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PROJECT PERFORMANCE ASSESSMENT REPORT

BOSNIA AND HERZEGOVINA

**TRANSITION ASSISTANCE CREDIT
(CREDIT NO. 2914-BOS)**

**PUBLIC FINANCE STRUCTURAL ADJUSTMENT CREDIT
(CREDIT NO. 3090-BOS)**

**SECOND PUBLIC FINANCE STRUCTURAL ADJUSTMENT CREDIT
(CREDIT NO. 3258-BOS)**

**SOCIAL SECTOR ADJUSTMENT CREDIT
(CREDIT NO. 3465-BOS)**

January 27 , 2005

*Country Evaluation and Regional Relations
Operations Evaluation Department*

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Principal Ratings

	<i>ECA Region</i>	<i>OED</i>	
	<i>ICR*</i>	<i>ES*</i>	<i>PPAR</i>
<i>Transition Assistance Credit (Cr. 2914)</i>	<i>June 10, 1997</i>	<i>Sept. 12, 1997</i>	<i>Jan. 27, 2005</i>
Outcome	Satisfactory	Satisfactory	Unsatisfactory
Sustainability	Uncertain	Uncertain	Likely
Institutional Development Impact	Partial	Partial	Modest
Borrower Performance	¹	Not rated	Unsatisfactory
Bank Performance	²	Satisfactory	Unsatisfactory
<i>Public Finance Structural Adjustment Credit (Cr. 3090)</i>	<i>June 30, 2000</i>	<i>August 7, 2000</i>	<i>Jan. 27, 2005</i>
Outcome	Satisfactory	Satisfactory	Satisfactory
Sustainability	Likely	Likely	Likely
Institutional Development Impact	Substantial	Substantial	High
Borrower Performance	Satisfactory	Satisfactory	Satisfactory
Bank Performance	Satisfactory	Satisfactory	Satisfactory
<i>Second Public Finance Structural Adjustment Credit (Cr. 3258)</i>	<i>June 2, 2003</i>	<i>June 27, 2003</i>	<i>Jan. 27, 2005</i>
Outcome	Satisfactory	Satisfactory	Satisfactory
Sustainability	Likely	Likely	Likely
Institutional Development Impact	High	High	High
Borrower Performance	Satisfactory	Satisfactory	Satisfactory
Bank Performance	Satisfactory	Satisfactory	Satisfactory
<i>Social Sector Adjustment Credit (Cr. 3465)</i>	<i>April 9, 2002</i>	<i>June 17, 2002</i>	<i>Jan. 27, 2005</i>
Outcome	Satisfactory	Satisfactory	Satisfactory
Sustainability	Likely	Likely	Likely
Institutional Development Impact	Substantial	Substantial	Substantial
Borrower Performance	Satisfactory	Satisfactory	Satisfactory
Bank Performance	Highly Satisfactory	Satisfactory	Highly Satisfactory

* The Implementation Completion Report (ICR) is a self-evaluation by the responsible operational division of the Bank. The Evaluation Summary (ES) is an intermediate OED product that seeks to independently verify the findings of the ICR.

¹ The ICR rated Borrower Performance under the TAC as 'highly satisfactory' during preparation, 'deficient' during implementation and 'satisfactory' regarding compliance; no overall rating was given.

² The ICR rated Bank Performance under the TAC as 'satisfactory' during identification and 'highly satisfactory' thereafter; no overall rating was given.

Key Staff Responsible

<i>Project</i>	<i>Task Manager/Leader</i>	<i>Sector Director/ Sector Manager</i>	<i>Country Director</i>
<i>Transition Assistance Credit (Cr. 2914)</i>			
Appraisal	Wei Ding	Michel Noel	Christine Wallich
Completion	Wei Ding	Michel Noel	Christine Wallich
<i>Public Finance Structural Adjustment Credit (Cr. 3090)</i>			
Appraisal	Sebnem Akkaya	Pradeep Mitra	Christiaan Poortman
Completion	Sebnem Akkaya	Pradeep Mitra	Christiaan Poortman
<i>Second Public Finance Structural Adjustment Credit (Cr. 3258)</i>			
Appraisal	Sebnem Akkaya	Pradeep Mitra	Christiaan Poortman
Completion	Saumya Mitra	Cheryl Gray	Orsalia Kalantzopoulos
<i>Social Sector Adjustment Credit (Cr. 3465)</i>			
Appraisal	Philip O'Keefe	Michal Rutkowski	Christiaan Poortman
Completion	Philip O'Keefe	Michal Rutkowski	Christiaan Poortman

ICR for *Transition Assistance Credit* was prepared by Wei Ding, Khaled Sherif and Randi Ryterman

ICR for *Public Finance Structural Adjustment Credit* was prepared by Sebnem Akkaya and Shahid Chaudhury

ICR for *Second Public Finance Structural Adjustment Credit* was prepared by Saumya Mitra, Jean-Luc Bernasconi and Irina Smirnov

ICR for *Social Sector Adjustment Credit* was prepared by Elliott Hurwitz

Preface

This is a Project Performance Assessment Report (PPAR) on the Bosnia and Herzegovina: *Transition Assistance Credit* (TAC) for SDR62.4 million (US\$90 million equivalent); *Public Finance Structural Adjustment Credit* (PFSAC) for SDR46.2 million (US\$63 million equivalent); *Second Public Finance Structural Adjustment Credit* (PFSAC2) for SDR53.2 million (US\$72 million equivalent); and *Social Sector Adjustment Credit* (SOSAC) for SDR15.3 million (US\$20 million equivalent), respectively. The Netherlands provided co-financing for TAC (US\$20 million), PFSAC (US\$22.3 million) and PFSAC2 (US\$23 million); the Swiss Federation provided co-financing for PFSAC2 (US\$3 million). This report is based on the President's Reports for the projects, summaries of Board discussions, legal documents, project files, related economic and sector work, and Implementation Completion Reports (ICRs) for the projects (prepared by the Europe and Central Asia Region). In addition, discussions with Bosnian officials, other donors, other stakeholders, and World Bank Group staff were valuable inputs into the report.

An Operations Evaluation Department (OED) mission visited Bosnia and Herzegovina in December 2003 to discuss the effectiveness of Bank assistance with government officials, donors and other stakeholders. Their cooperation and assistance in preparing this report is gratefully acknowledged. This mission coincided with another OED mission preparing a Country Assistance Evaluation (CAE). Many discussions were held jointly with one or more CAE mission members. The PPAR mission benefited from the additional insights that these joint discussions provided.

Comments from the Bank's Regional Management have been incorporated in the report.

A draft report was sent to the Government of Bosnia and Herzegovina for comment, and their comment is attached in Annex B. A copy was also sent to co-financiers, and comment from the Swedish International Development Cooperation is attached in Annex C. No comments were received from The Netherlands or the Swiss Federation.

This report was prepared by Mr. Stephen Eccles (Consultant), who assessed these projects in December 2003, under the supervision of Ms. Laurie Effron (Task Manager). Ms. RoZIAH Baba provided administrative support.

Summary

1. Attached is the Project Performance Assessment Report on four quick-disbursing International Development Association (IDA) credits to Bosnia and Herzegovina (BiH): *Transition Assistance Credit* (TAC) for SDR62.4 million (US\$90 million equivalent); *Public Finance Structural Adjustment Credit* (PFSAC) for SDR46.2 million (US\$63 million equivalent); *Second Public Finance Structural Adjustment Credit* (PFSAC2) for SDR53.2 million (US\$72 million equivalent); and *Social Sector Adjustment Credit* (SOSAC) for SDR15.3 million (US\$20 million equivalent). *TAC* became effective in September 1996 and closed on schedule in December 1996. Co-financing of US\$20 million was provided by the Government of the Netherlands. *PFSAC* became effective in July 1998 and closed on schedule in June 1999. Co-financing of US\$22.3 million was provided by the Government of the Netherlands. *PFSAC2* became effective in December 1999 and closed in December 2002, one year behind schedule. Co-financing of US\$23 million was provided by the Government of the Netherlands and of US\$3 million by the Swiss Federation. *SOSAC* became effective in June 2001 and closed on schedule in August 2001.

2. *TAC*'s objectives were budget support for the Federation and balance of payments support for the State, as well as institutional development of the Federation as a key building block for the development of the new State and the peace process.¹ The objectives of *PFSAC* and *PFSAC2* were to build on BiH's achievements to date in establishing the common institutions and governance structure mandated by Dayton, supporting institution-building and policy reforms in public finance in the State, the Federation and the Republic of Srpska (RS), as well as continuing budget and balance of payments support. *SOSAC*'s objectives were to develop institutional mechanisms for the development and prioritization of social protection policy; improve the policy framework for the generation of employment; focus programs on the needs of the poorest; and strengthen social statistics.

3. Progress in macroeconomic stabilization has been significant, with low inflation and an independent Central Bank working on currency board principles. But economic growth, while substantial during the immediate post-war reconstruction period generously funded by donors, has dropped off considerably in recent years, leaving BiH's GDP still at only 72 percent of pre-war levels. The principal obstacle to growth is the lack of private sector development, including the largely failed attempts at privatization of state and socially-owned enterprises. Taxes remain high and many regulations remain onerous to private sector development, though some progress has been made, including on labor laws. There are many reasons for the failure of the privatization process so far, the major one being the apparent lack of commitment at senior political levels. Substantial progress has been made in harmonizing taxation across the Federation and RS; stabilization of pension arrangements; financial sector development (though the

¹ The Dayton peace agreement provided for multiple levels of government, to reflect political realities: the sovereign State of Bosnia and Herzegovina (State) was given minimum powers and minor autonomous sources of revenue, while major powers were vested in two Entities: the Federation of Bosnia and Herzegovina (Federation), the population of which was mainly Bosniak and Croat; and the Republic of Srpska (RS), the population of which was mainly Serb.

banking sector has not been a major provider of funding to the private sector); budgeting and accounting for and auditing of public expenditures; and external debt management. A large agenda of policy and institutional reforms remains to be completed.

4. The outcome of *TAC* is rated as *unsatisfactory* and of *PFSAC*, *PFSAC2* and *SOSAC* *satisfactory*. The sustainability for all four credits is *likely*. The institutional development impact of *TAC* is rated as *modest*, while that of *PFSAC* and *PFSAC2* is rated as *high*, and that of *SOSAC* as *substantial*. Borrower performance is rated as *unsatisfactory* in the case of *TAC*, and *satisfactory* in the cases of *PFSAC*, *PFSAC2* and *SOSAC*. The underlying problem in the earlier operations was lack of political will behind the reform program, although that now seems to have improved. Bank performance was also *unsatisfactory* for *TAC*, but *satisfactory* for *PFSAC* and *PFSAC2* and *highly satisfactory* for *SOSAC*. The only reason for not rating Bank performance as highly satisfactory under *PFSAC* and *PFSAC2* was the failure to address more directly questions of tax evasion and high government expenditures – performance with what was tackled was of a high order and in some instances represented ‘best practice’.

5. The main lessons from these credits are:

- When original designs of a quick-disbursing operation have to be drastically reduced in scope, in the face of practical and political difficulties, this should give rise to a reassessment of the whole operation, in particular the credit amount, to ensure that there remains a relationship between that amount and the policy adjustments being supported.
- Providing general budget support into a situation where there is virtually no auditing of, or accountability for, government expenditures is unwise, in the absence of a watertight, monitorable agreement with the borrower on the use of those funds. Insofar as current IDA policy is not to concern itself with the use of funds in a quick-disbursing operation, then either that policy has to change or IDA has to forego the provision of budget support in such circumstances.
- Providing budget support, in the face of major tax evasion and excessive government expenditures, can be potentially counter-productive, in the absence of an agreed and concerted direct attack on those elements. Otherwise the presence of budget support reduces the natural pressure on governments to take urgent and meaningful action.
- In a situation where there is not clear borrower commitment to a course of action, or there is a history of back-tracking or non-implementation of laws and regulations, the mere passage of legislation or promulgation of regulations is not usually a good basis for tranche release conditionality. There also needs to be a period of implementation or, better, conditionality based on actual results achieved.
- On any issue, including macro-economic and tax-related issues, IDA should maintain an independent position. If there is disagreement between IDA and the

International Monetary Fund (IMF), IDA support should be based on its own assessment.

- In a highly charged political atmosphere, progress can be achieved by bringing conflicting parties together for technical discussions, with IDA staff or TA consultants present. To be successful, however, it requires the involvement of particularly empathetic staff, the careful choice and briefing of TA consultants, and intensive supervision – all of which happened under the two *PFSAC* operations and *SOSAC*. In these respects, these three operations represent good practice.
- When a long and complicated agenda of reforms is needed and where future detailed actions can only be properly prescribed after further discussions and developments on the ground, careful sequencing of operations is required. This was done for *PFSAC* and *PFSAC2*, to be followed by the proposed Economic Management *SAC*; and for *SOSAC*, to be followed by the proposed *SOSAC2*. Such careful sequencing is another example of good practice. By contrast, there was no immediate follow-up to *TAC*, compounding its poor design as a one-tranche operation.

Gregory K. Ingram
Director-General
Operations Evaluation

1. Introduction

Social and Political

1.1 In 1995, Bosnia and Herzegovina (BiH) emerged from a devastating period of wars, peace being achieved only with the help of determined international efforts, resulting in the Dayton Accords in December (Dayton).¹ Dayton included a constitution for BiH that provided for multiple levels of government, to reflect the political realities and the desires of the various ethnic groups (Bosniaks, Croats and Serbs²) to retain as much control as possible over their own affairs. The sovereign State of Bosnia and Herzegovina (State) was given minimum powers—principally foreign relations, customs and foreign trade policy, immigration, inter-entity policies on transport, communications and energy, and external debt—and only minor autonomous sources of direct revenue (mainly consular fees). There was to be an independent Central Bank, which was to operate along the lines of a currency board for at least six years, and which was not allowed to make credit available to governments or the banking sector. The Central Bank was not to have powers of banking supervision.

1.2 Major powers were vested in two Entities: the Federation of Bosnia and Herzegovina (Federation), the population of which was mainly Bosniak and Croat; and the Republic of Srpska (RS), the population of which was mainly Serb. Many of the powers normally assigned to a sovereign state were vested in these two Entities and their political subdivisions: for example the armed forces, the rights to the principal sources of revenue (customs duties, sales and excise taxes, wage taxes, income taxes) and banking supervision. The two Entities were to provide the State with resources to run State services, thus allowing the Entities to control what the State did. Additional powers could be granted to the State only by agreement of the Federation and the RS. As a result of this structure, BiH has lacked a “single economic space” which, compounded by the administrative inefficiencies of the multiple layers of government, have created special challenges for the country’s development and for donor efforts to that end.

1.3 The Federation comprised 10 largely autonomous cantons (8 with a large majority of inhabitants from a single ethnic group, and 2 with mixed Bosniak/Croat populations), with only minimum powers ceded to the Federation. All levels of education and health services were cantonal responsibilities, for example. The cantons were also principal recipients of tax revenues, with only customs receipts directly allocated to the Federation. As the Federation had no power over the allocation of revenues between cantons, and as the cantons had very different levels of development and of sources of revenue, there were major differences in the abilities of the individual cantons to provide services.

¹ As the following description shows, Dayton established a complex government structure, politically necessary at the time; but the result was that routine government processes such as setting up accounts and adopting budgets were far from easily achieved, and later became the focus of Bank support under adjustment loans.

² 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). There has been no census since 1991. Some sources estimate the current population to be 4.0-4.1 million, but others estimate it at only about 3.8 million, given significant post-war out-migration.

Within the cantons were municipalities, some—Mostar is the most famous—having a mixed ethnic composition. The RS had a more unitary structure, with most powers resting centrally. There are no cantons. Some local powers lie with the municipalities.

1.4 At the time that the first of the credits covered by this assessment was under consideration (January-September 1996), only the initial steps had been taken to put the Dayton constitutional arrangements into place. The State existed only on paper, as the RS played no practical part in its management, reflecting RS reluctance concerning Dayton. The Federation comprised a dual collection of institutions, one managed by Bosniaks, the other by Croats; and a major task was to meld these institutions into single Federation structures. The cantons were still in the process of formation, with the mixed cantons facing the same dual structure (some of which persist to this day). There was no recognizable budget established for any of the cantons (most of which did not even exist in reality), or at the Federation and State levels.

1.5 After elections in September 1996, the RS began to play its role in the management of the State. However, deep mistrust between the Federation and the RS made it extremely difficult to move forward, as each entity appeared to be more interested in ensuring that its own narrow interests were looked after, than in the development of a viable State. Harmonization of policies between the Entities, essential to development, was not considered high priority by political leaders. Similarly within the Federation, ethnic distrust slowed development. This situation was compounded by the Dayton requirement of elections every two years, through 2002. Thus, for the majority of the period covered by this assessment, there were constant changes in the 13 sets of government and political leaders had always to be concerned about forthcoming elections. Making ethnic concessions for the overall benefit of the country was extremely difficult, so that progress was in fits and starts. In 2000, reformist governments were elected and considerable progress was then made. This did not seem to sit well with the electorate and more 'nationalistic' governments were elected in 2002 for a four-year term (which will be the norm from now onwards). Despite this 'nationalistic' label, however, governments now seem to be more reconciled to the existence of the State. They seem to realize that eventual entry into the European Union (which seems to be a very popular idea in BiH) will require a properly functioning State. Hence, agreement was reached in late 2003, at least in principle, on such matters as the unification of the armed forces, the institution of a State-run value-added tax system (VAT), and the unification of entity customs administrations into a State institution. There are many details yet to be worked out, but there is room for cautious optimism. Nevertheless these factors have adversely affected the ability of the Bank and other donors to contribute effectively to economic and social progress over the period covered by this assessment.

1.6 These political developments have taken place in the context of international peace-keeping forces remaining in the country (although now being reduced), and of the existence of an Office of the High Representative (OHR) with extraordinary powers, reporting to a Peace Implementation Council.³ The High Representative has used his powers to remove elected ministers, to declare some laws invalid and to institute others.

³ The Council comprises the 55 countries and international organizations which participated in Dayton. It was established to oversee the peace agreement and still meets several times a year.

In almost all of the latter cases, however, there has been in existence a draft law already agreed at the governmental level, but with an inability to secure parliamentary passage, usually related to imminent elections. Because of this, there does not seem to have been any government 'ownership' problem, and these imposed laws have generally been implemented as well as others. Nevertheless, the OHR has recently been criticized for delaying the time when BiH could become a nation responsible for its own affairs.

Economic

1.7 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. As many as 250,000 were killed, 400,000 wounded, and over 2 million either fled the country or were internally displaced. 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. 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.

1.8 By the end of the war industrial output had fallen to an estimated 5 percent of the 1990 level with 45 percent of 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 GDP and GDP per capita had plummeted to less than 20 percent of the pre-war level, significantly lower in relation to the 1989-1991 base than in any other country in Eastern Europe or the Former Soviet Union. At war's end unemployment and poverty were widespread.

1.9 Following Dayton, growth has been strong in percentage terms—estimated at 32 percent in 1995, 62 percent in 1996, 30 percent in 1997 and 16 percent in 1998—principally as a result of an extraordinary physical reconstruction effort funded by international donors. As this phase of donor assistance draws to a close, growth rates have diminished considerably—estimated at 10 percent in 1999, and 3.5 to 5.5 percent per annum thereafter—leaving GDP at only 72 percent of pre-war levels. Recent lack of strong growth is a major cause of concern; many young people do not see a prosperous future in BiH and desire to leave. Basically, the private sector has failed to expand, despite macroeconomic stability, with low inflation throughout the post-war period.

1.10 BiH inherited from Yugoslavia its system of state and social ownership, and worker self-management, of economic assets. Post-war conversion to a market system has been troubled. Socially and state owned enterprises were to have been privatized and a policy climate put in place which would encourage the private sector, seen as the main 'engine of growth' after the reconstruction period. A good deal of the small and medium-sized enterprises have indeed been privatized, but through a voucher scheme which resulted in highly diffused ownership, in effect leaving the old management in charge without the expected injection of new management and ideas, and without an ownership demanding progress. Privatization of larger, more strategic enterprises (other than banks) has hardly begun. There appears to be political reluctance at the top to embrace change. There are vested interests, particularly political groups which are financed by some of

these enterprises. There are questions about who is the current real owner(s), because of the 'social' nature of much previous ownership, quite unlike the straightforward state ownership in other transition economies. There are fears that privatization of major enterprises will lead to further unemployment, a major political issue (see paragraph 1.15).

1.11 By contrast, privatization of banks has made considerable progress, with some external investment. There is now a country wide network of commercial banks, which seems able to handle all needed short-term transactions and household financing needs, although there is virtually no medium and long term lending to the private sector. This is partly a reflection of the lack of growth of the private sector and partly a failure to bring the judicial system up to the required standards. While the bankruptcy laws have been modernized, implementation through the present judicial system may be faced with difficulties. And depositors are not yet ready to make term deposits.

1.12 Labor laws have not been conducive to laying off or hiring workers, although considerable recent progress has been made. Taxation on labor, though reduced and comparable to that in other transition economies, remains fairly high. To avoid this taxation and bureaucracy, much of the private sector development that has taken place is in the informal sector rather than the formal sector. Existence of informal enterprises makes it difficult to establish competitive new formal sector enterprises. Smuggling is of such a magnitude that the Central Bank has to make special efforts to quantify it in order to explain national accounts. Evasion of sales and excise taxes is also major. Corruption is endemic, reflected in World Bank Institute indicators.

1.13 As noted later in this report, BiH has been faced—as are other transition economies—with problematic pension and other social payments funding (including veterans' benefits arising from the years of war). Despite initial resistance, the population seems to have accepted the reality of the situation. Stability has been achieved, with at least minimum payments being made regularly to most, and accumulation of unpaid claims stopped. The incidence of poverty among pensioners is now less than for the population as a whole.

1.14 With the number of government levels set out in Dayton, it is not surprising that public expenditure is over 57 percent of GDP (2000 estimate), mostly salaries and entitlements, rather than investment. With the informal economy largely avoiding taxes, tax rates on those that do pay are already too high. A major effort is therefore needed on multiple fronts: a serious attack on smuggling and sales, excise and wage tax evasion, a reduction in the costs of government, completion of the privatization program, removal of remaining barriers to private sector development, and reductions in tax rates.

1.15 By any measure, unemployment in BiH today is high, although clearly not as high as official figures (>40 percent), which seem to paralyze government actions on some fronts. Employment in the informal economy is not reported, nor probably some recent hiring in the formal economy made in such a way as to avoid wage taxation. Total unemployment is most likely in the range of 20-25 percent.⁴

⁴ Bosnia and Herzegovina Country Assistance Evaluation (Report no. 29824), page 20.

World Bank Group Relations with BiH and other Donors

1.16 The World Bank Group moved quickly to be active in BiH. It began technical meetings with Bosnian officials, outside BiH, even before Dayton was signed (December 14, 1995). It was therefore able to act swiftly after Dayton. It established a resident mission very early on, which proved to be extremely useful. Before BiH could meet World Bank membership requirements (not until the spring of 1996),⁵ the World Bank Group set up a US\$150 million trust fund, financed out of accumulated IBRD surpluses, which it used to make initial credits and grants; and it co-sponsored (with the European Union) an initial donor meeting (December 20-21, 1995). BiH was declared eligible for IDA on an exceptional basis, with US\$400 million of IDA funds (on top of the US\$150 million trust fund financing), to be used over the FY96-99 period, by which time BiH was expected to be creditworthy for a resumption of International Bank for Reconstruction and Development (IBRD) borrowing. This expectation was beyond reason, even without the benefit of hindsight. IDA allocations have therefore been continued after FY99, in smaller but still exceptional amounts.

1.17 The donor community was extremely active in Bosnia in the early years after Dayton. The World Bank played a major role in coordinating aid during the main reconstruction phase. Such efforts were welcome by both BiH and other donors, especially as the Dayton governmental arrangements did not make it obvious where the locus for aid coordination should lie in BiH—a problem that remains to this day. UNDP's attempts to find such a locus have so far not met with success; and aid coordination on the ground has become more problematic, now that the main reconstruction phase is over.

1.18 The World Bank program on policy reform, with quick-disbursing and investment lending, also involved intensive donor coordination. This was particularly true for the provision of technical assistance (TA), which was essential in the Bosnian circumstances, but which BiH preferred not to borrow for. The World Bank therefore arranged for much TA funded by Japan's Policy and Human Resources Development Fund (PHRD), as well as liaising with TA provided directly by other donors, especially the European Commission, Netherlands, Switzerland, U.K., USAID and U.S. Treasury. The Bank has worked closely with the IMF which has had a Standby Agreement with BiH through most of the period under review; but there have been policy differences between the Bank and the IMF on some technical issues, as noted later in this report.

1.19 Since the initial donor meetings in late 1995, the World Bank has co-chaired with the European Union four annual Consultative Group meetings, 1996-1999. There has been no meeting since then as a result of donor concerns about governance and disappointment with the slow pace of reforms in the post-reconstruction period.

⁵ For a discussion of IBRD membership conditions, which included the assumption by BiH of a share of the debt of the former Yugoslavia, see the recent Country Assistance Evaluation.

2. The Credits: Context, Objectives, and Overall Design

2.1 A Bank country assistance strategy was outlined in March 1996 in connection with arrangements for BiH's IBRD membership and eligibility for IDA: an immediate assistance program, to take place before formal BiH membership and funded by the IBRD trust fund (see paragraph 1.16); and a full scale assistance program after normalization of BiH's financial relationship with the international community. The immediate assistance program consisted of a wave of emergency projects to help kick-start the reconstruction effort, followed up by further reconstruction effort under the full scale program.

2.2 The full scale program included an ambitious series of quick-disbursing policy-based operations, part of the Bank's role as a major player in the reconstruction effort. A first Structural Adjustment Credit, for US\$90 million of IDA funds, was to be a one-tranche operation to focus on: (i) establishing key institutions of fiscal management and control at the state, federation, cantonal and municipal levels; (ii) initiating the reform of social security systems, in particular pensions, health finance, and social assistance; (iii) starting the program of privatization of enterprises and banking; and (iv) the implementation of key legal and institutional framework for the financial system. This was to be followed about a year later by a Second Structural Adjustment Credit (involving US\$45 million of IDA funds), aimed at deepening the public sector and social security reforms initiated under the first Structural Adjustment Credit; and by an Enterprise and Financial Sector Adjustment Credit (involving US\$50 million of IDA funds), designed to support the full implementation of the enterprise and bank privatization program, and the strengthening of the institutional framework for financial market regulation and supervision.

2.3 At the time of the proposed strategy (March 1996), the Bank was aware that this program was fraught with risk, given the complex political situation. It therefore also proposed a full range of non-lending services: policy advice, economic and sector work, and technical assistance. In the event of deterioration in the overall policy environment or a lack of sufficient progress on policy reform across the board, the strategy proposed not to go ahead with adjustment lending, but to support only specific sectors where the policy and institutional framework would allow adequate implementation. In the event, the complex political situation largely prevented 'progress on policy reform across the board' over the following six months. The Bank approved a quick-disbursing operation anyway, for the same amount—US\$90 million—retaining its one-tranche feature although no immediate follow-up operation was now planned. The operation was renamed: *Transition Assistance Credit* (TAC).

2.4 TAC policy elements were necessarily but a pale shadow of those originally intended for the Structural Adjustment Credit, although the need remained urgent for budget support to the Federation (principally for recurrent costs related to demobilization of soldiers; a pension scheme; the emergency social fund; and the minimum health care scheme), to the State for meeting debt service obligations, and to the country for balance of payments support. TAC had to concentrate on the Federation, as the political situation prevented assistance to RS. At the State level it could only provide finance for external debt service, without any institutional development. Within a broad objective of

supporting recovery and the institutional development of the Federation as a key building block for the development of the new State and of the peace process, the areas covered by the *TAC* tranche release were confined to: establishing two Federation financial institutions (a customs administration and a payments bureau) out of four ethnically-based institutions that had evolved during the war; preparation of a Federation Privatization Agency Law to be submitted to Parliament; and adoption by the Federation Parliament of a Banking Agency Law. These were potentially useful items, but quite minor compared to original objectives and needs.

2.5 If the IDA amount committed to the *TAC* had been reduced to reflect what was now more realistically expected to be achieved, saving IDA funds for a more substantial operation later, and if it had been made a two-tranche operation to enhance its implementation, the *TAC* might have been a useful operation—although that would not have overcome some detailed design problems (see following chapter). In retrospect, the most useful outcome of this operation may have been the accompanying government Letter of Development Policy, which laid out long-term reforms which remain largely relevant today; and on which further dialog between the Bank and BiH was based.

2.6 A lesson which might be learned from the above is that original design intentions, developed without an immediate disbursement imperative, are quite often far superior to what finally emerges in the face of practical and political difficulties. When this occurs, it needs to be openly addressed and the rest of the package reassessed, in particular the credit amount.⁶

2.7 The first formal country assistance strategy was presented to the Board in July 1997, i.e. after the *TAC* operation. The proposed strategy—strengthening institutions of macroeconomic management, transition to a market economy and deepening the sustainability of the reconstruction program—was sensible. Two operations covered by this PPAR were foreseen: the *Public Finance Structural Adjustment Credit* (PFSAC) (FY98) and the *Second Public Finance Structural Adjustment Credit* (PFSAC2) (FY99), leaving private financial sector and privatization programs to be pursued under separate operations. Given the number and complexity of issues supported by *PFSAC/PFSAC2*, this was a good decision.

2.8 *PFSAC/PFSAC2* objectives were to build on BiH's achievements to date in establishing the common institutions and governance structure mandated by Dayton, along with policy reforms in public finance. *PFSAC* specifically covered: (i) financing of the State; (ii) external debt management; (iii) intergovernmental finances within the Entities; (iv) harmonizing taxes and coordinating tax collection; (v) pension reform; (vi) budget management; and (vii) internal controls over, and external auditing of, government expenditures. The program within these areas was comprehensive, detailed and well thought out. In several instances, it included work without tranche release

⁶ The Region has commented, "This would be a valid criticism in a normal operating environment. Nevertheless the *TAC* was the initial post-conflict balance of payments support operation which in of itself acted as an umbrella operation, establishing basic post-war institution building and laying the ground for further reform in this regard." OED notes that having a large adjustment operation with very modest conditionality is not appropriate even in post conflict, unless management is explicit about the limited objective of the loan, and the Board explicitly agrees to it.

conditionality, mainly because that work was intended to produce the framework for the design of *PFSAC2*. This required a good deal of TA and Bank staff involvement in supervision. Although *PFSAC* itself did not finance TA—BiH was reluctant to borrow for this purpose—it was the intention that the Bank arrange for it to be provided, funded by bilateral donors. The design of *PFSAC2* was then affected by the results of *PFSAC* and its associated TA *inter-alia*. That design was also comprehensive, detailed and well thought through. As well as taking further most of the *PFSAC* themes, *PFSAC2* also involved: (viii) veterans' benefits; and (ix) health finance.

2.9 Nevertheless, *PFSAC/PFSAC2* objectives cannot be entirely free of criticism, as some elements not addressed probably had higher priority than those actually tackled, and on which it might have been better to have expended IDA's leverage: tax evasion and smuggling and the large size of government budgets. Indeed, by providing budget support without tackling these issues aggressively was possibly counterproductive: IDA may have relieved governments from budgetary pressures that would otherwise have forced some action, given that BiH governments cannot borrow from the banking system or otherwise raise local debt.

2.10 The amounts involved in tax evasion and smuggling were large in comparison to the amounts of budget support provided by the IDA operations. One estimate was that the tax evaded only on high tariff goods and tobacco products amounted to some DM 300 million (equivalent to US\$140 million). So it would seem that it would have been valuable for IDA to have assisted in formulating a careful strategy for a concerted attack on tax evasion. It could have done this by direct financing of the means for such an attack; and it could have conditioned its lending on the achievement of results.⁷ Admittedly these actions would have been difficult, not only because they are intrinsically difficult, but also because there were strong vested interests in the *status quo*, including political elements dependent on some sources of finance which would have been curtailed.

2.11 This is not to say that none of the actual IDA supported actions addressed the tax evasion issue. For example, harmonization of taxes across the two Entities specifically had tax evasion as an objective (in addition to creating a 'single economic space' within BiH), although this was partially frustrated in practice by a difference between IDA and the IMF (see next chapter). Similarly with TA efforts towards the development of VAT, implementation of which is now expected no later than January 1, 2006. Efforts to improve health system financing by tackling some wage tax evasion issues were also supported.

2.12 Finally, IDA might have put more effort into sorting out the judicial system insofar as it relates to the development of the private sector (paragraph 1.11). However,

⁷ The Region notes, "The specific criticism ... fails to take into account donor burden sharing. In assisting government with its tax reforms the Bank worked closely with the EC [European Commission] which put into place an extremely large ... project to strengthen the customs and tax administrations." OED notes that working with the EC on tax issues did not prevent the Bank from addressing tax harmonization; so donor burden sharing does not answer the question of why the Bank did not also tackle tax evasion.

this is a criticism that should probably be more directed to other IDA operations than to the two *PFSAC* operations *per se*.

2.13 A second formal strategy for BiH was presented to the Board in June 2000, with the same broad objectives, now expressed as: strengthening governance and public sector management; fostering private sector led growth; building social sustainability; and completing reconstruction. Given the breadth and depth of the intended IDA interventions in the first three objectives, it was proposed that they be accommodated by a series of adjustment operations: a *Social Sector Adjustment Credit* (*SOSAC*) (FY00), accompanied by a small TA project *Social Sector Technical Assistance Credit* (*SOTAC*), to be followed by a *Second SOSAC* (*SOSAC2*) (FY02); a *Business Environment Adjustment Credit* (FY01); a privatization TA operation (FY01); a pension/health TA project *Social Insurance Technical Assistance Project* (*SITAP*) (FY02); and a third *Public Finance SAC* (FY02), now entitled *Economic Management SAC* (*EMSAC*). In the event, the *SOSAC* and its associated *SOTAC* had to be delayed until FY01, the former as a one-tranche operation reflecting actions already completed (and covered by this assessment report) with the associated *SOTAC* still under implementation.

2.14 In contrast to the *TAC* operation, *SOSAC*'s single tranche was justified by: a relatively small amount in the current context (US\$20 million); and the intention (carried out) to track implementation in the course of *SOSAC2* preparation. Overall *SOSAC* objectives were to: (i) develop institutional mechanisms for development and prioritization of social protection policy; (ii) improve the policy framework for generation of employment; (iii) focus programs on the needs of the poorest; and (iv) strengthen social statistics. There was sufficient substance already achieved by governments in these areas to justify a 'down-payment,' as it were, while the specific content for a 'second tranche' for *SOSAC* (i.e. *SOSAC2*) could not then be fully determined, having to wait for the results of the associated TA operation (*SOTAC*).

2.15 The proposed IDA interventions outlined in paragraph 2.13 have mostly suffered delays, including two operations (*SOSAC2* and *EMSAC*) designed to be follow-ups to the operations covered by this PPAR. Such delays are in line with a more stringent IDA approach to tranche releases which became apparent during the course of *PFSAC2* (see following chapter). Whereas it will be seen that the *TAC* single tranche release was rushed and premature, and the second tranche release for *PFSAC* had involved waivers of conditionality, the second and third tranches of *PFSAC2* were delayed (the third tranche substantially) until the conditionality had not only been narrowly technically met but there had been a reasonable period of implementation thereafter. This change in approach was healthy.

3. Detailed Design and Implementation Experience

Transition Assistance Credit (TAC)

3.1 *TAC* became effective on September 11, 1996 and closed on December 31, 1996. Its single tranche was disbursed on September 13, 1996. Co-financing of US\$20 million was provided by the Government of the Netherlands. Technical assistance financed from

the Bank-trust fund for an *Emergency Recovery Project* was instrumental in the preparation and implementation of the *TAC* (but that project is not directly evaluated in this PPAR).

3.2 Originally all four *TAC* tranche release conditions were intended to be fully met before credit documents were distributed to the Board. And this remained the case for three of them:

- (a) *full unification of the Federation Customs Administration (FCA)*, including the elimination of checkpoints (between the Bosniak and Croat controlled areas), the transfer of accumulated customs revenues in the Bosniak and Croat payments systems to the Federation revenue accounts, demonstrated continual flow of customs revenues to the Federation budget, as verified by the European Union (EU) international observers. This was a useful step, providing the Federation with its principal source of revenue. As the EU was providing continuing technical and management assistance (and a policing role), the Bank did not concern itself further with FCA's institutional development, although it did keep involved with Customs policy issues under *PFSAC/PFSAC2*. FCA is now scheduled to be integrated into the proposed new State-wide customs administration (paragraph 1.5). Despite its relatively short life, therefore, FCA should be considered as a sustainable element of *TAC*.
- (b) *adoption by the Federation Parliament of the Federation Banking Agency Law*. This was another useful step, establishing a uniform legal, regulatory and institutional framework for bank licensing, regulation, and supervision throughout the Federation. The Agency was actually established in September 1996. After *TAC*, further IDA interventions in the banking sector took place under the *aegis* of other operations not covered by this PPAR. Insofar as development of the financial sector can generally be considered as successful (paragraph 1.11), so can this sustainable *TAC* component.
- (c) *presentation to the Federation Parliament of the Privatization Agency Law*. This legislation provided for Federation and Cantonal Privatization Agencies to be established. Soon after *TAC* disbursement, the Law was adopted, although there were then substantial delays in actually establishing the agencies, especially those in the cantons. Further IDA involvement with privatization took place under operations not covered by this PPAR. In essence, although the envisaged institutions were set up and continue in existence, the privatization program at the time of the *TAC* was ill-conceived as a voucher system (paragraph 1.10), despite the Bank's awareness of the weaknesses of such programs which had been implemented in other transition countries.⁸ In the very narrow sense that *TAC* supported only the establishment of an institution, not its eventual functioning, this *TAC* element achieved its objective. But in a wider sense, this *TAC* element was largely a failure.

⁸ For a fuller discussion of the privatization program, see the Country Assistance Evaluation (Report no. 30714), and the PPAR for the Croatia *EFSAL* for companion cases (Report no. 28600).

3.3 The fourth core element of *TAC* was the full unification of the Federation Payments Bureau (FPB), including the appointment of a director and deputy director, development of a checklist of measures to be taken for unification, and implementation of all the required measures for a single FPB as demonstrated by lack of need for periodic settlement and clearance between the two parts of the payments system (one Bosniak, one Croat) for transaction balances. There was resistance to this *TAC* provision (unlike the fuller ownership of the three other core elements described in the previous paragraph) despite the obvious value of an efficient single payments system for the Federation. This was probably because various political factions apparently received payments from taxation collected by the ethnic payment systems; and one of those systems may also have been the channel through which some payments from Croatia to Croat organizations in the Federation were made.

3.4 Initially, the Bank required 'demonstration' of unification over a four-week period, to be completed prior to *TAC* documentation being circulated to the Board, originally scheduled for June 1996.⁹ Because of lack of action on FPB, the Board schedule was put back to September 1996. The Bank did not want any further postponement, apparently for two reasons: (a) after the September elections, RS was expected to play its full part in State government. If the *TAC* was not disbursed by then, the new State government might have wanted to renegotiate it, as it provided no resources for RS; and (b) the first payments of interest on the inherited Bank loans were falling due, for which purpose the State intended to use some *TAC* proceeds. As progress in FPB unification was slow, the Bank started making compromises. First, the length of the demonstration period was reduced, and eventually abandoned. Then the requirement was shifted from 'before Board documents were distributed' to 'before Board discussion.' In the event, FPB was not unified by the Board presentation date (September 5), so management decided to convert unification into a condition of effectiveness, rather than postpone the Board discussion, making an oral presentation to that effect. On that same day, the Bank's Resident Representative in Sarajevo visited FPB headquarters with a small team, discussed the situation with officials and advisers, and concluded that unification had indeed taken place. On that basis, the condition of effectiveness was considered to have been met (September 11) and disbursement of all US\$90 million made on September 13.

3.5 In practice, FPB was never fully unified. The Bank followed up FPB developments initially within the context of preparing an enterprise and bank privatization adjustment operation, but progress was slow, and the FPB element was dropped. Instead, the Bank participated in US-led efforts to abolish FPB (and its RS counterpart) in favor of using the rapidly developing commercial banking system for effecting payments. That transfer eventually took place at the start of 2001, following a directive from OHR.

3.6 Nevertheless, the Bank had been correct in initially trying to unify FPB under *TAC*. At that time, the commercial banking system was not functioning effectively and the payments bureau had to function for essential payments to be made, despite the fact that they were relics of old Yugoslavia, inefficient, opaque, associated with corruption

⁹ The chronology of events described in paragraphs 3.4-3.6 is based on Bank files and interviews with Bank staff.

and diversion of funds, and imposed high costs on the private sector and on growth. But backing down on the unification issue within the Federation created an unfortunate impression on BiH authorities that the Bank was not always serious about its conditionalities.

3.7 *Uses of TAC proceeds.* Some US\$30 million of the IDA credit were retained by the borrower (the BiH State). It was intended that these funds would be used to help meet international debt service payments and imports of gas for heating the capital (Sarajevo), with counterpart funds used to assist the State in financing its budget. The remaining US\$60 million were lent (on IDA terms) to the Federation; the counterpart funds were expected to be used for budget support, including recurrent costs related to demobilization of soldiers; a pension scheme; an emergency social fund; and a minimum health care scheme. These intentions and expectations were mentioned in project documentation but, as is normal for IDA-assisted quick disbursing operations, they were not incorporated into the credit agreement. That agreement contained the standard provisions for quick-disbursing projects at that time: that the proceeds of the credit not be used for any items on a 'negative list.' That 'negative list' excluded: expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; for goods or services already financed by another agency; certain proscribed goods (such as alcohol, tobacco, items intended for military use and environmentally hazardous goods), and goods and services from non-member countries or those prohibited by a decision of the UN Security Council. There was a standard proviso of special interest to BiH, as one of its principal (local) currencies at that time was the Deutsche Mark (DM). The proviso read: "if the currency of the Borrower is also that of another country from the territory of which the goods and services are supplied, expenditures in such currency for such goods or services shall not be excluded expenditures." Thus, if BiH paid DM for goods or services supplied from Germany, those would qualify; but local expenditures in DM would not qualify.

3.8 Under normal circumstances where budgetary support is intended (as in this case), the proceeds of a quick-disbursing credit are retained by the Central Bank for the financing of debt service and imports, while an equivalent amount of local currency (often referred to as 'counterpart funds') is credited to the budget account of the government. When this is done, it is not usually possible to trace the specific uses of the 'counterpart funds,' as these are mingled with other government budget funds. In exceptional cases, legal documents may specify a list of goods that may be purchased with the proceeds, but Bank policy discourages this.¹⁰

3.9 In the *TAC* case, there was no supplemental letter concerning the use of 'counterpart funds.' Bank staff maintain that such use was discussed during negotiations, that they thought this was understood by the Bosnian negotiators and that, in any case, they had included references in the President's Report as a reminder. The Bosnian authorities, both at State and Federation level, do not accept that there was any understanding reached at negotiations (notwithstanding the references in the project documentation), and consider that the 'counterpart funds' belonged to them, to use as they thought best in pursuit of BiH's development.

¹⁰ Operational Directive 8.60, Adjustment Lending Policy, December 1992, paragraph 52.

3.10 Two other factors are important to record here in order to understand the problems that did arise. First, neither the State nor the Federation had in place acceptable budget formulation or control methods. Improvements in governmental budget practices and establishment of governmental audits were not arranged until *PFSAC* and *PFSAC2* were being implemented. Second, IDA disbursed the proceeds of the credit in DM. As DM was then an operating currency of the borrower, the State and Federation governments were able to make direct use of the DM proceeds and their actual use could be precisely tracked.

3.11 In the event, the State used 25 percent of its share of *TAC* proceeds to provide credits to state-owned enterprises, 13 percent to support municipalities and 17 percent to cancel liabilities to domestic commercial banks. Not only were these expenditures (amounting to 55 percent of US\$30 million, i.e. US\$16.5 million) not intended by IDA, and even outside the State's own budget framework, most of them were spent on items which, under Dayton, were not even official State responsibilities. One item of State lending was DM 800,000 to a municipality that was explicitly banned by OHR from receiving any donor support. These uses of 'counterpart funds' became known to the first IDA *TAC* supervision mission, but it was already too late to stop them. A later IDA *TAC* supervision mission investigated in depth, and recommended that any repayments of the credits extended by the State to enterprises and municipalities be earmarked to a State debt-service account. The State arranged to do this and also returned the DM 800,000 to the State budget. The State Government has defended its use of the 'counterpart funds' as the best way to achieve the overall objectives of the *TAC* credit.

3.12 The Federation used 47 percent of its share of *TAC* proceeds (about US\$28 million) to provide credits to state-owned enterprises. These credits were made on generally commercial criteria, using procedures established under the IDA *Emergency Recovery Project*, and were channeled through the banking sector, which retained the risk of default. The Federation Government has said that these expenditures were legitimate Federation budget expenditures in line with the Dayton Constitution.

3.13 Almost half (US\$44.5 million) of *TAC* counterpart funds were thus known to have been used for purposes the Bank did not intend. It should not be forgotten, however, that, in the absence of external audit of State and Federation budget expenditures, the Bank does not know with any certainty what happened to the remaining US\$45.5 million, although *prima facie* they appear to have been used properly.

3.14 A point never made by the Bank was that most expenditures from the proceeds of the *TAC* credit (whether those in line with Bank intentions or not) were made in DM for the procurement of local goods and services, and thus were expressly unqualified (paragraph 3.7). As a result, one objective of *TAC*—provision of balance of payments support—was only achieved indirectly and slower than anticipated.

3.15 While not in any way wishing to condone the specific use of the proceeds of the credit that the Bank objected to, one can seriously question the Bank's actions in this case. An informal supplemental letter to the credit agreement, or a section in the agreed minutes of negotiations, should have been issued, to avoid any miscommunication between the Bank and its new borrower. More important, Bank staff were well aware of

the lack of acceptable budget procedures in BiH and of the absence of transparency and audit of actual budget expenditures. Although Bank management told OED that they were concerned about possible misuse, they did not know the precise form it would take. There should have been only two options. The first would have been not to provide budget support, but to ensure that the proceeds of the *TAC* credit were only used directly for international debt payments and imports of qualified goods and services. That option would, however, have removed one of the major rationales for making the *TAC* credit in the first place: budget support. The second option would, under the BiH circumstances, to have changed Bank policy and to have permitted formal agreement with BiH on the use of 'counterpart funds.' While it is too late to do this now in the Bosnia case, the lesson learned is that the Bank should now change its policy to allow for this if similar cases arise in the future. Such a change in policy has apparently been recommended in the past, and the subject remains under management discussion. A change is long overdue.¹¹

Public Finance Structural Adjustment Credit (PFSAC); and the Second Public Finance Structural Adjustment Credit (PFSAC2)

3.16 These two public finance structural adjustment credits are treated together as they were closely intertwined. *PFSAC* became effective on July 13, 1998 and closed on June 30, 1999. Co-financing of US\$22.3 million was provided by the Government of the Netherlands. *PFSAC2* became effective on December 3, 1999 and closed on December 31, 2002, one year late. Co-financing of US\$23 million was provided by the Government of the Netherlands and of US\$3 million from the Swiss Federation. As noted in paragraph 2.8, the basic objective of both was to establish common institutions and governance structures through policy reforms in the areas discussed below.

3.17 *Financing of the State.* Dayton did not provide for the State to have many sources of revenue—the main one was consular fees—making it rely for the financing of its budget on the two Entities (Federation and RS). Bank staff encouraged the Entities to agree that a proportion of all customs duties collected should go to the State first, rather than to the Entities (as provided for in Dayton). Without IMF support, the Bank's approach was not accepted. But the Entities did accept to agree annually in advance on the size of the State budget (administrative expenses and external debt service), to share the administrative expenses in the ratio laid down in Dayton (two-thirds Federation; one-third RS), and to make one-twelfth of the agreed amount available to the State on a regular monthly basis. *PFSAC* provided, as conditions of Board presentation and of second tranche release, for this agreement to be formalized, for mutually consistent budgets at State and entity levels for the first year to be drafted and adopted, for specific accounts to be set up, and for the commencement of the regular transfer of funds. All this was achieved, although there were occasional problems with the timeliness of the flow of funds. There was no need for further conditionality under *PFSAC2*. The mechanism will

¹¹ The Region notes, "The PPAR's specific recommendation to change IDA audit and monitoring policies with regard to quick disbursing operations goes beyond the mandate of the CMU (Country Management Unit)." OED notes that PPARs are carried out to provide lessons and recommendations beyond the specific operations under review, and that the experience under the TAC provides a good example of why the Bank's policy should be changed.

now need to be reviewed in the light of a recent decision in principle to adopt a state-wide VAT, which will allow for other possibilities along the lines of the original Bank ideas.

3.18 The above illustrates a general point: such mundane items as the setting up of accounts, adoption of budgets and making payments according to contractual agreements freely entered into, should not normally warrant elevation to SAC release conditionality. Yet such 'easy' items were habitually difficult in the Bosnian context of almost total distrust between the various ethnic groups. Hammering out agreement on these matters and getting them made effective was a major role that the Bank played in the implementation of Dayton. Normal ideas concerning 'ownership' had to be put aside for a while.

3.19 *External debt management.* A State Law on External Debt (June 1997) defines the responsibilities of the State and the Entities in external debt management. It qualifies the State's external obligations as the only category of BiH sovereign debt. The State is allowed to borrow on behalf of the Entities or, with Parliamentary approval, on its own. It can also issue guarantees. Entities are allowed to borrow by themselves, but such borrowing has sub-national status, like any other local government borrowing. This would be unexceptional, if it were not for the fact that the State did not have its own source of revenue from which it could service external debt. It is dependent on the Entities providing it with funds, as per the arrangements described in paragraph 3.17. This is not a solid basis for international creditworthiness. PFSAC supported initial efforts to improve external debt management: setting up special debt service accounts, adoption and implementation of entity debt laws consistent with the State debt law, regularization of debt information flows and adoption of a coordination agreement. Arrangements were made for separately-funded TA to strengthen debt management units. All this was done and seems to have assured a reliable flow of funds to the State for the timely execution of debt service payments since 1998.

3.20 By the time of the third tranche release of PFSAC2, guidelines for prudent borrowing operations and policy coordination were under implementation. Building up a track record of timely payments will be fundamentally important when Bosnia tries to establish its external creditworthiness for market borrowing. There must remain a question about this, however, as the basic structure may not be considered robust enough until the State has direct access to resources from which it can service debt. The future institution of a State-managed VAT system, and moving customs duty collection to the State level, may provide the opportunity for further robustness.¹²

3.21 *Intergovernmental finances within the Entities.* The most fundamental problem here is that some Federation cantons have substantial revenues to carry out their service obligations, while others do not; and the Federation itself does not have authority (or sufficient funds) to be able to resolve that problem. Any solution to this issue requires political agreement to shift some resources from richer cantons to poorer cantons. The Bank has worked strenuously with the authorities on this problem, dating back to TAC

¹² Indeed, BiH did receive its first international credit rating in March 2004: B3 from Moody's, a less than investment grade rating. Interestingly, Moody's specifically mentioned the introduction of the new tax system as a positive credit element.

preparation, but has never managed to find a formula satisfactory to all concerned parties. Neither *PFSAC* nor *PFSAC2* has therefore contained conditionality in this regard, though the problem is exposed in project documentation and separately-funded TA has been made available. There has been some (relatively minor) success concerning health financing (see below) and *PFSAC/PFSAC2* dialogs on the subject may yet bear fruit. Nevertheless, the Bank's interventions so far cannot be classified as successful in this area, although the fundamental responsibility for this clearly lies within BiH.

3.22 This issue illustrates a situation where the solution to a problem is essentially political and needs more than a technocratic or legal approach. In such a case, it might be preferable to make the achievement of certain end results, satisfactory to the Bank, the condition for tranche release of an adjustment credit.¹³

3.23 *Harmonizing taxes and coordinating tax collection.* The Bank has rightly stressed the importance of creating a 'single economic space' in Bosnia, so that firms can easily operate across both Entities. An important aspect of this is the harmonization of sales and excise taxes across the Entities. In addition, it is important from a tax collection viewpoint to ensure that such taxes are collected in a coordinated way, avoiding double taxation but also reducing tax evasion possibilities; and tax competition between the Entities would not be helpful to BiH overall. Lowering tax rates was also important, as discussed in the Introduction. Hence the Bank made the adoption of amendments to Federation and RS tax laws conditions of tranche release under both *PFSAC* and *PFSAC2*. Progress has been substantial, though not continuous, with some regression at times. Strong interventions from the Bank and other donors were required in this politically sensitive area.

3.24 A major point of contention concerned the collection point for sales taxes on excisable goods. In the Federation, mainly in order to reduce tax evasion, sales tax was collected at the point of manufacture or importation (at 'wholesale'). In RS, it was collected at the more usual point, at final sale (at 'retail'). Without harmonization, goods wholesaled in the Federation and then retailed in RS would (at least initially) be subject to two sets of sales tax; whereas, in the opposite direction, sales tax might easily be evaded entirely. Since tax evasion was rampant (that on high tariff goods and tobacco products alone was estimated to be DM 300 million, equivalent to US\$140 million), the Bank favored harmonization around the Federation practice, along with a formula based system to ensure that the revenues reached the entity/canton of final sale, with redistribution of revenues across cantons towards greater equalization. Under *PFSAC*, RS prepared amendments to its laws to incorporate this change (condition of Board presentation), with their adoption a condition of second tranche release. RS thereafter suspended implementation in August 1998. Further amendments were adopted by

¹³ The Region has commented, "...the Bank's policy of sequenced thematic SACs was a deliberate effort to follow through with implementation of a much needed new legislative framework. Furthermore, in an ongoing Business Environment Adjustment Operation, the Bank has also strived to focus on some "outcome indicators" of achievement of results, in addition to legislative and regulatory change. Nevertheless, the imperative to have the right legal and regulatory environment as the basis of reform remains, and will have to continue to be the focus of future adjustment operations." OED notes that the approach used in the operation cited, which defines results as legal conditions for tranche release, is a promising one.

Parliament in December; but effective implementation was again delayed and eventually put aside. In the meantime, the second tranche of *PFSAC* had been released (paragraph 3.38). However, as *PFSAC2* was under preparation, the issue could be taken up there. While the above history was not mentioned in *PFSAC2* project documentation—a lack of transparency—*PFSAC2* again required completion of the harmonization process, without this time specifying the particular modality, as tranche release conditionality.

3.25 Although the Bank continued to prefer the Federation solution, in the event the Federation chose to adopt the RS solution. While the Bank reiterated that this would lead to a reduction in tax revenues, it felt it had no choice but to accept the decision, as it did meet the requirement for harmonization and as the IMF made it clear it actually favored the RS solution.¹⁴ Tax revenue did decline. Eventually (only in 2002), the Federation and RS decided—with IMF acceptance—to experiment by changing the point of collection back from retail to wholesale, but only for tobacco. As this shift was successful, it was followed in mid-2003 by applying this change more generally. Tax revenues again increased (September and October 2003) but then declined (November 2003); as of the time of writing this PPAR, it was not clear why tax revenues had declined, nor whether this decline was temporary or the beginning of a downward trend.

3.26 There were good arguments in favor of the RS solution, for example the simpler paperwork needed for the attribution of tax revenues. However, the Bank thought that, in the light of the tax evasion it saw actually happening, the balance of arguments lay in favor of the Federation solution. The Bank could have been even more insistent in its dialog with the IMF on this point and proceeded with its own position, or dropped actions in this field. But it should not have acquiesced to, in the sense of continuing to disburse into, a position with which it strongly disagreed.¹⁵ In any event, it was unfortunate – though probably inevitable – that the IMF/Bank disagreement became known within BiH. A better approach would have been a direct assault on tax evasion (paragraph 2.10) and this raises a question about the relevance of the policy conditionality.

3.27 Notwithstanding this particular episode, a great deal was achieved under *PFSAC/PFSAC2* in the taxation harmonization and coordination areas, as well as some important reductions in overall tax rates. Part of the reason for this success was the way in which *PFSAC/PFSAC2* were prepared and supervised, perhaps representing a 'best practice' (next paragraph).¹⁶

3.28 The Bank arranged for substantial amounts of TA to be brought to bear on the multitude of problem policy areas faced by BiH. This had two useful facets. First, of course, much of the TA brought knowledge which was not available internally, as BiH

¹⁴ Federation staff informed the PPAR mission that they felt it better to accept the RS solution than not to have harmonization at all. They were aware of the IMF/Bank disagreement on the matter.

¹⁵ The Region has noted, "As OED knows...in the division of labor among the Bretton Woods institutions, the IMF does take the lead in setting tax policy." OED notes that although in general this is the case, in Bosnia Herzegovina, the Bank had initially taken the lead on all tax issues, especially on harmonization.

¹⁶ The comments in paragraph 3.28 apply equally to some other areas of *PFSAC* and *PFSAC2*—as well as *SOSAC/SOTAC/SOSAC2*— but will not be repeated in discussion of them.

had been isolated during the wars and as its recent pre-war experience was within the old Yugoslav socialist system. Second, and perhaps more important, the Bank found that it was more productive to bring the Federation and RS officials together for detailed discussions of harmonized policy reform, if those meetings were informed by active TA participants from outside BiH; otherwise, the mistrust between the Federation and RS either prevented joint meetings from taking place at all or adversely affected them. The TA was sometimes provided by consultants and sometimes by Bank staff directly. Bank files are filled with evidence of this effort, which was extraordinary by any standard, in both depth and breadth. It required extreme hard-work, diligence and understanding on the part of Bank staff, and the task manager in particular, which should be recognized. OED heard many expressions along these lines while on mission in BiH.

3.29 *Pension reform.* Rights to post-war pensions were not always clear, as contribution and identification records had been lost, there was no communication between Entities and many displaced people had to be paid pensions by one entity, while their earning period had been spent in the other entity. Separate pension systems had developed, not only between the two Entities, but also between the Bosniak and Croat communities within the Federation. These systems were all pay-as-you-go, but the Bosnian economy had collapsed so there was a very small wage tax base. As Entities had severe budget problems, they were not able to subsidize their pension schemes. Arrears had built up, some of them settled through the voucher driven privatization program (paragraph 1.10) and some through cash budgetary transfers. There was a tendency to respond to political pressures by increasing entitlements, which simply meant that arrears grew faster.

3.30 The most immediate problem tackled under *PFSAC* was to bring financial stability to the two Federation schemes, through formal limitation of pension claims to the amounts actually collected through wage taxes each month, preventing the build-up of further arrears. Useful work was also done in tidying up, and tightening, many technical pension provisions. Work begun earlier on preparing for the unification of the two ethnically-based Federation schemes was intensified, and work started on the improvement of information flows between the two Entities and on the development of more comprehensive medium-term pension reforms. *PFSAC2* required the preparation of actuarial projections by both Entities as a condition of credit effectiveness. These formed the basis for the Entities to define new benefit formula and eligibility criteria conducive to a long run balance in pension finances—to be adopted as a second tranche release condition and to be under implementation by the time of third tranche release. Some loopholes that emerged in the cash rationing approach supported by *PFSAC* were closed by more automatic, disciplined provisions supported by *PFSAC2* and mandated by OHR. *PFSAC2* also provided for the merging of the two separate Federation schemes, which proved to be extremely difficult politically and technically because of different payment and contribution rates. In the end, the necessary legislation was enacted also only under the powers of the OHR, but implementation did then follow. The result of all these measures is that pensions, albeit lower than original entitlements, are now paid regularly, the schemes are in financial balance and there is a greater degree of equity involved, with the minimum pension more secure and raised to a more adequate level. One result is that the Living Standards Measurement Survey (LSMS) shows that the incidence of poverty

among pensioners is less than that in the population overall (13.0 percent versus 19.5 percent).¹⁷

3.31 More work still needs to be done in the pension reform area. A promising sign of cooperation between the Federation and RS is that they are close to agreement on a Memorandum of Understanding (MOU) for the mutual recognition of pension payment obligations. It is expected that final agreement on the MOU and its satisfactory implementation will be conditions of the forthcoming *SOSAC2* operation. While not much progress has yet been made in developing more comprehensive proposals for the longer-term pension needs of BiH, the subject is being taken up systematically under the *Social Insurance Technical Assistance Project (SITAP)*, approved in FY03 and currently under implementation.

3.32 *Veterans' benefits.* A start was made under *PFSAC* in yet another politically charged area severely affecting entity finances. The Federation and RS were required to submit to the Bank a comprehensive analysis of beneficiaries, and did so. For the first time, the Entities have a clear idea of where these benefits are going. This, combined with TA provided under the *Social Sector Technical Assistance Credit (SOTAC)* and further steps under *SOSAC*, is expected to lead to substantial legislation and other actions to be supported under the forthcoming *SOSAC2*.

3.33 *Health finance.* While the Bank was assisting BiH's health sector reforms through investment projects, it also tackled some important health finance issues through *PFSAC2*. Cantons are too small individually to form good actuarial sets on which to base health care finance. *PFSAC2* therefore supported the establishment of a Federation Health Insurance Fund (FHIF) and individual cantonal health insurance funds. Considerable progress has been made. Today, cantonal health funds channel contributions in a transparent manner and offer more equitable access for health services to all ethnic groups within the canton—except in one 'mixed' canton (Mostar) where unification of two ethnically-based health funds only took place in 2003 and judgment as to its proper functioning cannot yet be made. The FHIF has been established and is functioning, funded both from the Federation budget and transfers from cantonal health insurance revenues.¹⁸ It finances health services for certain high cost catastrophic illnesses, thereby reducing wide variations across cantons in access to these particular services. So far, however, this measure does relatively little to reduce the wide disparities in per capita health spending across cantons.¹⁹ The sustainability of the present system must remain in doubt, pending more fundamental reforms in the critical areas being analyzed through the *SITAP*: tax evasion, inequalities in access and in the burden of financing, and health system effectiveness and efficiency.

3.34 In RS, the principal health finance problem was to ensure improved efficiency in the use of funds, including a stronger emphasis on primary and basic health needs, and in collecting health contributions. Guidelines in these respects were adopted as a second

¹⁷ See Bosnia and Herzegovina Country Assistance Evaluation (Report no. 29824), paragraph 3.20.

¹⁸ The establishment of FHIF was also designed to have a demonstration effect—that it is possible for the cantons and the Federation to work together to resolve issues of cross-cantonal financial disparity.

¹⁹ These judgments come from the *PFSAC2* ICR, as the PPAR mission did not have time to look into these aspects during its mission.

tranche release condition. There seems to have been substantial progress in shifting expenditures towards primary health care and in improved efficiency, though it is too early to tell whether these are sustainable. Some progress has been made concerning collection of health contributions, but, as in the Federation, real progress will be dependent on a more major reform program on the lines being analyzed by *SITAP*.

3.35 *Budget management.* *PFSAC/PFSAC2* have supported a useful stream of budget management improvements, backed up by TA financed from elsewhere. Two elements of this have particular importance. The first is the establishment of a Treasury system, whereby all receipts and expenditures pass through a single Treasury account, with appropriate reporting capabilities. The TA for this was supplied principally by the U.S. Treasury and USAID, backed up by *PFSAC2* third tranche release conditionality that the State and the two Entities would have begun operating with a Single Treasury Account. All this has happened successfully, with improved budgetary control and transparency, according to the BiH Supreme Audit Institution (SAI). The Treasury system is now being extended to the cantonal level and is proposed for most budget-funded institutions.

3.36 Another important improvement initially proved to have a short life. The Bank was anxious that the Entities place their annual budgets into a longer term framework, so provided TA for initial Budget Framework Papers (also called a Medium Term Expenditure Frameworks (MTEF)), to be approved by entity Cabinets and used to guide the 2001 budgets (*PFSAC2* tranche release condition). This happened, apparently successfully and usefully. The Bank assumed that this would become an annual exercise and would spread to the development of sector strategy frameworks as well. But no MTEFs were produced to guide the 2002 and 2003 budget exercises, and the Bank now proposes that MTEFs to guide the 2004 and 2005 budgets be required as tranche release conditions for the forthcoming *EMSAC* operation. MTEFs have therefore already been prepared for guiding the 2004 budgets, although some of the spending limits in RS were exceeded. The Federation found this latest exercise to be particularly useful as it highlighted the effects that declining aid resources would have on the Federation's ability to make expenditures beyond 2004, which helped in determining expenditure patterns also for 2004. The Federation and RS assured the PPAR mission that the absence of MTEFs for the 2002 and 2003 budgets did not reflect a lack of ownership, but simply lack of trained staff to carry them out.

3.37 *Internal controls and external auditing.* A troubling gap in BiH's public finance structure was lack of internal control over budget expenditure (particularly before the advent of the Single Treasury Account system) and of external audit. Provision was made under *PFSAC* for TA to do preparatory work in these areas. *PFSAC2* contained tranche release conditionality concerning the drafting and passage of appropriate legislation at the State and entity levels, the appointment of Auditor-Generals and the actual implementation of State and entity SAIs. There was significant resistance, but it was overcome and the three SAIs are now up and running. A State-level Deputy Auditor-General opined that, without active Bank involvement, the SAIs would not exist today. However, while the SAIs are producing useful reports, there is a troubling lack of response at governmental and parliamentary levels. Governments do not feel obliged to take actions on SAI reports, and do not respond with time-bound action plans to put right any weaknesses exposed. Parliaments have not yet learned how to make proper use of

SAI reports in their role as government watchdogs, so it is difficult to obtain appropriate budget allocations for the SAIs. These issues are to be addressed by the forthcoming *EMSAC* operation.

3.38 *Pattern of tranche releases.* *PFSAC* was a two tranche operation. The first tranche was released in July 1998, a couple of months later than originally planned. The second tranche was released in mid-December 1998, compared to an original date of August 1998. On December 1, the Bank asked the Board for a partial waiver of two second tranche conditions not yet met by RS. RS was forming a new government in the light of the September elections, and it was not certain when two pieces of legislation, already submitted to Parliament, would be adopted. In the event, they were adopted early in December. Given the history of the particular piece of legislation related to taxes (paragraph 3.24), it was by no means certain that Parliament would approve it as drafted. If Parliament did approve it rapidly (as it turned out), then there would be no need for a waiver. But if Parliament did not accept it, or did so with a substantial delay, then the waiver would be unjustified. The request for the waiver was therefore misplaced.

3.40 Release conditionality under *PFSAC2*—a three-tranche operation—was more tightly controlled and no waivers were sought. Rather, the second and third tranche were delayed, the latter substantially. The closing date, originally December 31, 2001, was first extended to June 30, 2002, and finally to December 31, 2002. Interestingly, the latter extension was to provide the Bank with convincing evidence of satisfactory implementation, over a period of time, of some policy reforms, showing that the Bank had learned from earlier experience.

Social Sector Adjustment Credit (SOSAC)

3.40 *SOSAC* became effective on June 18, 2001 and closed on August 30, 2001. It was a single tranche operation. There was no co-financing. A companion technical assistance (TA) operation—*Social Sector Technical Assistance Credit (SOTAC)*, specifically designed to prepare reforms to be supported by *SOSAC2*—is still under implementation and is not assessed in this PPAR.

3.41 Although a single tranche operation, like *TAC*, the circumstances were totally different. Enough actions had been taken already by governments in the social sector that warranted a tranche release, but not enough technical work had been done to be able to determine, at that time, precisely what the later tranches would look like. Arrangements were therefore made for the companion TA operation. Many of the intended *SOSAC2* first tranche conditions have already been met, but that operation was initially held up by election-related difficulty in coming to agreement on reform of veterans' benefits; it was eventually approved by the Bank in June 2004.

3.42 The actions taken which justified *SOSAC* covered preliminary activities in a number of social protection areas, as well as tackling some critical labor market issues. These are summarized below. As they were all completed prior to Board presentation, there are no issues concerning immediate implementation. Although some initial positive effects can be seen, a fuller assessment will have to await the implementation of a wider

package, including this *SOSAC*, *SOTAC* and *SOSAC2*, as they form different aspects of a single reform area.²⁰

3.43 *Social protection policy and institutional framework.* Both the Federation and RS had prepared and approved Social Protection Expenditure Strategies for the period 2000-2003, as part of the overall Budget Framework Paper approach which formed part of *PFSAC2* (paragraph 3.36). They were satisfactory to the Bank. The expenditure strategies then allowed the two Entities to prepare draft Social Protection Strategies for the same period, which were appropriately constrained to be financially viable. Both these draft strategies were satisfactory to the Bank. For the first time, a framework was developed for prioritizing social protection expenditures, with some participants in the process working together for the first time.

3.44 *Social protection programs.* Both the Federation and RS had submitted reports on social assistance, outlining options for improved social assistance, including financing mechanisms, targeting criteria and benefit administration. They were satisfactory to the Bank. The two Entities similarly presented reports on their disability programs. As a result, a foundation was laid for improving the efficiency of the social safety net in ways to be supported by *SOSAC2*.

3.45 *Social statistics.* Both the Federation and RS took a series of technical steps which would enhance the development of better social statistics: household survey teams were established, including staff dedicated to development of a sampling frame; progress satisfactory to the Bank had been made in completing a technical plan for creating master samples; and Open Access Data Agreements were approved for household survey results. These steps were instrumental in ensuring progress in implementing LSMS. A strong foundation was thus provided for an improved social statistics system.

3.46 *Labor markets.* In contrast to the preparatory nature of the preceding three items, which can only be truly assessed in the longer term when one can see what use was made of them, the *SOSAC* involvement in labor markets was substantive in itself. New labor and employment laws were adopted in both the Federation and RS to address a range of problems with the existing laws, which retained the inheritance of socially managed firms, where enterprises accepted welfare functions which are the responsibility of government in market economies. In the process of developing reforms in this area, the partnership with ILO was particularly important in lending legitimacy to those reforms, especially among labor unions. The results are labor and employment laws that reflect modern European practice suitable to a market economy, while still respecting basic workers' rights and remaining consistent with all of BiH's ILO convention obligations. There is evidence that the changes are removing potentially serious obstacles to the economic transition, and there is some anecdotal evidence that they have started to have a positive effect. A survey of 12 private start-up and newly privatized companies found that managers now viewed the labor and employment laws as liberal and no longer an obstacle for doing business. A well-functioning labor market is, of course, particularly

²⁰ This PPAR included coverage of *SOSAC* in the interest of gaining as much insight as possible into completed Bank operations as an input into the Country Assistance Evaluation.

important in a currency board regime like that of BiH: since the nominal exchange rate is fixed, wage cost rigidities can quickly translate into a loss of competitiveness.

3.47 Of course, these labor and employment laws deal with only some of the factors retarding the further development of BiH's private sector. While they should assist in encouraging additional employment and in furthering the privatization of large-scale enterprises, neither of these are taking place on the scale desired, for reasons outlined earlier. It will thus take time before the full effects of the new laws will be felt.

3.48 Governments appeared to be genuinely appreciative of the TA that was provided by the Bank, either by consultants hired under *SOTAC* or by Bank staff themselves.

4. Assessment of Outcomes and other Ratings

Transition Assistance Credit (TAC)

4.1 *Relevance.* Although political reality made them only a pale shadow of what was originally intended, actual *TAC* objectives were consistent with the Bank's country assistance strategy. Support to BiH's balance of payments, to State debt service and to the Federation's budget were important. Although the functions of the Federal Payments Bureaus were transferred to the commercial banking sector and cantonal governments in 2001, this could not have been anticipated in 1996 and including their unification was also relevant at the time. Off-setting this, the institutional development aimed for within the Federation was only modest. And there were no important policy reforms. Overall, relevance is rated *modest*.

4.2 *Efficacy.* The Federation Customs Administration was established in a unified manner—the immediate *TAC* objective. For political reasons, it was unable to prevent major smuggling. It is now expected to be merged into a State-wide customs administration—a positive development. The overall objective was largely achieved. Similarly, the Federation Payments Bureau operated reasonably effectively for a few years, even if never fully unified, which was the immediate *TAC* objective. Passage of the Federation Banking Agency Law—the immediate *TAC* objective—was only a first step in the process of development of the private banking sector, but that development was mainly successful thereafter, so the achievement of this objective is considered highly satisfactory. While the presentation to Parliament of a Federation Privatization Agency Law took place—the immediate *TAC* objective—and while this resulted in later adoption of the law and (with some delays) the establishment of the agencies, the privatization program itself was largely a failure. This objective was not achieved.

4.3 However, a major *TAC* objective was budget support for such items as costs related to the demobilization of soldiers, a pension scheme, an emergency social fund and a minimum health care scheme, as well as funding for external debt. In the event, almost half of the proceeds of the IDA credit were used for purposes which the Bank did not think were proper. BiH had difficulty in finding funds to pay Bank debt service for the

next few years. The Bank suffered public relations problems in BiH when it became known how the *TAC* proceeds had actually been used. Handling of FPB unification conditionality had adverse effects on Bank-BiH relations for some time. Pushing through the credit before RS started playing a full role in State government caused future problems in RS-Bank relations. In these important aspects, *TAC* had major shortcomings.

4.4 *Outcome.* The overall outcome of the *TAC*, considering its largely relevant objectives, but a mix of highly satisfactory and highly unsatisfactory achievement of those objectives, is rated *unsatisfactory*. The ICR rated the *TAC* outcome as *satisfactory*, as did OED's evaluation summary, mainly because although it had similar (although not identical) ratings on the individual components, it weighted them differently, giving less weight to the unsatisfactory aspects.

4.5 *Sustainability.* While the Federation Customs Administration is expected to have a limited life, its sustainability is rated *likely* as it will be merged into a wider organization which will likely prove resilient to future risks. The Federation Payments Bureau is already defunct, having been found eventually to be unnecessary; so it proved completely non-resilient to risk and therefore its sustainability highly unlikely. The Federation Banking Agency and associated private banking system are on solid footing and their resilience to risk is considered *highly likely*. By contrast, the future of the Federation and Cantonal Privatization Agencies and associated privatization program (in the form of the voucher design then envisaged) is unlikely to withstand pressures to privatize more quickly and to improve corporate governance, so sustainability of these institutions is *unlikely*. Giving the benefit of this finely balanced set of ratings to the project, overall sustainability is rated as *likely*. The Implementation Completion Report (ICR) rating was *uncertain* (quite valid at the time), as was the OED evaluation summary rating.

4.6 *Institutional development impact.* Again, *TAC* has a mix of institutional development impact: on the one hand, reforms related to customs administration and banking can be considered to be first steps toward substantial institutional impact. On the other, a number of reforms introduced had minimal or no positive institutional development impact: the privatization agency law was adopted, but the agency and the program themselves have not proceeded well, so in terms of impact on the privatization process, it was negligible. Similarly with the payments bureaus, whose functions have been transferred to banks. Overall the rating on institutional development impact is *modest*. The ICR rating was *partial*, with which OED's evaluation summary agreed.

4.7 *Borrower performance.* Although the borrower, with some, but not total, justification, does not believe it used the *TAC* counterpart funds wrongly, the PPAR assesses borrower performance to be, overall, *unsatisfactory*. It was clearly not in the spirit of the loan to use its proceeds, as the borrower did, as credit to state owned enterprises, to retire liabilities to banks, to fund municipalities, expenditures which were outside the responsibility of the state. The ICR rating varied from *highly satisfactory* in the preparation phase, *deficient* during implementation and operation and *satisfactory* for covenant compliance. OED's evaluation summary did not rate borrower performance.

4.8 *Bank performance.* Although the Bank did a good job in identifying needed reforms in many areas such as the banking sector, customs administration, and the payments system, in important aspects, Bank performance was inadequate. It should have reduced the amount of the credit to the very much reduced content of the *TAC* operation (paragraphs 2.5 and 2.6); should not have rushed to judgment on the payments bureau in order to make the credit effective (paragraphs 3.4 and 3.5); and should not have encouraged the borrower to proceed with a voucher driven privatization (paragraph 3.2). The Bank did not adequately communicate with the new borrower on the Bank's expectations about the use of counterpart funds (paragraphs 3.7 – 3.13); and should arguably have not approved budget support in a non-transparent situation without appropriate safeguards. Overall, Bank performance is rated *unsatisfactory*. The ICR rating was *satisfactory* during identification, and *highly satisfactory* during preparation, appraisal and supervision. The OED evaluation summary gives a combined rating of *satisfactory*.

Public Finance Sector Adjustment Credit (PFSAC); and the Second Public Finance Sector Adjustment Credit (PFSAC2)

4.9 *Relevance.* *PFSAC/PFSAC2* objectives were consistent with the Bank's country assistance strategy. There were some elements—such as tackling tax evasion more directly—that might have been included as being even more relevant (paragraphs 2.9-2.12), but which were not. Overall, relevance of both operations is rated *substantial*.

4.10 *Efficacy.* In most *PFSAC/PFSAC2* areas, achievements were largely in line with the objectives, in the narrow sense. Financing mechanisms for the State were put in place; external debt management was strengthened and the flow of funds to the State for external debt service has been timely since 1998. There has been substantial progress in harmonizing taxes and coordinating tax collection across Entities, and some progress on reducing overall tax rates. Reforms of the pension systems started under *PFSAC* were continued under *PFSAC2*, and objectives under this component were met, although much remains to be done to put pensions on a sustainable footing. The objectives of improving budgetary management, internal controls, and external auditing were met, although in terms of impact, some of the achievements in this area have not yet materialized. For example, the SAIs (audit institutions) are all functioning, but proper use is not yet being made of their reports.

4.11 *Outcome.* The overall outcome is considered *satisfactory*, especially given the difficult political background. ICRs for both projects rated outcome as *satisfactory*, as did OED's evaluation summaries.

4.11 *Sustainability.* Tax harmonization appears to be locked in and is likely to prove resilient to risk. Current pension arrangements, by contrast, will become more fragile as the economy grows and sustainability will depend on whether a longer term system can be developed. Federation health funding arrangements must be considered temporary, but seem to be working well now. Budget improvements could easily be upset, depending on the attitudes of future governments, although the prospect of future entry into the European Union will probably keep them effective. Debt arrangements are fine for

present conditions, but it is not clear that these will suffice when BiH wants to enter international financial markets. The Treasury system seems robust, as do the SAIs as institutions. Overall, the PPAR considers sustainability of outcomes as *likely*. This was also the judgment of both ICRs and OED's evaluation summaries.

4.12 *Institutional development.* Institutional development impacts of *PFSAC* and *PFSAC2* have been considerable. Debt management units are now well established, as are the SAIs. The knowledge and experience gained by the Federation health funds will remain invaluable, even if the overall system needs to change over time. Budgetary formulation knowledge has been institutionally imbedded, though the carrying out of MTEFs is still largely an element conducted by consultants. Staff dealing with pension issues in the Federation and RS seem to have absorbed all the knowledge that the external TA brought, and have now built their own experience base through trying conditions. Overall, the PPAR rates institutional development impact of both operations as *high*. The ICR for *PFSAC* rated institutional development as *substantial* and the OED evaluation summary agreed; it is upgraded here mainly because these impacts are considered particularly commendable in light of the political difficulties of achieving them. The ICR for *PFSAC2* rated institutional development as *high* and OED's evaluation summary concurred.

4.13 *Borrower performance.* Insofar as the outcomes are satisfactory, for which the borrower must take ultimate responsibility, and sustainability likely, borrower performance would normally be rated as satisfactory. There were however several instances of delays and back-tracking (albeit put back on track) and the OHR had to intervene decisively in a few instances. Overall, therefore, borrower performance is rated as *satisfactory*, but with major weaknesses. Both ICRs rated borrower performance as satisfactory, as did the OED evaluation summaries.

4.14 *Bank performance.* The dedication, effectiveness and empathy of Bank staff working on BiH was exceptionally good. The steady tightening of the handling of tranche releases was commendable. However, some elements could have been usefully included in the projects, but were not tackled. In addition, the Bank might have pushed harder against an IMF position than it did. Overall, the PPAR rates Bank performance as *satisfactory*. Both ICRs rate Bank performance as *satisfactory*, confirmed by OED's evaluation summary.

Social Sector Adjustment Credit (SOSAC)

4.15 *Relevance, efficacy, outcome.* As noted in the preceding chapter, it is difficult to assess the full impact of *SOSAC* in isolation from the yet-to-be-completed *SOTAC* and what are in a sense later tranches of *SOSAC*, i.e. *SOSAC2*, approved only in June 2004. Nevertheless, OED considers that the relevance of *SOSAC's* objectives were substantial and that the objectives were achieved. The PPAR therefore concurs with the ICR rating and OED evaluation summary rating of *satisfactory* for outcome.

4.16 *Institutional development impact.* Again, the full impact of the measures on social protection are likely to take time and require further action, although the drafting of coordinated budget framework and social protection strategies across Entities may

contribute to the creation of the “single economic space” that may prove critical to Bosnia’s future. In addition, for labor markets, a recent survey of private firms suggests that labor regulations are no longer perceived as an obstacle for doing business (paragraph 3.46). Institutional development impact is considered *substantial*, concurring with both the ICR and the OED evaluation summary ratings.

4.17 *Sustainability*. Although there are risks that the Entities will not continue to work together on coordinating their social protection programs, the implementation of both *SOTAC* and *SOSAC2* will enforce the resilience to these risks of the achievements made to date. In addition, given the dialogue with the European Union and the possibility of eventual EU association, it is likely that the labor market reforms will be sustainable. Overall, sustainability of outcomes is considered *likely*, as it was at the time of the ICR and the OED evaluation summary.

4.18 *Borrower performance*. Governments met all conditions for tranche release (summarized in paragraphs 3.43 through 3.46), which consisted for the most part of reports and strategy papers with respect to social protection reforms; these were far from trivial, however, as it involved cooperation across Entities to produce the frameworks. In addition, in labor market reform, both Entities adopted, in partnership with the ILO, labor and employment laws that were consistent with European practices. Borrower performance is considered satisfactory as it was in the ICR and the OED evaluation summary.

4.19 *Bank performance*. The ICR rated Bank performance as highly satisfactory, while the OED evaluation summary rating was satisfactory; although OED in its evaluation summary considered that Bank performance during preparation had been highly satisfactory, it thought that there should have been monitoring indicators included for the implementation phase and that the Bank should have given more attention to the potential social impact of the new labor laws. This PPAR rates Bank performance as *highly satisfactory*, because of the careful preparation of the operation, the emphasis on coordination across Entities, the care taken to put in place a *SOTAC* to provide the basis for follow up reforms, and the formulation of that follow up under *SOSAC2*.

5. Lessons

- When original design intentions for a quick-disbursing operation have to be drastically reduced in scope, in the face of practical and political difficulties, then this should give rise to a reassessment of the whole operation, in particular the credit amount, to ensure that there remains a relationship between that amount and the policy adjustments being supported.
- Providing general budget support into a situation where there is virtually no auditing of, or accountability for, government expenditures is unwise, in the absence of a watertight, monitorable agreement with the borrower on the use of those funds. Insofar as current IDA policy is not to concern itself with the use of funds in a quick-disbursing operation, then either that policy has to change or IDA has to forego the provision of budget support in such circumstances.

- Providing budget support, in the face of major tax evasion and excessive government expenditures, can be potentially counter-productive, in the absence of an agreed and concerted direct attack on those elements. Otherwise the presence of budget support reduces the natural pressure on governments to take urgent and meaningful action.
- In a situation where there is not clear borrower commitment to a course of action, or there is a history of back-tracking or non-implementation of laws and regulations, the mere passage of legislation or promulgation of regulations is not usually a good basis for tranche release conditionality. There also needs to be a period of implementation or, better, release conditionality based on actual results achieved.
- On any issue, including macro-economic and tax-related issues, IDA should maintain an independent position. If there is disagreement between IDA and the International Monetary Fund (IMF), IDA support should be based on its own assessment.
- In a highly charged political atmosphere, progress can be achieved by bringing conflicting parties together for technical discussions, with IDA staff or TA consultants present. To be successful, however, it requires the involvement of particularly empathetic staff, the careful choice and briefing of TA consultants, and intensive supervision – all of which happened under the two *PFSAC* operations and *SOSAC*. In these respects, these three operations represent good practice.
- When a long and complicated agenda of reforms is needed and where future detailed actions can only be properly prescribed after further discussions and developments on the ground, careful sequencing of operations is required. This was done for *PFSAC* and *PFSAC2*, to be followed by the proposed Economic Management *SAC*; and for *SOSAC*, to be followed by the proposed *SOSAC2*. Such careful sequencing is another example of good practice. By contrast, there was no immediate follow-up to *TAC*, compounding its poor design as a one-tranche operation.

Annex A: Basic Data Sheet

TRANSITION ASSISTANCE CREDIT (CR. 2914)

Key Project Data (amounts in US\$ million)

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Original commitment	90.0	90.13	100.14
Total cancellation	-	-	-
Total project cost	-	-	-
Cancellation	-	-	-

Project Dates

	Original	Actual
Departure of Appraisal Mission	May 1996	May 1996
Board approval	Sept. 5, 1996	Sept. 5, 1996
Signing	Sept. 6, 1996	Sept. 6, 1996
Effectiveness	Sept. 11, 1996	Sept. 11, 1996
Closing date	Dec. 31, 1996	Dec. 31, 1996

Staff Inputs (staff weeks)

	Actual/Latest Estimate
	US\$ ('000)
Preappraisal	196.8
Appraisal	4.0
Negotiations	46.6
Supervision	49.9
ICR	1.3
Total	298.6

Mission Data

	Date (month/year)	No. of persons	Staff days in field	Specializations represented	Performance rating
Identification/Preparation	Various dates	2	13	E, P	
Appraisal	Various dates	11	171	E, L, P	
Supervision	Dec. 196	2	21	E	1
Completion	March 1997	2	20	E	1

E = Economist; L = Lawyer; P = Pensions specialist

1 = Satisfactory; 2 = Not Satisfactory

PUBLIC FINANCE STRUCTURAL ADJUSTMENT CREDIT (CR. 3090)

Key Project DATA (amounts in US\$ million)

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Original commitment	63.0	63.40	100.6
Total cancellation	-	-	-
Total project cost	-	-	-
Cancellation	-	-	-

Project Dates

	Actual
Departure of Appraisal Mission	November 7, 1997
Board approval	June 4, 1998
Signing	June 11, 1998
Effectiveness	July 13, 1998
Closing date	June 30, 1999

Staff Inputs (staff weeks)

	Actual/Latest Estimate	
	No. of Staff weeks	US\$ ('000)
Preappraisal	63.2	146.5
Appraisal/Negotiation	30.4	65.3
Supervision	25.3	56.4
ICR	3.3	18.5
Total	122.2	286.7

Mission Data

	Date (month/year)	No. of persons	Staff days in field	Specializations represented	Performance rating	Rating trend
Identification/Preparation	Sept. 1997	4	N/A	1 economist 1 tax policy 1 budget specialist 1 debt mgmnt specialist		
Appraisal	Nov. 1997	4	N/A	2 economists 1 budget specialist 1 debt mgmnt specialist	S	S
Supervision	June-July 1998	8	N/A	1 economist 1 tax//intergovernmental finance specialist 1 budget specialist 1 debt mgmnt specialist 2 audit reform specialists 1 pension specialist 1 research analyst	S	S
	August-September 1998	1	N/A	1 economist	S	S
	September 1998	1	N/A	1 pension specialist	S	S
	November 1998	1	N/A	1 economist	S	S
Completion	May 2000	2	N/A	1 economist 1 tax specialist	S	S

SECOND PUBLIC FINANCE STRUCTURAL ADJUSTMENT CREDIT (CR. 3258)

Key Project Data (amounts in US\$ million)

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Original commitment	72.0	72.0	100%
Total cancellation	-	-	-
Total project cost	-	-	-
Cancellation	-	-	-

Project Dates

	Actual
Departure of Appraisal Mission	March 30, 1999
Board approval	June 24, 1999
Signing	July 5, 1999
Effectiveness	December 3, 1999
Closing date	December 31, 2002

Staff Inputs (staff weeks)

	Actual/Latest Estimate	
	No. of Staff weeks	US\$ ('000)
Preappraisal	25.3	117.8
Appraisal/Negotiations	11.1	47
Supervision	96.27	313.9
ICR	8.0	40.0
Total	140	518.7

Mission Data

	<i>Date (month/year)</i>	<i>No. of persons</i>	<i>Staff days in field</i>	<i>Specializations represented</i>	<i>Performance rating</i>
Identification/ Preparation	November 1998	7	N/A	1 economist 3 tax policy specialists 3 budget specialists	S
	December 1998	1	N/A	1 budget specialist	
	January 1999	15	N/A	1 economist 4 budget mgmnt specialists 3 audit specialists 2 debt mgmnt specialists 3 tax policy specialists 2 pension reform specialists	S
Appraisal	April 1999	11	N/A	1 economist 2 tax policy specialists 1 health specialist 1 pension reform specialist 2 budget mgmnt specialists 1 treasury system specialist 1 debt mgmnt specialist 1 audit specialist 1 veterans benefit sch.	S
Supervision	September 1999	12	N/A	1 team leader 1 budget mgmnt specialist 1 treasury systems specialist 1 budget management (fed) specialist 1 budget management (rs) specialist 1 budget/macro framework specialist 1 debt mgmnt specialist 1 debt mng.-legal framework specialist 1 tax policy specialist 1 intergovernmental finance specialist 1 pension finance specialist 1 veteran's benefit sch.	S
	October 2000	7	N/A	1 team leader 1 treasury specialist 1 pension specialist 1 public finance specialist 1 health sector specialist 1 program assistant	S
	May 2001	6	N/A	1 task team leader 1 treasury system specialist 1 debt management specialist 1 tax policy specialist 1 health finance specialist 1 budget consolidation specialist	
	July 2001	5	N/A	1 task team leader – overall supervision 1 health finance reforms specialist 1 pension reform specialist 1 treasury specialist 1 tax policy specialist	S
	Completion	December 2001	3	N/A	1 team leader 1 macroeconomist 1 research analyst

SOCIAL SECTOR ADJUSTMENT CREDIT (CR. 3465)

Key Project Data (amounts in US\$ million)

	Appraisal estimate	Actual or current estimate	Actual as % of appraisal estimate
Original commitment	20.0	20.0	100%
Total cancellation	-	-	-
Total project cost	-	-	-
Cancellation	-	-	-

Project Dates

	Actual
Departure of Appraisal Mission	April 21, 2000
Board approval	February 15, 2001
Signing	April 27, 2001
Effectiveness	June 18, 2001
Closing date	August 30, 2001

Staff Inputs (staff weeks)

	Actual/Latest Estimate	
	No. of Staff weeks	US\$('000)
Preappraisal	58.85	187.53
	17.00 (CS)*	36.38
Appraisal/Negotiation	22.27	57.57
	30.20 (CS)*	58.07
Supervision	5.85	17.61
ICR	4.60 (CS)*	14.95
Total	138.77	372.11

* CS = Consultant Services

Mission Data

	<i>Date (month/year)</i>	<i>No. of persons</i>	<i>Staff days in field</i>	<i>Specializations represented</i>	<i>Performance rating</i>
Identification/ Preparation	September 1999	7	N/A	Task Manager, Health Economist, Education Specialist, Education Economist, Labor Economist, Social Policy Specialist, Consultant	
	December 1999*	6	N/A	Task Manager, Labor Economist, Labor Lawyer, Social Policy Specialist, Pension Specialist, Microfinance Specialist	
	February/March 2000**	6	N/A	Task Manager, Labor Economist, Labor Lawyer, Employment Services Specialist, Social Policy Spec. (2)	
Appraisal/Negotiation	April 2000	8	N/A	Task Manager, Health Economist, Labor Economist, Social Policy Specialists (2), Public Sector Specialist, Consultant, Employment Services Specialist	
	June 2000	5	N/A	Task Manager, Labor Economist, Social Policy Specialist, Public Sector Specialist, Employment Services Specialist	
	August 2000	4	N/A	Task Manager, Social Policy Specialist, Public Sector Specialist, Employment Services Specialist	
	November 2000	3	N/A	Task Manager, Employment Services Specialist, Social Policy Specialist	
Supervision	June 2001	3	N/A	Task Manager, Labor Economist, Human Development Economist	S
Completion	February 2002	1	N/A	Evaluation Specialist	S

* In December 1999 there was also the Sarajevo Workshop on social policy issues as mentioned in the ICR.

** In late 1999/early 2000 there were numerous additional brief visits by the Task Manager, Labor Economist, and Labor Lawyer

Annex B: Comments from the Borrower

BOSNA I HERCEGOVINA
VIJEĆE MINISTARA
PREDSJEDAVAJUĆI



BOSNIA AND HERZEGOVINA
COUNCIL OF MINISTERS
CHAIRMAN

Date: November 1st, 2004
No: 01/I-22-141/04

Mr. Ajay Chhibber
Acting Director-General
Operations Evaluation

Re: Bosnia and Herzegovina – Transition Assistance Credit (Cr. 2914.BOS);
Public Finance Structural Adjustment (Cr. 3090.BOS); and Social Sector
Adjustment Credit (Cr. 3465-BOS) – Draft Project Performance Assessment
Report

Dear Mr. Chhibber,

I would like to inform you that I have no objections or comments on the
aforementioned reports.

Sincerely,



Annex C. Comments from the Co-financier



SVERIGES AMBASSAD

Sarajevo, 01 October 2004

**Embassy of Sweden
Sarajevo**

Number of pages incl. cover: 1

FAX

**To: R. Kyle Peters
The World Bank
Operations Evaluation Department
FAX: 202 522 3124**

**From: Nedim Bukvic, Program Officer
Swedish International Development Cooperation
Agency (Sida)
tel. 387 33 276 030**

RE: Draft TAC/PFSAC and SOSAC performance assessment report

Dear Mr. Peters,

Mr. Elding has asked me to respond to your letter dated Sept. 10 regarding the OI&D assessment report. He would like to thank you for sharing the report and to inform you that he has no comments.

Regards,

**Nedim Bukvic
National Program Officer
Sida Sarajevo**

cc. Bo Elding, Director
Sida Sarajevo

**Postal Address:
Ferkovlje 20
71000 SARAJEVO
Bosnia-Herzegovina**

**Telephone:
+387 33 27 60 30
+38 9 408 49 31
(via Sweden)**

**Fax:
+387 33 27 60 50
+38 9 408 49 32
(via Sweden)**

**E-mail:
amb.sarajewo@foreign.ministry.se**

Annex D. List of People Met

Government and Former Government Officials

H. E. Ljerka Maric, Minister of Finance, BiH
 Mr. Miroljub Kronic, Assistant Minister of Finance, BiH
 Ms. Bejita Delic, Ministry of Finance, BiH
 Ms. Vera Letica, Ministry of Finance, BiH
 H.E. Mladen Ivanic, Minister of Foreign Affairs, BiH
 Ms. Azra Hadziahmetovic, Former Minister of Foreign Trade & Econ. Rel., BiH
 Mr. Mirsad Kurtovic, Former Minister of Foreign Trade & Econ. Rel., BiH
 Mr. Kasim Omicevic, Central Bank
 Mr. Amir Hadziomeragic, Head of Statistics Section, Central Bank
 Ms. Ljiljana Marjanovic, Banking Supervision Coordinator, Central Bank
 Ms. Snezana Janjic, Economist, Res. & Dev. Section, Central Bank
 Mr. Samir Musovic, Deputy Auditor General, Audit Office of BiH Institutions
 Mr. Milorad Dodik, Former Prime Minister, RS
 Mr. Omer Brankovic, Deputy Prime Minister, RS
 Mr. Branislav Zugic, Secretary, Min. for Econ. Relations and Coord., RS
 Mr. Zarko Mionic, Assistant Minister of Finance, RS
 Ms. Gordana Prastalo, Ministry of Finance, RS
 H.E. Marin Kvarternik, Minister of Health and Social Welfare, RS
 Dr. Gordan Jelic, Director, Health PMU, RS
 Mr. Rajko Klickovic, Ministry of Labor and Veterans Affairs, RS
 Mr. Radomir Graonic, Ministry of Labor and Veterans Affairs, RS
 Mr. Srecko Bogunovic, Executive Dir., RS Dev. & Empl. Foundation
 Mr. Ranko Labovic, Former Dir., RS Recon. Assistance Proj., PMU
 H.E. Ahmet Hadzipasic, Prime Minister, Federation
 Ms. Sefika Hafizovic, Advisor to Prime Minister of Federation
 Mr. Enver Trepic, Deputy Minister of Finance, Federation
 Mr. Pero Bosnic, Former Asst. Min. of Finance, Federation
 Ms. Zada Gabela, Aid Coordination Unit, Ministry of Finance, Federation

Private Sector

Mr. Damir Miljevic, Employers' Association, RS

International Organizations/Donor Agencies

Mr. Serban Ghinescu, Head of Office, EBRD, Sarajevo
 Mr. Wulf Goretzsky, Program Manager, GTZ, Sarajevo
 Mr. Seid Turkovic, UNDP, Sarajevo
 Mr. John Ging, OSCE, Sarajevo
 Ms. Anne Schwartz, U.S. Treasury, Sarajevo

World Bank

Christine Wallich, Former Country Director
Christiaan Poortman, Former Country Director
Orsalia Kalantzopoulos, Country Director
Rory O'Sullivan, Former Resident Representative
Joseph Ingram, Former Country Manager
Dirk Reinermann, Country Manager
Neil Simon Gray, Lead Country Officer
Michel Noel, Lead Financial Specialist
Jean-Luc Bernasconi, Senior Economist
Sebnem Akkaya, Senior Country Economist
Saumya Mitra, Lead Economist
Philip O'Keefe, Social Protection Task Manager
Goran Tinjic, Project Officer
Irina Smirnov, Research Analyst
Vesna Francic, Disbursement Officer
Siew Chai Ting, Lead Financial Management Specialist
Roger Robinson, Country Manager (Armenia), previously with OHR, Sarajevo
Roy Gilbert, Lead Evaluation Officer
Van Vu Nichols, Accounting Department
David Webber, Loan Department
Dilek Barlas, Legal Department
Hans Jurgen Gruss, Legal Department

IMF

Mr. Franek Rozwadowski

In addition, the PPAR mission benefited from briefing and de-briefing members of the concurrent OED mission conducting a Country Assistance Evaluation—Stephen O'Brien, James Harrison and Chandra Pant—concerning meetings with other people in Bosnia. See List of People Met attached to the CAE Report.