sector receives on the order of 40 million KM annually in direct subsidies to meet operating costs. Its own revenues do not even cover its wage bill. The coal sector receives about 30 million KM per year to meet its pension obligations and for direct operating subsidies.

10. Over half of all water produced is unaccounted for, and only about half of what is billed is actually collected. In other words, *only a quarter* of all water consumed is actually paid for. Matters are aggravated by low tariffs that are insufficient to cover even operations and maintenance expenditures.

Chapter 5

1. The Bank operated in BiH in compliance with the established guidelines for post-conflict situations.

2. Some PMUs have been converted into “Foundations” that manage several projects together. The Foundation in the RS handles eight IDA projects; the one in the FBH, four. In most cases the same project will have a separate PMU in each Entity.

Annex C

1. In this note, *assistance program* refers to products and services generated in support of the economic development of a client country over a specified period of time, and *client* refers to the country that receives the benefits of that program.

Annex E

1. *Southern European countries*—with their period average GDPs indexed on BiH as 100—include here Albania (80), BiH (100), Bulgaria (287), Croatia (451), FYR Macedonia (80), Moldova (34), and Romania (863).

2. Twenty-six countries in Europe and Central Asia: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Hungary, Macedonia (former Yugoslav Republic of), Poland, Romania, Slovak Republic, Slovenia, Latvia, and Lithuania; Armenia, Azerbaijan, Belarus, Estonia, Georgia, Kazakhstan, Kyrgyz Republic, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan. Serbia and Montenegro was not included in the analysis.

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