



# World Bank Group – Bosnia and Herzegovina Partnership: Country Program Snapshot

April 2015



## RECENT ECONOMIC AND SECTORAL DEVELOPMENTS

### Growth and Real Sector Performance

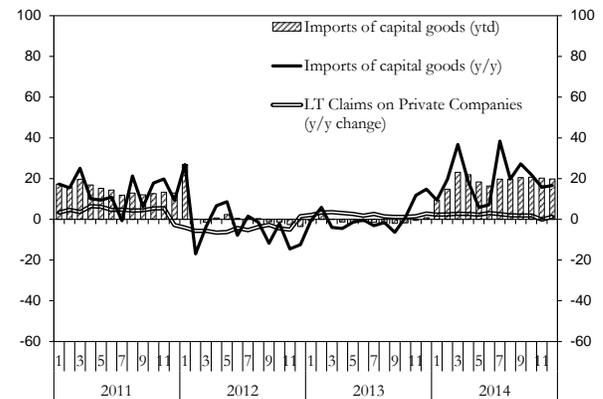
**The economy appears to be on a path of gradual recovery after the flood-related slowdown in 2014.** Better high-frequency indicators in the third and fourth quarter led to a shift in estimates for GDP in 2014 to a stagnation of 0.4 percent from a contraction of 0.7 percent. The May floods are estimated to have cost Bosnia and Herzegovina (BiH) around 15 percent of GDP in loss of output and damages, with almost no segment of the economy left unharmed. Agriculture and energy were the main sectors hit hard by the floods, with both output and productive capacity strongly affected. The agriculture sector, which represents about 6 percent of GDP but 19 percent of overall employment, remains in a state of transition, with a majority of very small farms and a growing number of larger commercial farms. This fall in agricultural output reduced economic growth in the second and third quarter of 2014 and as a result, agricultural value added contracted by nearly 11 percent, while electricity value added declined by 8.3 percent during the same period. Still, some sectors did grow faster following the floods. Transport and storage had a positive contribution to economic growth in the third quarter and consequently, transport and storage value added increased by 7.5 percent and the wholesale/retail sector by 5.1 percent.

**The slow progress on economic reforms has kept the unemployment rate unchanged.** The Labor Force Survey figures suggest that the unemployment rate was 27.5 percent in 2014, unchanged from 2013. Imported deflationary pressure is still strong, and hence after positive annual inflation in October and November, prices fell at an annual rate of 0.4 percent in December 2014. Lower food, clothing, and fuel prices made the biggest contribution.

**Consumption appears to have improved, as imports of consumer goods in 2014 grew by 7.6 percent** compared to the same period in 2013, while bank credit to households increased by 5.7 percent growth (year-on-year) in December. Investments also appear to have improved, as imports of capital goods in 2014 grew by 19.8 percent compared to the

same period in 2013. Long-term bank credit to private enterprises was in positive growth rates through the whole year except in November, and in December, the growth rate was 1.2 percent year-on-year. The index of industrial production was mostly negative during 2014 and decreased by 1.7 percent compared to 2013.

**Figure 1. Proxy Data for Investments: Growth of Imports of Capital Goods, LT Credit to Enterprises**



**On a positive note, BiH is drawing closer to the European Union (EU).** The BiH presidency adopted a written commitment on EU-required reforms on January 29, 2015. The statement was made in line with the requirements of the UK-German initiative on the EU's new approach to BiH. The text of the commitment, which consolidates input provided by political party leaders, is consistent with the requirements set out in the Conclusions of the EU Foreign Affairs Council of December 15, 2014. If the commitment is endorsed by the BiH parliament, the Council will decide on the entry into force of the Stabilization and Association Agreement (SAA) for BiH.

### External Performance

**The current account deficit (CAD) widened in 2014.** The CAD is estimated to have widened to 9.7 percent of GDP in 2014 from 5.4 percent in 2013, as imports rose more than exports. Exports were negatively affected by the floods, rising just 3.6 percent in 2014. On the other hand, the upward import trend continued in the first few months of 2015, although the decline in oil prices on the world market mitigated the growth of imports to some extent. Imports increased by 6.8 percent. Although balance of payments data are available only for the

first three quarters of 2014, worsening conditions are evident on almost all of the CAD's main items, except on net income, which slightly improved. Still, the improving net income was not sufficient to make more significant change, and the trade deficit increased (8.2 percent). Net foreign direct investment (FDI) inflow continued in 2014, growing at around 17 percent in the first three quarters (year-on-year). In the third quarter, FDI financed 23 percent of the CAD; however, this was still insufficient to make a significant contribution to the economic growth pattern.

**The main contributors to financing the CAD are FDIs, other investments (the assets and liabilities of residents), and external borrowing,** including from the International Monetary Fund (IMF). Even though a surge in exports supported a modest recovery of the trade deficit in 2013, the impact of the May 2014 floods began to reverse this trend in the third quarter of 2014, creating pressure for the trade deficit to widen. The currency board remains stable, and international reserves are at a comfortable level (5.3 months of imports.) In December, the euro-linked convertible mark (BAM) registered an annual appreciation relative to the currencies of its main trading partners, Serbia and Croatia. Given the limited share of dollar-denominated external debt (about 16 percent), the appreciation of the dollar against the euro is likely to have only a modest additional impact on the balance of payments.

### Fiscal Performance

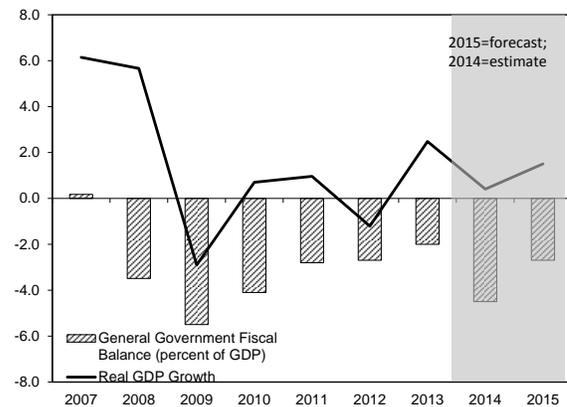
**Even before the floods, BiH was facing significant fiscal challenges exacerbated by declining revenues.** Lower tax revenue and higher spending needs are anticipated as a result of the slowdown in economic activity and the flood-related construction. Significant falls in both direct and indirect tax revenues are likely, although donations from citizens, firms, and international financial institutions (IFIs) may slightly moderate the decline in revenues.

**BiH started the year without a budget.** A decision on temporary financing was adopted for the first quarter of 2015, and it is expected that BiH will adopt a budget at the end of this time period. Delays in the formation of a government at the entity and state levels after the October 2014 general

election led to a delay in the adoption of a budget by the state-level institutions and the Federation of BiH (FBiH).

**In BiH, public expenditures continue to be concentrated on current spending, including public wages, pensions, and social transfers.** Still, it is clear that fiscal consolidation will need to be temporarily on hold in order to absorb the shock caused by the floods. Fiscal consolidation in BiH began in 2011, dictated by a lack of financing and temporary fiscal rules, and it reduced the deficit to 2.0 percent in 2013 from 5.5 in 2009 (figure 2).

**Figure 2. Growth and General Government Fiscal Balance**



**In 2014, government spending remained overly concentrated in non-growth-enhancing areas.** The weak economy notwithstanding, the indirect taxation authority (ITA) declared 2014 to be the most successful since its establishment. The gross collection of indirect tax revenues in BiH increased by 6.1 percent in 2014, and 69.9 percent of the indirect revenues were collected from the value added tax (VAT). This progress was mainly due to expanded cooperation between the four tax agencies on the exchange of taxpayer information. The authorities also harmonized the excises on different tobacco products that have been levied in recent years. In addition, the Republika Srpska (RS), one of the two entities of BiH, increased social security contributions by three percent to pay for solidarity fund intended for flood damage reconstruction, contributing to higher revenues.

**Still, the fiscal deficit is estimated to have increased by 2.1 percent of GDP in 2014** due to faster growth in expenditures than revenues.

Expenditures are estimated to have increased as a share of GDP in BiH partially due to post-flood reconstruction spending. As the final figure on the consolidated budget for BiH for 2014 is not yet available (it is expected in mid-2015), the estimated increase in the fiscal deficit will most likely be slightly revised to take into account some positive surges in revenues. In the next six months, the collection of direct taxes and social contributions is expected to remain low in the areas that were affected by flooding, as it will take some time for the economy to recover. On the other hand, expenditures are expected to increase as recovery and reconstruction continue to take place. Over the medium term, better control of wages and public sector hiring, pension reform, and a revision of veteran benefits, as well as the containment of the public wage bill, will be required if BiH is going to live within a sustainable fiscal envelope.

## Financial Sector

**The banking sector has remained stable, but banks have seen nonperforming loans rise.** The share of nonperforming loans (NPLs) in commercial banks' portfolios amounted to 16.1 percent of the total loans at the end of September 2014, up from 15.5 at the end of June 2014. The banks' profitability has deteriorated due to high provisioning for the high share of NPLs and in part due to the fragile economic environment. Capital adequacy remained at 17 percent at the end of September 2014, above the prescribed limit of 12 percent. Stress tests show an adequate level of capitalization; Tier 1 capital as a share of risk-weighted assets remained above 15 percent in the last quarter of 2013 and in the third quarter of 2014, but if the situation deteriorates, additional capital could be needed by some banks.

**Total credits and deposits are recording positive growth.** In December 2014, total credit was 2.8 percent, but the rate of growth was decelerating compared to the 2.9 percent at end-2013. In December 2014, 1.5 percent of credit growth came from the private sector and 1.4 percent from the public sector, but public sector credit grew fastest (12.9 percent). This is largely because the entity governments use domestic securities to fund their deficits, with banks as the main investors. Total deposits increased by 8.5 percent, which is somewhat higher compared to the 6.9 percent at

end-2013. Both public sector deposits (4.4 percent, year-on-year) and private sector deposits (9.4 percent, year-on-year) are growing.

**In the second half of September 2014, Standard & Poor's affirmed a sovereign credit rating of "B with stable outlook" to BiH.** This rating indicates the country's creditworthiness, though BiH needs to continue to work on building its institutions and promoting economic development.

## Private Sector Development

**BiH is one of the most difficult places to do business in Europe despite a well-educated labor force and proximity to the EU.** Fragility in Europe and domestic challenges are responsible for an economy that has been stagnating since 2008. For the fifth year in a row, the rate of credit growth is in the low single digits, or near zero on a real basis after deducting the inflation rate. Private sector credit growth remains weak but started to pick up toward end-2014, with credit to the private sector estimated at 3.2 percent of GDP for 2014 compared to 2.3 percent of GDP in 2013. Micro, small, and medium-sized enterprises (MSMEs) were particularly hit by the insufficient amount of available working capital, medium-term investment financing, and liquidity post-2008–09. The devastating floods of May and August 2014, with damages and losses estimated at 15 percent of the GDP, placed additional stress on businesses and the banking sector. Regulators adopted measures to help mitigate the likely impact on the financial sector and on access to finance for the enterprises hit by the floods; however, authorities reported that only about 1 percent of total loans had been restructured by October 2014. In addition, BiH is now facing increased pressure to upgrade policies and systems so that its goods (and services) can enter international markets, especially the EU.

**The business reform agenda remains crucial to BiH's future economic development and the creation of private sector jobs, and the governments in BiH have initiated a program of measures to support this reform.** Though an important step forward, the momentum of these reforms needs to continue, ensuring private sector growth and competitiveness. The domestic market is small, and neighboring countries are now part of the EU or its accession process. The continued

underperformance of the BiH economy only reinforces the necessity of creating jobs—private sector–driven jobs—and of providing a level playing field for BiH’s businesses to thrive. BiH continues to present itself as one of the least favorable places in which to do business; its 2015 *Doing Business* rank places it firmly at 107th, the lowest in the region. Improving the competitiveness of the country’s economy, regaining export competitiveness, and continuing implementation of business environment reforms are recognized as critical to BiH’s future economic development. The unfavorable environment is further exacerbated by the layered and overlapping administrative jurisdictions and bureaucracies that are stifling exports and growth. Investment in BiH, foreign and domestic, needs further stimulus to realize its potential and create competitive markets.

**The World Bank has responded to these challenges by providing assistance to enhance access to finance for small and medium-sized enterprises (SMEs) in BiH and a Business Environment Development Policy Loan (DPL).**

The World Bank is providing funds (a financial intermediary loan of US\$70 million) to enhance access to finance for SMEs in BiH, and an additional US\$120 million. Following the devastating floods, the Bank enhanced the flexibility for reprogramming the loans under this project in line with the entity banking authorities’ decisions and included agribusinesses as eligible SMEs. The Bank’s new DPL, approved by the Board of Executive Directors on October 3, 2014, supports BiH’s business environment reforms and includes areas such as reducing the time and cost for registering a business, streamlining procedures for obtaining construction permits, and facilitating trade across borders. These policies target improving BiH’s competitiveness, helping to facilitate the country’s dialogue with the EU on accession, and promoting economic growth. It is expected that governments in BiH will address the ratification of the DPL well in advance of the effectiveness date deadline currently set for July 13, 2015.

**Responding to constraints in the transparency and accountability needed to align inspections to EU requirements,** the World Bank and the Swedish International Development Cooperation Agency (SIDA) have set up an Improving

Investment Climate and Institutional Strengthening Single-Donor Trust Fund (US\$5 million). This aims to reduce the costs and risks of doing business by improving inspection services (their internal organization and efficiency, and the information and data exchange system between institutions in BiH) and by promoting capacity building within institutions.

**As competitiveness and jobs remain in focus for the foreseeable future, the Bank is ready to respond by opening a dialogue on the further changes needed in the medium term.**

Increasing opportunities for trade and improving the competitiveness of BiH’s economy are paramount to enabling job creation and driving the economy forward. BiH is a small, open economy located on the border to the EU, and though it has maintained macroeconomic stability with low deficits and moderate debt levels, its economic growth prospects are linked to its performance in the regional and global marketplace. As most employment in BiH is public sector generated, with almost 50 percent of the GDP servicing the public sector, private sector growth remains weak, underdeveloped, and vulnerable to competition.

**BiH needs to regain export competitiveness to find new sources of growth.**

As a small middle-income economy, BiH’s greatest potential is in trade: trade with the EU, in the region, and internationally. BiH does have a lot of advantages—its geographic location, natural resources, fairly good infrastructure, well-educated (if not adequately skilled) workforce, light manufacturing, agriculture, and wholesale/retail continue to be the main drivers of growth. Therefore, in order to draw higher investments, the governments could embark on a series of medium-term reforms aimed at improving the investment climate (business regulation, inspections, and land management, including construction permits and property rights) and advancing the competitiveness of specific value chains where BiH has a competitive advantage, such as agribusiness. The World Bank is willing to support the governments in tackling these reforms in the medium term in order to unlock the potential of unproductive assets and enable the development of a more agile and resilient private sector.

**Poverty and Social Protection**

**Despite the lack of recent data, there are indications that the progress in poverty reduction experienced up to 2007 has been stalled by the 2008 crisis followed by a sluggish recovery.** Poverty in 2007 was estimated at 14 percent of the population according to the World Bank's poverty methodology.<sup>1</sup> Preliminary estimates from the most recent 2011 Extended Household Budget Survey suggest that the incidence of poverty remained largely unchanged during 2007–11, due to the crisis-induced economic contraction, continued economic weakness in the EU, and the deteriorating labor market situation. Overall employment in the economy fell by 9 percent between 2008 and 2012, with over half of the net job losses in the industrial sector. Net wages recorded no growth in real terms between 2008 and 2013. The recovery of 2013 was interrupted by the floods in 2014, and rural areas, with much higher poverty incidence, continue to struggle with the aftermath of the floods that damaged agricultural infrastructure.

**Spending on social protection schemes in BiH is high by international standards.** Public spending on pensions is high (at 10.2 percent of the GDP) even by regional standards, driven by early retirement and privileged pension schemes, while spending on active labor market programs is low, resulting in limited opportunities for employment support for disadvantaged groups in the labor market. BiH spends close to 3.5 percent of its GDP (2011) on noninsurance-based cash transfers, which makes the country one of the highest spenders in the Europe and Central Asia (ECA) region. About 80 percent of this spending continues to be allocated to categorical benefits for persons with non-war-related disabilities, civilian victims of war, and war veterans, which are disproportionately benefiting individuals in the richest quintile of the population in terms of targeting, while the outreach to disadvantaged groups, such as those with disabilities or lacking minimum resources, is quite limited.

**The World Bank's *Social Safety Net and Employment Support Project* has been effective in extending job brokerage for vulnerable job seekers.** The project achieved the objective of

extending job-brokerage services to over 10,000 active job seekers from among hard-to-employ categories (disabled, long-term unemployed, etc.). Furthermore, policy dialogue contributed to the adoption of a new law on social protection in RS aimed at improving the targeting of social benefits in this entity. Finally, ongoing technical assistance on options to improve poverty targeting criteria for social assistance programs will be incorporated into new social assistance legislation that will be introduced in FBiH during 2014–15. Social assistance targeting in RS is also expected to benefit from the incorporation of additional poverty indicators.

**The main performance indicators of the social assistance system in BiH are poor by the standards of middle-income countries in Europe.** Targeting accuracy is low, while the leakage of resources to the richest 20 percent of the population is significant. According to the estimates published in a recent study,<sup>2</sup> in 2011, the members of the poorest quintile received only 18 percent of non-contributory cash benefits, whereas the richest quintile received about 20 percent. Only a small proportion of the poor receive social benefits—about 1.4 percent of the population—whereas 17 percent are at risk of poverty. Even within that population, only about one-quarter in the poorest quintile receive some form of social benefits, and their poverty reduction impact is negligible. A 2010 World Bank Poverty Report<sup>3</sup> found that if these transfers were to be eliminated, the poverty headcount would increase by only 1.2 percent. In contrast, the poverty impact of pensions is much higher; without these transfers, poverty would increase to 25.8 percent of the population.

## Health Development

**In recent years, the family medicine model has been the single largest reform implemented by the entity governments.** In FBiH, more than 75 percent of service users expressed satisfaction with the approach of the family medicine teams. Medical doctors and nurses are being regularly trained for

<sup>1</sup> The World Bank's poverty methodology relies on the Living Standards Measurement Study (LSMS) poverty line of KM 205 per month per capita.

<sup>2</sup> IBHI and Maastricht University, "Non-contributory Cash Benefits for Social Protection in BiH: What Works and What

Does Not?" (Sarajevo and Maastricht: Institute for Better and Humane Inclusion (IBHI) and Maastricht University, 2013).

<sup>3</sup> World Bank, "Protecting the Poor during the Global Crisis: 2009 Bosnia and Herzegovina Poverty Update," Report 51847 (Washington, DC: World Bank, 2010).

the family medicine specialization. RS has also been upgrading the clinical skills of its family medicine teams; it has completed a retraining program of its existing family medicine doctors, and family medicine specializations are now regularly provided. It is also focusing on enhancing the role played by nurses as a vital component of the primary health care delivery system. Patients are now registered with family medicine teams, and about 95 percent of the population has access to basic primary health care coverage through social insurance and through dedicated public (direct subsidized) programs.

**Picture 1. The introduction of the “family medicine” model supports the development of a sustainable primary health care network**



Nevertheless, the needs that BiH’s entity-level health systems must address have changed as a consequence of the demographic and epidemiologic transition in the country. The disease burden in BiH has shifted to a majority of chronic and noncommunicable conditions. Cardiovascular diseases, for example, are the leading cause of death, and cancer is the second most frequent cause. Given this change in the health profile of the BiH population (including co-morbidities) and the new available technologies, it is rare for patients to be able to have all of their medical problems treated in one health facility. This pattern of co-morbidities makes coordination between primary care and hospital care more important than ever before. Health sector reform in BiH therefore needs to implement a new phase, with a focus on increasing access to new technologies, enhancing quality, and improving efficiency to control the growing trend of rising health expenditures. Total health expenditures are now estimated to be about 10.9 percent of GDP (rising

from 7.1 percent in 2000 and 9.4 percent in 2006), a level similar to that in the EU15 countries but higher than in many neighboring countries.

**In this new phase, the health sector will focus on the need to:**

- i) further strengthen primary care services toward prevention and early diagnostics and the treatment of noncommunicable diseases;
- ii) expand secondary ambulatory specialized services to introduce high-resolution ambulatory diagnostic and treatment schemes;
- iii) rationalize inpatient services, including clear differentiation between general hospital “secondary” services and “true tertiary care” high-complexity hospitals, and between long-term care facilities/units for medical and rehabilitation-palliative services and expanded social long-term care on the one hand, and hospital services on the other;
- iv) expand the incentives/payment system to improve the performance at all levels of the health system;
- v) strengthen the Health Technology Assessment (HTA) and quality control mechanisms.

## Environmental Sustainability

The World Bank portfolio in BiH includes a number of projects that contribute to the environmentally sustainable development and use of natural resources. The portfolio has a strong drive toward the reduction of pollution and emissions, improving management and the use of natural resources and ensuring environmental sustainability through greener project implementation and cleaner production.

For example, the *Second Solid Waste Management Project* will help establish new sanitary landfills and municipal waste management regions that are improving environmental management and the sustainability of previously common single-municipality dumpsites. Works on two new regions financed under the project are expected to start in 2015 with the aim of introducing improved waste management and

disposal. Municipal wastewater is one of the key pollutants in BiH, and the World Bank is financing the construction or reconstruction of nine wastewater treatment facilities through three different projects: the *Sarajevo Wastewater Project*, the *Neretva and Trebisnjica Management Project*, and the *Water Quality Protection Project*. In 2015, all of the nine treatment plants are expected to be operational, while in a number of cities and regions, these treatment plants have also called for cooperation with other donors and IFIs on improving the sewage networks. It is important to note that prior to the interventions under these projects, only 5–6 percent of total municipal wastewater in the country was treated before being released into rivers, which further downstream are used for water supply, irrigation, and recreation. With the nine treatment plants starting operation in the upcoming year, it is estimated that the percentage of treated wastewater will increase to at least 30 percent, including treatment of wastewater from two of the largest settlements in BiH: Sarajevo and Mostar.

**The Bank supports sustainable forest and landscape management through the ongoing Global Environment Facility (GEF) project.** Integrated river basin management approaches in line with the EU Directive will be addressed for the Neretva, Trebisnjica, and Drina rivers. It is of particular importance to note that a Framework for River Basin Management was recently adopted for the Neretva and Trebisnjica river basin between BiH and Croatia, which was financed and facilitated through the GEF grant. The same grant has also financed a management plan for the Hutovo Blato Nature Park, ensuring the sustainable use of a protected area for tourism development. Through support to a SME credit line, each of the applicant enterprises underwent impact screening, and a condition for the loan was the successful identification and mitigation of associated environmental impacts, leading to cleaner production. SMEs involved in this credit line vary from fully automated cleaner production to sustainable natural resource use for exports or even state-of-the-art recycling facilities.

**Through the *Energy Efficiency Project*,** improved energy efficiency will lead to a decrease in

both fuel consumption for heating and emissions into the air, which will have a particularly positive impact in larger urban areas during winter periods.

## Agriculture Development

**Agriculture's share in BiH's economy decreased from 15.1 percent in 1999 to 8.4 percent in 2012.** While this figure points to a continued shrinking of the agricultural GDP relative to the overall economy, the rate of the decline has been reduced dramatically over the past few years. The decline of agriculture's share of the economy has been particularly noticeable since the onset of the financial crisis that has affected the region, though agricultural output has remained relatively steady compared to other sectors. The floods of May 2014 are estimated to have contributed to a loss of roughly US\$130.00 million to the agriculture sector.

**Favorable climate conditions and relatively low prices give the agriculture sector in BiH some comparative advantages.** The agricultural season in BiH begins earlier than in most EU countries, shipping costs are relatively low, and land and labor prices are favorable compared to the Mediterranean EU countries.

**With about 20 percent of all those employed in BiH working in agriculture, the sector remains important for employment and as a socioeconomic buffer,** despite a decline in the working-age population in rural areas. While the value of the agro-food sector has been shrinking as a share of GDP and BiH's agro-food trade deficit has been growing, both have lost momentum over the past few years.

**Changing consumer preferences have contributed to the development of new market segments that BiH's domestic producers have been unable to capture.** Both exports and imports of agro-food products have risen, but the rate of exports has grown faster than the rate of imports, with a ratio of some 4:1 in food imports to exports today, while 10 years ago this ratio was roughly 15:1.<sup>4</sup>

<sup>4</sup> FAOSTAT Data from 1996 to 2011. Food trade excluding fish.

**BiH's agriculture sector faces a broad range of constraints in input and output markets.** Farms are for the most part small and fragmented, and supply chains remain weak. Consequently, farmers in BiH pay more for their inputs and receive less for their outputs relative to their peers in neighboring markets. Low output prices are a result of market failures such as weak bargaining power, a lack of post-harvest facilities for storage and packaging, fragmented supply chains, costly logistics, and the limited access to affordable finance. High input prices result largely from a reliance on a few dominant input traders in combination with highly regulated import markets. This situation dampens productivity as well as competitiveness, as the limited access to modern inputs makes it more difficult for farmers to export their produce and participate in modern supply chains.

**Institutional constraints also prevent BiH's agro-food sector from reaching its full potential.** BiH has access to EU markets through preferential trade agreements, yet a broad range of products remain banned from these markets due to the absence of EU-compliant food safety institutions and a regulatory framework. A state-level Food Safety Agency (FSA), an Agency for Plant and Phytosanitary Health (APPH), and a State Veterinary Office (SVO) have been established and regulations developed; however, an agreement on the precise roles and responsibilities of the various actors, the link to entity inspection services, and various other laws and regulations have yet to be finally agreed on or adopted and then implemented across the country. These institutional arrangements and the effective implementation of legislation at each administrative level became increasingly urgent after the accession of Croatia into the EU in July 2013, at which time producers and traders from BiH were no longer able to access this important market. While some efforts are being made to improve the situation, such as the recent adoption of a hygiene package and an informal agreement on residue testing between the SVO, FSA, and APPH, a lack of clear reporting lines remains between entity and state institutions, which hampers the effectiveness of the food safety system. Border inspections are uneven, with quite adequate facilities at the airport level though these are poorly equipped for sampling and testing or quarantines, especially in relation to phytosanitary inspections.

**Public spending in BiH's agriculture sector is relatively low, and funds are not attuned to the challenges the sector faces.** On average, agriculture spending is roughly 6–8 percent of total public spending in developed countries and 3–5 percent in developing countries; in BiH, agricultural spending amounts to only 2–3 percent of total public spending. In addition, around 60 percent of these relatively modest resources go toward direct payments that often provide little incentive for farmers to modernize and become more efficient. In addition, the policy on direct payments lacks continuity and longer-term targeting, thus undermining any business planning that farmers may do in response to the subsidy policy and also the ability of policy makers to effectively gauge the effects of the policy. Experience from other countries shows that investment in public goods—such as research and extension services, market infrastructure, and natural resource management—yields much higher returns than do subsidies, especially direct production subsidies. A substantial increase in resources for agricultural administration at all levels will be needed to build capacities in line with EU requirements.

**Picture 2. The agro-food sector has good growth potential due to growing demand and a number of comparative advantages.**



**Climate change is expected to have an increasingly intense impact on agriculture in BiH,** and the current institutional set-up is not prepared to support the sector in adapting to these changes. While some irrigation infrastructure was part of the former agro-kombinats (the state-owned enterprises [SOEs]), these systems have suffered from significant dilapidation. Although some of the drainage/irrigation canal systems are over 100 years old and need rebuilding, they nevertheless play the

dual role of providing excess water drainage in fall/winter and being used as a water supply for irrigation in the dry summer months. Other systems, especially on former kombinats, are fairly modern, pressurized underground pipe systems with hydrants to which farmers connect irrigation equipment. The more modern systems have been deteriorating mainly since the war and since their privatization over the past 20 years. In addition, their layout often makes them ineffective in delivering water to the numerous small parcels of land held by private farmers. Finally, the operational responsibility of existing irrigation schemes remains unclear, and closer user participation in their management as well as discussions about their expansion are needed. The vulnerability of the sector has been well demonstrated over the past few years, as production has been affected by alternating droughts and, most recently, devastating floods as a consequence of persistent heavy rains that also affected mountainous areas, with extensive damage to transport infrastructure from landslides. The rural development strategies that the entities have recently developed need to take a comprehensive look at the vulnerabilities in the sector and introduce measures to mitigate the impacts of high variability in rainfall.

**The World Bank supports the agriculture sector in BiH through the *Agriculture and Rural Development Project (ARDP)* and an *Irrigation Development Project (IDP)*.** The ARDP is part of a series of projects developed in the region to support the countries in their quest for EU accession. ARDP supports the institutions and systems necessary for developing the traceability of food and foodstuffs and for establishing transparent EU-aligned agricultural payment systems, including all the registers, databases, legislation, and regulations that are needed. The IDP project is financing the rehabilitation of irrigation infrastructure in both BiH entities in some of the most productive agricultural areas of the country. The project primarily finances works but also provides support to the formation of water user associations where appropriate and develops the institutional set-up to ensure adequate operations, maintenance, and funding of the systems in a sustainable manner.

## Transport

**Last year's flooding caused significant damage to the transport infrastructure**, with costs estimated at about BAM 464 million. Damages to the magistral and regional/local roads were estimated at BAM 110 million and BAM 254 million, respectively, while costs to the railway infrastructure were estimated at BAM 98 million. Damages to airports were relatively lower at BAM 0.5 million.

**The BiH road network totals approximately 22,615 kilometers.** The density of the entire BiH road network is broadly comparable to that of its immediate neighbors. As for network condition, the World Economic Forum's *Global Competitiveness Report (GCR)* showed improvements in road quality in BiH between 2012 and 2014, when the country's ranking on road quality improved from 134th out of 144 countries to 104th out of 148 countries. However, the May floods have adversely affected the condition of the network, and further improvements in road quality remain necessary. The condition of structures (bridges and tunnels) in the network is particularly poor due to the extended period of neglect after the hostilities, insufficient funds for maintenance, a continued lack of enforcement of axle-load limits, and a significant increase in traffic volumes.

**The Bank began supporting the rehabilitation of BiH's magistral and regional roads through the *Road Infrastructure and Safety Project* in 2008.** The project, which closed in June 2012, had built on the results of the earlier *Road Management and Safety Project (RMSP)*, which closed in June 2007. The implementation of the RMSP led the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) to contribute significant parallel financing to the US\$220 million program to clear the maintenance backlog on the road network (excluding the structures), out of which the Bank project provided US\$25 million.

**The railway network in BiH extends for some 1,017 kilometers, 92 percent of which is single track.** Despite the rehabilitation efforts, the overall condition of the railway network in BiH needs further improvement. The 2013–14 GCR ranks BiH 55th out of 121 countries on the quality of rail

infrastructure. Operational speeds are low due to the existence of temporary speed restrictions; poor tunnel, track, and track-alignment conditions; and the inadequate functioning of inter-entity crossings. Train operating speeds are limited to a range of between 30 and 70 kilometers per hour on around 80 of the railway lines along the future European transport corridor (Vc). The length of crossing sidings in stations restricts train length (550 meters) and train weight (1,500 tons) on the network. There is ongoing support from IFIs to improve infrastructure, including track, structure, and signaling systems.

**In the prewar period, navigation on the Sava River, BiH's most important river, was possible almost 250 days per year, excluding the summer months.** Current navigation conditions along the Sava River are difficult, as it has a strongly fluctuating discharge that results in wide variations in water levels and depths during the year. Heavy sedimentation in certain areas, together with a lack of maintenance of the riverbed, has led to a reduction in the width and depth of the fairway (navigable channel). The result is a large drop in traffic volumes carried via the river. The unfavorable conditions now reduce the number of navigable days to fewer than 200 in some places, and even fewer in certain other locations.

**The rehabilitation of the Sava River is particularly important for BiH,** where the improved navigability of the river would enhance the operational performance and safety of commercial vessels, thereby contributing to the improved utilization of the river ports and broader economic development in the hinterland. As the rehabilitation would also be beneficial to Croatia and Serbia, the World Bank, together with the European Delegation and the International Sava River Basin Commission (ISRBC), has facilitated ongoing collaboration between BiH, Croatia, and Serbia toward the realization of a more environmentally friendly mode of transportation.

## Energy

**The destruction of BiH's power grid not only left BiH citizens without a power supply,** it also disconnected the Southeast Europe power grid from the rest of Western Europe. Hundreds of kilometers of power lines, transmission stations, and

thermo and hydropower plants have been rehabilitated since 1996 through four power projects financed by the World Bank, in cooperation with the EU, EBRD, EIB, the U.S. Agency for International Development (USAID), and the German Development Bank (KfW). At all three power supply companies (Elektroprivredas), efficiency has significantly improved, technical losses have been reduced, and the billing and collection system has been enhanced. These improvements have helped the companies become profitable, even while keeping consumer tariffs relatively low. Power companies have also increased their investment in renewable energy projects to some extent. Today, BiH is one of the few countries in the region with excess generation and export potential. Significant improvements have been made to unlock the market potential by enacting energy and renewable energy laws and necessary regulation in both entities. At the same time, the impact of the floods in 2014 was significant, with damages and losses registered on generation facilities, transmission and distribution networks, coalmines, and oil terminals.

**The aging coal-fired power generation plants are expected to become a challenge in the coming years,** and the transmission and distribution systems also require further investment in order to improve their reliability and expand interconnections with neighboring countries. Without the replacement of obsolete thermal power plants or the construction of new base power generation and renewable energy facilities in the medium term, the country may lose its competitive position in the regional electricity market. The fragmented energy market is linked to three energy utilities, and the lack of a coordinated approach to the country's energy strategy is preventing greater progress on unlocking the potential of this sector and opening it to private sector participation.

**The environmental performance of the coal-fired power plants has improved through investments supported by the World Bank and development partners.** An air emission control system installed at Kakanj thermal power plant was the first of its kind in the Western Balkans and has significantly improved air quality in the area. The Bank is also financing improvements in the safety of water storage dams in partnership with EIB. To improve corporate governance and financial and

management controls, an enterprise-wide, network-based financial management information system has been installed at one public power utility company (EPHZHB), while similar systems are being piloted at the other two power utilities (EPBH and EPRS).

**Picture 3. The basic sources of primary energy in BiH are coal and hydropower, which cover over 62 percent of the total consumption of primary energy.**



**Energy end-use in BiH remains inefficient, indicating a large potential for reducing the burden of energy expenses in both the public and private sectors.** The buildings sector (private, public, and residential) accounts for one-third of total fuel consumption. Buildings are generally poorly insulated, incurring heat losses of more than 30 percent. In addition, since the gas distribution network is not fully connected, the majority of household heating requirements are met by the inefficient use of firewood and electricity. As a result, about 65 percent of the total electricity consumed in 2009 went to the residential and public buildings sector. Therefore, investment in the energy efficiency of the building sector would help to reduce energy intensity, the consumption of imported oil and gas to the extent that it is used for space heating, and BiH's carbon intensity.

**Improving energy efficiency in BiH, however, is facing several challenges, including the lack of a clear regulatory and policy framework.** The Government has recognized this issue, as energy efficiency is getting increasing attention at both the state and entity levels, and efforts have been made to develop legal and policy frameworks for energy-efficiency implementation. On March 13, 2014, the World Bank approved an International Development Association (IDA)-funded public buildings energy-efficiency investment project, with

a focus on the health and education sectors, in order to maximize both energy savings and the demonstration impact of the investments. The World Bank is also starting a Western Balkans Investment Facility–funded study on biomass-based heating; the study will identify viable investment options and policy measures to increase the use of biomass for heating in the Western Balkan region, including BiH.

**The renewable energy sector is still characterized by insufficient private sector activity and few concrete opportunities,** for example, medium-size and large hydro power development concessions. The major power assets in the country are all state owned. Although the renewable energy legal framework, with support from the International Finance Corporation (IFC) and other stakeholders, has significantly improved in recent years with the adoption of renewable energy laws in both entities, changes to the law on concessions facilitating the financing of renewable energy projects, and the adoption of a number of bylaws, the limited incentives for renewable energy projects in both entities are a significant impediment to full renewable energy sector development. As a result, there is inadequate construction of new renewable energy projects, which are focused at the moment mostly on small hydropower plants (SHPPs), resulting in limited opportunity for economic growth, exports, and job creation.

## Forestry

**Forest resources in BiH are among the richest in Europe in terms of their extent and variety relative to the size of the country, covering almost 50 percent of the land area.** The war between 1992 and 1995 caused heavy damage to the natural resources—the direct damage to forests and associated sectors is estimated at US\$2 billion. A minimum of 200,000 hectares became contaminated by landmines, which resulted in the overexploitation of some rural areas and the abandonment of others. Subsequent to the conflict, unsustainable land-use practices and habitat change were common, due to poverty, inadequate land-use planning, the limited capacity of local institutions, and a lack of awareness of conservation issues. Moreover, forest resources are inaccessible due to the low road density, which limits their potential contribution to local and national economic development.

**About 2 million people (54 percent of BiH’s population) live in rural areas and rely on forest and mountain ecosystems as an important source of subsistence, employment, energy, and recreation.** The forestry sector currently contributes 2–2.5 percent of GDP; however, with the proper investments in infrastructure and improvements in the competitiveness of the wood processing and manufacturing industries, this sector has the potential to contribute a much larger proportion to the economy. Furthermore, since BiH has a lower rural population density (43 persons per square kilometer) than any of the Balkan countries, there is less pressure on the natural resource base, and the sound management of its “production landscape” values (forest and grassland management) can provide income for local people while also maximizing environmental services.

**The World Bank has been continuously involved in the natural resources/environment sector since 1998.** From 1998 to 2003, a *Forestry Project* financed by IDA, the EU, and the Italian and Norwegian governments focused on the recovery and protection of forest ecosystems. A follow-up project, the *Forest Development and Conservation Project (FDCP)*, supported the implementation of reforms in forest organization and management. The State Forest Inventory (SFI), the single largest project activity, is fully completed, with 100 percent of the country’s forests surveyed. Initial findings show that forests and growing stock have increased and that forests are in a much better condition than is generally recognized.

**On January 15, 2014, the Bank approved a new GEF project called the *Sustainable Forest and Landscape Management Project (SFLMP)*.** The focus is on climate change mitigation, land degradation, and sustainable forest management. The SFLMP is a five-year project aimed at building the capacity of forest sector stakeholders and demonstrating new approaches for sustainable forest and land management through the integrated management of vulnerable forest, scrub, and pasture landscapes. Through a menu of project interventions, including planning and monitoring, forest certification support, forest management information system enhancement, afforestation, fire management techniques and planning, and the development of a forest road master plan, the

project will provide an important foundation for future development and investment in BiH’s rich forest sector.

## Public Financial Management

**BiH has made good progress on establishing modern public financial management (PFM) institutions and systems.** Within the entities, primarily in FBiH, the consolidation of data for all general government levels—governments, cantons, local self-governance units, and extra-budgetary funds (EBFs)—is complex, and data are generally not used to inform policy decisions. Only countrywide budget execution at an aggregate level is consolidated by the Central Bank of BiH using government finance statistics (GFS), while consolidated budget plans and medium-term frameworks are approximated for illustrative purposes for the Global Framework adopted by the Fiscal Council and for the Economic and Fiscal Programs submitted to the European Commission. Further progress is needed to ensure that budget discipline is uniform and consistent across the entire system of public resource management and to counter inadequate compliance with procurement law and internal controls, poor internal audit capacity, weak governance in SOEs, and widespread corruption.

**Credible and comprehensive medium-term macro-fiscal strategies are lacking at all levels.** The process of preparing the budget and public investment program is not well integrated with the medium-term macroeconomic outlook and overall/sectoral strategic documents (which, in many cases, are missing or not properly costed).

**Despite some recent technical improvements, the budget planning system at all levels primarily reflects legal expenditure obligations within the available budget envelope,** rather than the strategic targeting of resource allocation toward social and economic development objectives. Furthermore, despite some steps toward program budgeting, BiH does not use results-based budgeting in the budget planning process. Budget planning is largely based on (mostly short-term) measures agreed annually with the IMF under the Stand-By Arrangement (SBA). The share of current expenditure remains high in all budgets, with an

especially high wage bill and large general government sector employment. Parliaments are not sufficiently involved in the budget planning processes, and they generally lack the capacity for a thorough budget analysis.

**BiH has made some progress in government budget transparency as measured by the 2012<sup>5</sup> Open Budget Index Assessment (OBI).** BiH's OBI shows that the Government does disclose some information on the central government's budget and financial activities during the course of the budget year. The 2012 OBI for BiH provides useful recommendations (to publish a citizen's budget and mid-year review) in order to increase budget transparency and oversight.<sup>6</sup>

**Public procurement remains weak, despite a common Public Procurement Law (PPL) based on international best practices.** The law is applicable across the state and two entities, but compliance has been weak. Progress has been made on establishing important institutions such as the Public Procurement Agency (PPA) and the Procurement Review Body (PRB). Under the SBA, a new law on public procurement was adopted in May 2014.

**The budget execution process has been steadily strengthened.** All four Ministries of Finance have introduced a Single Treasury Account (STA), but though the systems are in place, they need to be further strengthened. Payment arrears are problematic because comprehensive, good-quality data on arrears are not available yet (excluding BiH institutions), and treasury systems were just starting to monitor payment due dates as of end-2013. The treasury systems of both entities do not include all social funds and in FBiH, do not include all local self-governance units. Generally, social fund management and fiscal sustainability constitute a growing risk for the overall solidity of the PFM system. EBFs, cantons, and local self-governance units are not integrated into the FBiH government STA and in fact, not all local self-governance units in FBiH have treasury systems, making arrears monitoring difficult. However, in RS, all local self-

governance units (but not EBFs) have been integrated into one STA since January 2013.

**Substance over form.** At all four levels of government, transactions are processed automatically through STAs at each level. What is not monitored regularly, however, is the substance and nature of these transactions. The Supreme Audit Institution (SAI) reports raise certain questions on the substance of some transactions and the methods followed in processing them. At lower government levels (cantons in FBiH and local self-governance units in both entities), more substantial issues with the substance of recordings are likely, as different methodologies for some transactions are used. All this hampers the ability to accurately consolidate fiscal data.

**SAIs are independent from the legislature and the executive.** The three SAIs of BiH have achieved good results in a complex environment and with limited resources. Since 2000, the three SAIs have gradually improved their audit capacity and enhanced their audit coverage. They have played a key role in strengthening the responsibility, transparency, and efficiency of financial management in all of BiH. All three SAIs have formally adopted the International Organisation of Supreme Audit Institutions (INTOSAI) standards. In the context of budget scrutiny, however, despite recent improvements, better follow-up on external audit findings and recommendations is missing. Furthermore, the coverage/quality of performance audits performed by the SAIs is not comprehensive.

**A number of important improvements in public finance have been implemented in recent years, and some steps have also been taken to enhance coordination.** The development with the most impact was the adoption of the Law on the Fiscal Council, though further challenges remain in terms of implementing it. Other results achieved relate to the steps taken to harmonize budget calendars. All four levels of government use the modified accrual basis<sup>7</sup> for accounting, under which revenues are recognized as they become available and measurable, while expenditures are recognized when

<sup>5</sup> Bosnia-Herzegovina's OBI 2012 score of 50 has increased from its score of 44 on the OBI 2010.

<sup>6</sup><http://internationalbudget.org/wp-content/uploads/OBI2012-BosniaHerzegovinaCS-English.pdf>.

<sup>7</sup> Except RS, which has been using the full accrual basis since January 1, 2013.

the liability is incurred. There may be concerns that not all government levels within the entities use comparable recording. Among the four<sup>8</sup> main government levels in BiH, the charts of account are generally detailed but not harmonized. BiH, FBiH, and RS institutions are developing internal audit capabilities, while District Brcko has no Internal Audit function. The Public Expenditure and Financial Accountability (PEFA) report for BiH was finalized in May 2014, and it included four assessments in one report. The diagnostic is serving as a starting point in shaping PFM dialogue between donors and BiH authorities and as a baseline for any future updates.

## THE WORLD BANK PROGRAM IN BOSNIA AND HERZEGOVINA

**BiH joined the World Bank and the IDA in 1996, with membership retroactive to 1993.** Over the past 18 years since the end of the conflict, the World Bank has approved 71 projects in the total amount of roughly US\$1.88 billion (IDA credits, US\$1.53 billion; IDA grants, US\$25 million; GEF grants, US\$23.9 million; and International Bank for Reconstruction and Development [IBRD] loans, US\$295 million).

**The World Bank engaged early and extensively in the postwar reconstruction of BiH.** During the period of intensive post-conflict reconstruction (1996–2002), the World Bank supported repairs to over 20,000 public apartment units and about 2,000 private houses. Hundreds of kilometers of power and water lines, transmission stations, and thermo and hydropower plants were rehabilitated. Roughly 2,300 kilometers of roads, 41 bridges, three tunnels, and Sarajevo’s International Airport were rebuilt. Eighty-two primary schools were reconstructed, and 24 medical facilities equipped. New trees were planted on 550 hectares of land, and 210 kilometers of forest roads were reconstructed. About 200,000 jobs were created or sustained under the two microfinance projects. A 2004 review carried out by the Independent Operations Evaluation Department (OED) found that the role played by the World Bank in BiH’s reconstruction program was an example of “the Bank at its best.”

**The Bank’s current strategy focuses on competitiveness, environmentally sustainable growth, and social inclusion.** With BiH now set on joining the EU, supporting the EU integration process has also become an important theme of the World Bank’s engagement in that country. Expected outcomes of the current CPS (2012–15) include: continued macroeconomic stability, improved business environment and investment climate, enhanced competitiveness in key sectors, strengthened infrastructure and basic services, a more effective distribution of social benefits and employment services for vulnerable job seekers, sustainable development of infrastructure, reduced pollution of rivers (Neretva, Bosna, and Miljacka), and improved management of wastewater.

**The World Bank currently supports 13 operations in BiH.** The total value of these projects, which are in various stages of implementation, is US\$595.6 million. Areas of support include business environment, agriculture, social safety and employment, wastewater and solid waste management, private sector development, energy efficiency, environment protection, flood management, and flood emergency recovery.

**Analytical and Advisory (AAA) Program.** Ongoing and planned analytic and knowledge services will provide an important diagnostic foundation for policy making and for preparing the upcoming Country Partnership Framework in alignment with the Bank goals of eliminating extreme poverty and enhancing shared prosperity. The *Western Balkans Poverty Assessment* will provide an understanding of poverty, inequality, and exclusion indicators. The *Regional Activation and Smart Safety Nets* programmatic analytical work will provide technical support for labor force participation and social safety net reforms through a combination of analytical/knowledge products, just-in-time advice, and intensive policy dialogue. The *Western Balkans Jobs Challenges* will identify the main labor market incentives, determine policy priorities, and discuss policies to improve labor market outcomes. Through the *Western Balkans Regional Research and Development Strategy for Innovation* technical assistance, the Bank will help Western Balkan countries, including BiH, to identify funding instruments for the implementation of their research and

<sup>8</sup> BiH, FBiH, RS, and District Brcko institutions.

development action plans. The *Western Balkans Financial Sector Outlook* will continue to provide a semi-annual analysis of the key vulnerabilities of the financial sectors in the region and recommend actions to address them. Finally, the new regional “Deep Dive: Turn down the Heat” will feature the Western Balkans and help develop country-specific assessments and recommendations to support BiH to better prepare itself for extreme climate and possible future natural hazards.

**Systematic Country Diagnostics (SCD).** The Bank team is currently conducting an SCD exercise in BiH to identify key challenges and opportunities for the country with regard to the goals of reducing poverty and promoting shared prosperity. The SCD will be completed in the second quarter of 2015 and will provide an analytical underpinning for the new Country Partnership Framework for BiH for the next four years.

## THE INTERNATIONAL FINANCE CORPORATION

**BiH became a shareholder and member of IFC in 1996.** Since then, IFC’s investment in the country has totaled US\$382.1 million, including US\$23.1 million mobilized from World Bank partners, in 46 projects across a variety of sectors. IFC is focusing its investment services on foreign and domestic investments in the real sector and infrastructure, with a particular focus on climate solutions and renewable energy and financial markets. IFC has also invested in the health sector, municipal infrastructure, agribusiness, construction, and general manufacturing.

**IFC’s committed investment portfolio in BiH as of January 1, 2015 was US\$116.2 million.** So far in FY15, IFC has invested US\$5.3 million in BiH. IFC works with private sector clients, the Government, and civil society to bring the benefit of global expertise to the country through its advisory services and investment projects. IFC advisory services aim to improve the investment climate, the performance of private sector companies, and access to finance, and also to attract private sector participation in the development of infrastructure projects.

**Priorities in BiH include improvements in the investment climate, manufacturing,**

**agribusiness, infrastructure, and efforts to manage climate change.** IFC is also focusing its efforts in BiH to support private sector participation in infrastructure development in roads, health, and renewable energy.

### Recent investment projects in BiH include:

- **€4 million loan to MF Banka** to support the bank’s lending to micro and small enterprises in Bosnia and Herzegovina (Smaller companies are critical to Bosnia and Herzegovina’s economic development, and adequate financing is crucial to their growth.)
- **€24 million in financing to Sisecam Soda Lukavac**, a soda ash producer, including €7.5 million from the IFC-Canada Climate Change Program, to enhance competitiveness and cleaner production
- **US\$20 million Global Trade Finance Program (GTFP) line to Sberbank**
- **€8 million loan to Bekto Precisa**, a local supplier of plastic and metal products for the automotive and electrical industries, to expand and become more competitive (The investment will allow the company to handle larger orders and facilitate the partial refinancing and restructuring of its existing debt.)
- **€15 million to Sisecam Soda Lukavac** to enhance its competitiveness
- **US\$4 million GTFP line to Raiffeisen Bank**
- **US\$8.9 million loan to the Economic Credit Institution (EKI)** microcredit foundation, to enable it to continue serving its microfinance clients in rural areas
- **US\$5.6 million in financing to Mi Bospo**, including a local currency guarantee
- **US\$6.4 million to BH Heart Center** to support the first privately owned and managed health care facility in BiH
- **US\$29.5 million to CIMOS B** to support a Slovenian car part production company in developing new production capacities in four cities of BiH
- **US\$14.2 million to Nova Banka** to support a credit line and straight equity, as well as to AS, one of the more successful domestically owned commercial banks
- **US\$3.8 million to EKI** to support its transformation from not-for-profit status to a

commercially oriented, regulated, non-deposit-taking financial organization

- **US\$32 million to Sisecam**, the largest Turkish producer of glass, soda ash, and related chemicals, which has purchased an 80 percent shareholding in Sisecam Soda Lukavac (SSL) through a privatization transaction (The project helped the company to preserve 783 out of 792 jobs and created opportunities for expansion and new jobs.)

IFC has also invested in the following BiH banks and companies: UniCredit Bank, Sarajevo Brewery, Bosnalijek, and Akova.

**Recent advisory projects in BiH include:**

***BiH Investment Climate Project (587227)***

The project goal is to increase the competitiveness of BiH by assisting selected governments at all four levels in the country to achieve investment climate reforms. The project will provide critical regulatory and investment policy tools to help BiH in its EU accession process, reduce the administrative burden on businesses, and attract FDI. In this respect, agribusiness will be a key sectoral focus of the project. (Supported by the Government of Sweden and the Ministry of Finance of Austria)

***Microfinance Bosnia (569807)***

The overall objective of the project is to further develop the microfinance sector in BiH by improving the conditions for microfinance institutions (MFIs) to conduct their business on a sustainable basis under post-crisis conditions. Specifically, the project aims to maintain a microfinance portfolio in the country at a sustainable level of US\$350 million while driving down the level of nonperforming microfinance loans from 8.2 to 4.0 percent. These development impact indicators are expected to be achieved by 2016. (Supported by the Swiss State Secretariat for Economic Affairs [SECO])

***Renewable Energy BiH (575567)***

The overall goal of the project in BiH is to create a comprehensive framework to support the development and implementation of small hydropower plants (SHPPs). This goal will be achieved through the systematic implementation of three individual objectives:

1. Improve the existing regulatory framework to enable SHPP sponsors to develop and construct feasible SHPPs;
2. Work with SHPP sponsors to improve their SHPP designs and business plans;
3. Work with selected financial institutions in BiH to improve their internal capacities and knowledge on SHPP and project financing. (Supported by the Ministry of Finance of Austria)

***BiH Public Private Partnership Road (598047)***

The objective of this project is to assist the Government of FBiH with structuring and implementing a successful tender process for the selection of a private concessionaire that will upgrade, operate, and maintain the motorway section between Karuse and Poprikuse. Successful implementation of the project will improve access to road infrastructure for Bosnian and foreign drivers, facilitate trade and tourism in the region, and reduce road accident rates. The first phase of the project has been completed, which included technical, legal, and financial due diligence. The project is now awaiting the formation of a new FBiH Government in early 2015 before further steps are taken toward the public-private partnership (PPP) transaction phase. (Supported by three donor partners: Austria, Norway, and Switzerland)

***Europe and Central Asia Corporate Governance Project (586209)***

The project's overall goal is to improve the current state of corporate governance and the delivery of corporate governance services, building on corporate governance project activities previously undertaken by IFC in ECA. Through the project, IFC aims to leave a sustainable legacy for the delivery of corporate governance company improvement programs, training, and services by local institutions in selected countries. IFC also expects such partner institutions to raise sales revenue from the delivery of corporate governance services. IFC also aims, through its firm-level work in the ECA region, to improve the performance of companies and their ability to raise financing through recommended improvements to their corporate governance practices. (Supported with the majority of funds by SECO and the Austrian Development Bank [OeEB])

***South East Europe Regional Tax (595107)***

The project goal is to improve transparency and legal/regulatory certainty in tax procedures for international and domestic investors through the alignment of standards and simplified processes. The secondary goal is to improve overall compliance and contribute to an improved investment environment. The program will contribute and benefit from ongoing Tax Transparency and Transfer Pricing product development to quantify the link between international tax process alignment and investor decision making. (Supported by SECO)

***South East Europe Regional Trade Logistics Project (572687)***

The *Western Balkans Trade Logistics Project* aims to reduce regulatory and administrative bottlenecks to cross-border trade in the region through more streamlined export, import, and transit procedures; closer and more harmonized interagency cooperation in country and between countries; and wider use of electronic systems for data exchange, risk based controls, and trade logistics-related payments. The objective of the project is to improve the competitiveness of the private sector in the region through more efficient access to regional and global markets. The activities implemented by the project are to result in US\$10 million in private sector savings. The project is being implemented by IFC in partnership with the EU and delivered in close cooperation with the Central European Free Trade Agreement (CEFTA).

***AS Group Resource Efficiency Advisory***

The Resource Efficiency Advisory (REF) is part of a five-year ECA Cleaner Production Program. The program is designed to enable a wider uptake of cleaner production (CP) improvements across the region and will help to deliver on IFC's global mandate on climate change. CP assessments will be delivered to multiple clients operating across ECA countries. The program will operate under the umbrella of the ECA regional CP program (ID 568088) and will closely cooperate with the Cleaner Production Lending Facility (ID 28163) and Global Cleaner Production Advisory Facility (ID 568587). The IFC ECA Resource Efficiency Program has signed an Engagement Letter with AS Group for the provision of Resource Efficiency advisory services (REF) to the AS Group owned companies "Napredak" and "Vispak" in order to reduce production costs by improving the efficiency of the utilization of its resources. Resource Efficiency Scoping reports for Vispak and Napredak were delivered in late 2014. Reports show substantial opportunity for savings.

***Western Balkans Investment Climate and Agribusiness Competitiveness Project (P600476)***

This project was approved in FY15 and is expected to extend to FY20. The main objective is to increase the competitiveness of the Western Balkans countries and targeted value chains therein by addressing regulatory bottlenecks along the value chains, increasing investment in the sector, and facilitating market access. The project is in the pre-implementation stage.

## MAP OF BOSNIA AND HERZEGOVINA



## **WORLD BANK PROJECT BRIEFS**

## BOSNIA AND HERZEGOVINA: FLOODS EMERGENCY RECOVERY PROJECT

### Key Dates:

**Approved:** June 30, 2014

**Effective:** September 15, 2014

**Closing:** December 31, 2018

### Financing from all cofinanciers, million US Dollars:

<i>Financier</i>	<i>Financing</i>
IDA Credit	100.0
<b>Total Project Cost</b>	<b>100.0</b>

### World Bank Disbursements, million US Dollars \*:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IDA Credit	100.0	7.6	92.4

\*as of March 2015

*Note: Disbursements may differ from financing due to exchange rate fluctuations.*



The **Project Development Objective** of the Floods Emergency Recovery Project for Bosnia and Herzegovina (BiH) is to meet critical needs and restore the functionality of infrastructure essential for public services and economic recovery in the areas affected by the massive flooding in May 2014. There are three components to the project. The first component will allow the entity-level governments and Brcko District to purchase or refinance emergency recovery goods, including food, fuel, hygienic items, agriculture goods, construction materials, and other emergency needs. The second component will finance the rehabilitation of key regional and local public infrastructure. This component will finance the rehabilitation or reconstruction of high-priority, public service delivery infrastructure in the worst-affected areas, including the rehabilitation of regional roads and railways and flood protection, as well as local infrastructure such as rural roads, water and sanitation, schools, hospitals, etc. Finally, the third component will finance the project management costs and provide technical assistance and capacity building to help ensure future improved disaster resilience.

**Expected results:** The project will provide assistance to the population in affected areas to restore their lives to the pre-flood level by providing emergency goods, including agriculture goods to help restore agriculture and income-generating activities and construction materials to help rehabilitate the housing stock in the worst affected areas. The project will also recover priority public service infrastructure facilities to pre-flood conditions.

**Progress thus far:** Implementation is under way in both entities and in the Brcko District. During the initial months of implementation, the focus was on refinancing eligible emergency goods (primarily agriculture goods and construction materials) and preparing the design and project documentation for regional and local infrastructure rehabilitation subprojects that will be initiated in the 2015 construction season.

**Key Partners:** The Bank team is working closely with the Ministry of Finance and Treasury of BiH, Ministry of Finance in the Federation BiH (FBiH), the Ministry of Finance in the Republika Srpska (RS), and the Brcko District Government.

**Key Development Partner:** The European Commission (EC) and the United Nations Development Programme (UNDP).

## BOSNIA AND HERZEGOVINA: AGRICULTURE AND RURAL DEVELOPMENT PROJECT

### Key Dates:

**Approved:** June 19, 2007

**Effective:** February 26, 2008

**Closing:** June 30, 2015

### Financing in million US Dollars\*:

<i>Financier</i>	<i>Financing</i>
IDA Credit	21.0
SIDA TF 070858	6.2
<b>Total Project Cost</b>	<b>27.2</b>

### World Bank Disbursements, million US Dollars\*:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IDA Credit	21.0	16.6	4.6

\*as of February 2015

*Note: Disbursements may differ from financing due to exchange rate fluctuations.*



The agriculture sector is a relatively small but important part of the BiH economy. Agriculture's share in BiH's economy has fallen by nearly half from 15.1 percent in 1999 to 8.4 percent in 2012, while the services sector has grown to 66.8 percent and industry represents 24.8 percent of the economy. Institutional constraints across the various governmental levels and bodies mandated to provide services prevent BiH's agro-food sector from reaching its full potential. BiH has some comparative advantages in agriculture, especially for niche products due to its close proximity to the European Union (EU), moderate continental climate, and fairly rich and cultivable soils, as well as clean and abundant natural water resources, natural upland pastures, and the ready availability of labor. In spite of the important role the vertically integrated agrokombinats used to play in primary production, there is a long tradition of small-scale farming and organic production in the country. Despite access to the EU market through preferential trade agreements, BiH is not reaping the full benefits of this favorable treatment due to the absence of EU-compliant food safety institutions and an EU-compliant regulatory framework.

**The Project Development Objective** is to assist BiH in strengthening the capacity of its state- and entity-level institutions to deliver more efficient and effective agricultural services and support programs and to make a substantial contribution to an acceleration of BiH's eligibility to access support under the EU Instrument for Pre-Accession Assistance for Rural Development (IPARD). **A project restructuring was conducted** in response to: (i) changes in country priorities in the pre-EU accession context; (ii) implementation issues identified as part of the Bank's implementation support activities; and (iii) damage rehabilitation needs pertaining to rural infrastructure and assets following the severe floods that hit the country during the 2010–11 winter season.

**Results achieved:** To date, substantial efforts have gone toward strengthening the state-level agencies for veterinary services, plant health and phytosanitary services, and food safety. In parallel, inspection services have been strengthened and information systems are under development for the deployment of an eventual Agricultural Information System. Substantial progress has been made in the implementation of a farm and client register and a livestock identification and registration system, as well as the identification and rehabilitation of reference laboratories for the handling of plant material and food safety. The country has now conducted four consecutive years of potato pest monitoring, including modifications to the survey in line with the EU's Food and Veterinary Office (FVO) recommendations that will allow for exports of potatoes to the EU. Similarly, a residue-testing strategy is under implementation in consultation with the FVO, where Bank financing is supporting laboratory equipment and accreditation for a laboratory network for the select testing domestically of some residues. Finally, the distribution of flood rehabilitation grants and the rehabilitation of rural infrastructure is under way to assist farmers and rural populations in the areas that were most affected during the 2010/2011 floods.

**Key Partners:** The Bank team is working closely with the Ministry of Foreign Trade and Economic Relations, Ministry of Agriculture, Water Management and Forestry in FBiH, Ministry of Agriculture, Forestry and Water Resources in RS, Food Safety of BiH, Plant Health Administration, State Veterinary Office of BiH, and Inspection Services in both entities.

**Key Development Partners:** Swedish International Development Cooperation Agency (SIDA), European Commission (EC), U.S. Agency for International Development (USAID), and International Finance Corporation (IFC).

## BOSNIA AND HERZEGOVINA: NERETVA AND TREBISNJICA MANAGEMENT PROJECT

### Key Dates:

**Approved:** May 29, 2008

**Effective:** March 6, 2009

**Closing:** June 30, 2015

### Financing from all cofinanciers, million US Dollars:

<i>Financier</i>	<i>Financing</i>
Global Environment. Facility	8.00
Recipients (Bosnia and Herzegovina and Croatia)	8.45
Bilateral Agencies	3.92
EC	2.00
<b>Total Project Cost</b>	<b>23.27</b>

### World Bank Disbursements, million US Dollars \*:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
Global Env. Facility (BiH)	6.00	5.37	0.63
Global Env. Facility (HR)	2.00	1.60	0.40

\*as of January 2015

*Note: Disbursements may differ from financing due to exchange rate fluctuations.*



BiH and Croatia have identified the need for improved water resources management and biodiversity conservation as key environmental issues in their National Environmental Action Plans. The water resources of the Neretva and Trebisnjica river basins (NTRB), and the ecosystems dependent on them, play an important part in the economies of both countries and the livelihoods of over 430,000 people living in the area. Taken together, these two rivers comprise most of the Adriatic watershed of BiH and Croatia, and both are crucial to energy production, recreation, fisheries, drinking water, and irrigation. They carry the (generally untreated) wastewater of the municipalities and many industries into the basins. The approach to improving the water resources management and biodiversity of the NTRB called for a joint effort of the two countries, resulting in the regional transboundary project, the “Neretva and Trebisnjica Management Project (NTMP),” supported by the Global Environment Facility (GEF) through a US\$8 million grant, out of which US\$6 million has been granted to BiH and US\$2 million to Croatia. In addition, the EC provided a US\$2 million IPA grant for the rehabilitation and construction of sewerage in Ljubuski, BiH. The Croatia GEF grant closed on December 31, 2014, and the BiH grant will close on June 30, 2015.

**The project aims** to provide a mechanism for promoting efficient and equitable water allocation among the users of the NTRB at the transboundary level and for enhancing the basin ecosystem and biodiversity through improved water resources management, including: (i) improved transboundary water resource management; (ii) enhanced management and use of wetland ecosystems and biodiversity; (iii) high-priority investments for water pollution and two industrial sector investments; and iv) public participation and management of project implementation.

**Key Results Achieved/Expected:** BiH and Croatia have been cooperating effectively and regularly holding joint bilateral meetings. Rehabilitation of the wastewater treatment plant in Trebinje and Ljubuski was completed, as was the EC-financed sewerage system in Ljubuski. The new advanced treatment plant in Bileca could become a best practice showcase for municipal wastewater treatment. The newly constructed wastewater treatment plant in Konjic will start its trial work as soon as the EIB-financed sewerage system is connected to it. The wastewater treatment plant of the visitors’ center of Nature Park Hutovo Blato in BiH and the construction works for the reception center and 6-kilometer long hike and bike trail at the Bacina Lakes in Croatia have also been completed. The preparation of the River Basin Management Plan for Croatia, FBiH, and RS and the Framework for Neretva and Trebisnjica River Basin Management have been completed and adopted. The Minimal Environmental Flow study and the Optimization of Hydropower Plants Work study have also been completed. The construction of the water-efficient irrigation pilot in Glog in the Croatian Delta has unfortunately been dropped due to the inability to obtain a construction permit in time. As a replacement, the water monitoring system has been strengthened by online monitoring of water quantity and quality data, including ground waters (salinity, flows, etc.). By the end of the project, the following results will be achieved: reduction of nutrients and other pollution from municipal sources in the selected municipalities in the basin; improved maintenance of environmental flows; and improved ecosystem health and biodiversity in the basin.

**Key Partners:** The Ministry of Agriculture, Water Management and Forestry in FBiH, and the Ministry of Agriculture, Forestry and Water Management in RS, under the coordination of the Ministry of Foreign Trade and Economic Relations of BiH; the five participating municipalities in BiH; and in Croatia, the Ministry of Agriculture through Croatian Waters (HV). **Key donors:** The EC and the Governments of Spain and the Netherlands.

## BOSNIA AND HERZEGOVINA: SARAJEVO WASTEWATER PROJECT

### Key Dates:

**Approved:** December 22, 2009

**Effective:** July 15, 2010

**Closing:** November 30, 2015

### Financing in million US Dollars\*:

<i>Financier</i>	<i>Financing</i>
IBRD Loan	35.0
Government of Bosnia and Herzegovina	2.0
EU IPA Grant Fund	13.0
<b>Total Project Cost</b>	<b>51.0</b>

### World Bank Disbursements, million US Dollars\*:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD Loan	35.0	10.87	15.47

\*as of March 2015

**Note:** *Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*



Service delivery problems in BiH are prevalent due to the lingering after-effects of the conflict that left vast portions of the basic infrastructure destroyed or severely damaged. A case that vividly illustrates the problem is wastewater collection and treatment in the city of Sarajevo. A Wastewater Treatment Plant (WWTP) was built close to the confluence of the Miljacka and Bosna Rivers in the early 1980s on the occasion of the 1984 Winter Olympics. Construction of the plant was supported by the World Bank–financed Sarajevo Water Supply and Sewerage Project (Loan 1263-YU), which closed in December 1982. However, the plant was extensively damaged in the spring of 1992 at the outset of the conflict, during which time the sewer network was also destroyed in various places. Since the end of the conflict in 1995, the WWTP has been largely out of commission, with only minimal conservation works carried out to prevent further deterioration. As a result, virtually all of the city’s wastewater is discharged into the Miljacka and Bosna Rivers without any treatment, causing severe pollution of the rivers and impacting the communities downstream.

**The Project Development Objective** is to improve the living conditions of populations in the areas covered by the Sarajevo Water and Wastewater Company and in downstream riverside communities by: (i) reducing the population’s exposure to and reliance on highly polluted water from the Miljacka and Bosna Rivers; and (ii) improving the efficiency of the wastewater collection network in the Sarajevo Canton. As of August 2011, the first civil works contracts had been signed for the rehabilitation of priority sewage networks in the city. The Design Supply and Install of WWTP contract was signed in January 2014. Preparing the designs and obtaining the necessary construction permit were completed and rehabilitation works started.

**Results achieved:** The rehabilitation work of a total of 17.24 kilometers of the city’s sewage network has been completed, which exceeded the project target of 16 kilometers. The work also included separating storm water drainage connections from the sewage network, thereby reducing the grit and sediment that undermine the treatment plant. 32,000 sewer connections are benefiting from the rehabilitation works. Delivery of high-powered sewage network cleaning and maintenance vehicles took place in November 2011. Since commissioning the new vehicles, the number of sewer blockages in the network has been reduced by 20 percent on an annual basis. Rehabilitation works on the WWTP are progressing.

**Key Partners:** The Bank team is working closely with the BiH Ministry of Foreign Trade and Economic Relations, Sarajevo Cantonal and Municipal Institutions, as well as with “VIK,” the Sarajevo Water Utility.

**Key Development Partners:** Close coordination has been established with the EC (which is providing project cofinancing in the amount of €13.0 million).

## BOSNIA AND HERZEGOVINA: ENHANCING SMALL AND MEDIUM ENTERPRISES ACCESS TO FINANCE PROJECT

### Key Dates:

**Original IBRD loan approved:** December 15, 2009

**Effective:** August 16, 2010

**Additional financing IBRD loan approved:** May 17, 2012

**Effective:** April 18, 2013

**Closing:** July 31, 2016

### Financing from all cofinanciers, million US Dollars:

Financier	Financing
IBRD Loan	190.0
<b>Total Project Cost</b>	<b>190.0</b>

### World Bank Disbursements, million US Dollars \*:

	Total	Disbursed	Undisbursed
IBRD Loan	190.0	134.12	49.16

\*as of March 2015

**Note:** Disbursements may differ from financing due to exchange rate fluctuations.



The development and growth of small and medium-sized enterprises (SMEs) are critical for the development of BiH. Following the global financial crisis that began in 2008, access to finance for SMEs became even more difficult as banks limited their risk exposure. Under this worrying backdrop, the World Bank in 2009 provided funds (US\$70 million) via the Enhancing Access to Finance for Small and Medium Enterprises Project to ensure continued access to finance for SMEs. This support proved critical for many SMEs throughout the country, as many of them had found themselves totally cut off from credit markets. The situation began to improve in 2011, but the persistent difficulties in the Eurozone continued to negatively impact access to finance for SMEs. The deterioration in economic activity in one of BiH's key trading partners further depressed local prospects and tightened the credit environment for local firms. Realizing the situation, the World Bank quickly mobilized an additional US\$120 million in 2012 to enable the banks to continue extending credit to SMEs in an environment of constrained funding and growth (estimated at close to 1 percent for 2013). Following the devastating floods of May 2014, the World Bank supported FBiH in developing a targeted and time-bound emergency support loan program for SMEs in flood-affected areas using the revolving funds under the project. Additionally, the World Bank enhanced the flexibility for reprogramming the loans under this project in line with the entity banking authorities' decisions and included agribusinesses as eligible SMEs under the project.

**The Project Development Objective** is to enhance access to finance for SMEs in BiH in the context of the global financial crisis and the generally constrained conditions for SMEs. The primary beneficiaries of the project are SMEs with growth and export potential that would benefit from improved access to finance. The project will also help the banking sector in BiH to withstand the global economic downturn that has triggered financing difficulties for the enterprise sector.

### Results achieved:

- By the end of 2014, a total of 142 SMEs had received loans under the Additional Financing project, while as many as 112 companies (as of July 2012) had been supported via the original SME project to help ease the impact of the economic downturn and contribute to the recovery.
- The loans continue to be geographically well distributed, covering all 10 cantons in FBiH and over 20 municipalities in RS, and support a wide range of sectors, including food production and processing, wood processing and furniture manufacture, metal fabrication, and livestock food production.
- It is estimated that 4,000 jobs were saved and 1,120 new jobs created between August 2010 and March 2013, during the implementation of the original project when the figures were last reviewed.

**Key Partners:** The project was designed in close cooperation with the BiH, FBiH, and RS Ministries of Finance and the BiH Central Bank. The Central Bank provided statistical data and analysis on demand throughout the project preparation period. The BiH Employers' Association and the Foreign Trade Chamber were consulted in the project.

**Key Development Partners:** The Bank is coordinating its work on this project with other donors in BiH such as the European Bank for Reconstruction and Development (EBRD), Swedish SIDA, EU Delegation, and USAID.

## BOSNIA AND HERZEGOVINA: SECOND SOLID WASTE MANAGEMENT PROJECT

### Key Dates:

**Approved:** November 25, 2008

**Effective:** October 23, 2009

**Closing:** February 28, 2016

### Financing from all cofinanciers, million US Dollars:

Financier	Financing
IBRD Loan	25.0
IDA Credit	15.0
Government of Bosnia and Herzegovina	3.5
EU IPA Grant Fund	12.8
Total Project Cost	56.3

### World Bank Disbursements, million US Dollars \*:

	Total	Disbursed	Undisbursed
IBRD Loan	25.0	6.84	9.25
IDA Credit	15.0	5.06	4.23

\*as of March 2015

### Cancelled, million US Dollars\*:

IBRD Loan 2.88

IDA Credit 0.30

*\* Cancellation based upon Republika Srpska request*

*Note: Disbursements may differ from financing due to exchange rate fluctuations.*



Since the end of the war, BiH has made tremendous progress in improving its solid waste management (SWM) system. Only a few years ago, there were no functioning regional sanitary landfills and almost all waste was discarded in unofficial sites such as wild dumps, roadsides, small village dumps, rivers, and mines, which posed a direct risk to public health. During implementation of the first Solid Waste Management Project (SWMP-1), which closed in 2010, several municipalities had set up and jointly operated regional sanitary landfills, and an increasing amount of waste was being managed in compliance with high EU standards. Nevertheless, numerous illegal dump sites can still be found in many municipalities, and their cleanup and closure remain a high priority that will require setting up functioning sanitary landfills to provide a viable alternative for disposal. At the same time, advanced regional landfills will start moving to the next level of integrated SWM by introducing advanced separation and recycling facilities and improving the financial viability of their services. The Second Solid Waste Management Project (SWMP-2) will support both: new regions that will establish an additional six sanitary landfills by the end of 2014 and the rehabilitation of existing landfills.

**The Project Development Objectives** are to: (i) improve public health and quality of life by reducing exposure to pollutants and disease vectors from solid waste; (ii) improve municipal institutional capacity by establishing up-to-date technical and financial solutions for SWM; (iii) enhance environmental policy by improving the scope and depth of SWM strategies and facilitating recycling and waste-reduction programs nationwide; and (iv) improve local governance by enhancing cooperation between municipalities.

### Results achieved and to be achieved under project:

- Six regional sanitary landfills are operational in Sarajevo, Mostar, Zenica, Tuzla, Bijeljina, and Banja Luka; end-target is eight regional sanitary landfills to be operational.
- 13 inter-municipal councils have been established.
- Regular monitoring is performed at six operational sanitary landfills (in Sarajevo, Zenica, Tuzla, Banja Luka, Bijeljina, and Prijedor); target is nine.
- 40 percent out of a targeted 60 percent of regional solid waste utilities are complying with national environmental standards, while four utilities (Sarajevo, Tuzla, Zenica, and Mostar) have recycling and/or gas capturing facilities; target is six.
- Six utilities have implemented cost-recovery plans out of a targeted seven.
- Implementation of leachate treatment is in progress in all completed landfills.
- 1.05 million people have been provided with access to regular solid waste collection under the project.
- 300 wild dumps closed (25 percent of estimated existing dumps).
- Share of collected solid waste disposed in regional sanitary landfills has increased;
- Regular environmental monitoring has improved, as 50 percent of solid waste utilities monitor compliance with national standards.

**Key Partners:** The (i) Ministry for Environment and Tourism (FMET) in FBiH; (ii) the Ministry of Physical Planning, Construction, and Ecology (MPPCE) in RS; and (iii) FBiH and RS solid waste utilities.

**Key Development Partners:** The EU and the Government of Sweden (SIDA) are cofinancing this project.

## BOSNIA AND HERZEGOVINA: HEALTH SECTOR ENHANCEMENT PROJECT

*Bosnia and Herzegovina Country Program Snapshot*

### Key Dates:

**Original IDA Credit (US\$ 17 million) approved:** March 31, 2005

**Effective:** April 3, 2006

**Additional Financing IDA Credit (US\$ 10 million)**

**Approved:** March 22, 2011

**Effective:** December 27, 2011

**Closing:** December 31, 2014

### Financing from all cofinanciers, million US Dollars:

Financier	Financing
IDA Credit	27.0
Entity Government's	8.9
Council of Europe	14.0
<b>Total Project Cost</b>	<b>39.9</b>

### World Bank Disbursements, million US Dollars \*:

	Total	Disbursed	Undisbursed
IDA Credit	27.0	26.9	0.1

\*as of February 2015. *Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*



While BiH experiences some communicable disease challenges (such as the need to increase vaccination rates for measles and diphtheria/pertussis/tetanus [DPT]), the BiH epidemiological profile is largely dominated by noncommunicable diseases (NCDs) such as heart disease, diabetes, and cancer, with some indicators (i.e., ischemic heart disease) estimated to be the highest in the South East Europe region. Road accidents, injuries, and suicides are also at high levels. With a rapidly aging population, the burden of NCDs will continue to increase. The historic organization and financing of the health system in BiH, which was based on a fragmented primary health care (PHC) system and an increasing bias toward curative services, is not oriented to meet the challenge of the ongoing and increasing NCD epidemic.

**The Project Development Objective (PDO)** is to (i) expand and enhance the family medicine (FM) model of PHC; (ii) build management capacity in the sector; and (iii) strengthen the policy-making process through the development and implementation of a system for monitoring and evaluating sector performance.

**Results achieved:** The project successfully achieved the three PDOs. Regarding the restructuring and strengthening of PHC, the FM model has been the single largest reform implemented by the Government in the health sector. Coverage by FM teams increased from 5 to 80 percent (national average). In FBiH, more than 75 percent of service users expressed their satisfaction with the approach of FM teams in a recent survey. Medical doctors and nurses are being regularly trained for FM specialization. RS has also been upgrading the clinical skills of its FM teams. The retraining program of its existing FM doctors was completed, FM specializations are now regularly provided, and training is focusing on enhancing the role played by nurses as a vital component of the PHC delivery system. An IT system and software application to support business process of FM team and health record are being used across the country. In FBiH, the project financed LAN and IT equipment for all the PHC facilities (440) and financed software application for eight cantons.

Similar progress was achieved in the areas of building management capacity, enhancing the policy-making process, and monitoring and evaluating health sector performance. Health Management Centers (HMC) are fully functional in both entities. From a total of 45 staff having managerial skill in 2004, the HMC succeeded in training 608 staff by project closing. Since 2010, managerial skills are mandatory for managers at all levels. In the area of policy making, several rulebooks were developed to standardize the management of facilities; indicators for health services and health outcomes; training for FM teams, and specialization in FM. In addition, in FBiH, the project supported a process to reach agreement across cantons on a standardized set of indicators and on a methodology for the monitoring and evaluation of the sector. The methodology was adopted across the 10 cantons and data are being shared at the entity level. Lastly, the project supported the implementation of health surveys at the national level using a similar methodology for both entities.

Progress toward achieving the PDOs is reflected in the achievement of the project outcomes. 4 out of 5 PDO indicators were achieved (PDO 1 was surpassed, PDOs 3, 4, and 5 were fully met), and one PDO indicator (PDO 2) was partially achieved.

**PDO 1.** Coverage of the population through FM teams reached a national average of 70 percent. From about 5 percent of the population in 2004 (FBiH: 130,659, RS: 86,270), the coverage reached about 58 percent at the time of the end of the original credit (2010), with FBiH: 1,586,000 (69.0 percent), RS: 1,193,230 (95.5 percent) (80.2 percent national level), surpassing the goal by the end of the project (September 2014).

**PDO2.** 260 FM teams and Health Centers in the RS meeting rigorous accreditation standards. From not having in place any accreditation process in 2004, the project reached 60 FM teams accredited by 2010. During the accredited process, some teams changed working roles and by the end of the project, 200 active teams were accredited. This is 23 percent below the goal, and thus this PDO is considered partially achieved.

**PDO3.** Systemic implementation of selected preventive services in at least two major FBiH cantons. FBiH: implemented results-based payments (based on performance of preventive services) in four cantons. Pilots completed. New report system and software adopted.

**PDO 4.** HMCs operational with an annual budget and regular work plan. FBiH: The HMC was developed as a unit within the Federation PH institute; RS: The HMC is fully operational.

**PDO 5.** The RS Primary Health Care Strategy and the FBiH Primary Health Care Strategy operational plan are updated. FBiH: Operation Plan for 2014 has been updated and adopted. RS: The RS Primary Health Care Strategy was updated and is being implemented though it has not been formally approved by Parliament.

**Key Partners:** Ministries of Health in FBiH and RS are leading efforts, supported by various donors and agencies, notably the EU, World Health Organization (WHO), and the World Bank. The project is cofinanced by the Council of Europe Development Bank (CEB), which contributes a significant percentage of total project costs (32 percent) toward the financing of civil works and equipment. In addition, the EU is financing a number of complementary activities designed in close collaboration with the Bank in the areas of: (i) public health; (ii) accreditation and quality assurance; (iii) pharmaceuticals; (iv) hospital provider payment mechanisms; (v) hospital modernization; and (vi) the functional review of health institutions. Agencies such as the Canadian International Development Agency (CIDA) and the Swiss Agency for Development and Cooperation (SDC) have provided considerable support and recently approved a trust fund to finance a project to reduce Health Risk Factors for Noncommunicable Diseases.

## BOSNIA AND HERZEGOVINA: WATER QUALITY PROTECTION PROJECT

### Key Dates:

**Approved:** June 7, 2005

**Effective:** November 18, 2005

**Closing:** August 31, 2015

### Financing from all cofinanciers, million US Dollars:

<i>Financier</i>	<i>Financing</i>
Government of Bosnia and Herzegovina	6.19
Global Environment Facility	8.90
Global Environment-Associated IDA Fund	4.00
Government of Spain	1.18
EU IPA Grant Fund	8.57
Government of Sweden Grant Fund	3.50
<b>Total Project Cost</b>	<b>32.34</b>

### World Bank Disbursements, million US Dollars \*:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
Global Environment Facility	8.90	8.60	0.30

\*as of March 2015

*Note: Disbursements may differ from financing due to exchange rate fluctuations.*



The Water Quality Protection Project focuses on the Neretva and Bosna Rivers. The Neretva River originates in BiH and flows through Croatia before entering into the Adriatic Sea, and has a strong impact on the water quality of the Bay of Mali Ston. It is an important source of hydropower, drinking water, and irrigation, but also a source of pollutants for the Adriatic and Mediterranean. The Neretva Delta is a Mediterranean wetland of international importance and is designated as a Ramsar Wetlands site. The Bosna River Basin covers the largest and most developed area of BiH. The Bosna River also originates in BiH and is about 260 kilometers long—BiH's most developed and industrialized regions are found along this river. Wastewater from communities and industrial facilities—the concentrated polluters—discharges directly into the river, most of it without any treatment, and is the major source of pollutants in the Danube.

**The Project Development Objective** is to further strengthen the capacity of local utilities and to reduce pollution from municipal sources into the Neretva and Bosna Rivers. The global objective is to reduce municipal pollution and nutrients in the Adriatic Sea and the Danube Basin.

### **Results achieved:**

- Water Information System (WIS) installed in the water agencies in both entities.
- Rehabilitation of the Trnovo, Odzak, and Zivinice Wastewater Treatment Plants (WWTPs) has been completed and plants are fully operational. Construction of the Mostar WWTP is under way.
- 8 percent of municipal wastewater is now treated and discharged according to new BiH water environment standards.
- Three key studies have been completed: (i) a Wastewater Improvement Plan for Reducing River Pollution, (ii) Biological Monitoring of Rivers, Lakes, and Reservoirs, and (iii) a feasibility study on the low-cost, natural treatment of wastewater.
- Improved cooperation of BiH with institutions in Croatia, Montenegro, and Serbia, leading to an agreement on most aspects of the Wastewater Improvement Plan requiring cross-border cooperation.

**Key Partners:** The FBiH Ministry of Agriculture, Water Management and Forestry.

**Key Development Partners:** The EU and the Governments of Spain and Sweden are cofinancing this project.

## BOSNIA AND HERZEGOVINA: SOCIAL SAFETY NETS AND EMPLOYMENT SUPPORT PROJECT

### Key Dates:

**Approved:** February 25, 2010

**Effective:** October 7, 2010

**Closing:** October 31, 2015

### Financing from all cofinanciers, million US Dollars:

<i>Financier</i>	<i>Financing</i>
IDA Credit	15.0
Government of Bosnia and Herzegovina	7.0
<b>Total Project Cost</b>	<b>22.0</b>

### World Bank Disbursements, million US Dollars \*:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IDA Credit	15.00	14.0	0.5*

\*as of March 2015

\*\* US\$ 0.5 million of the credit was cancelled

*Note: Disbursements may differ from financing due to exchange rate fluctuations.*



The **Social Safety Net and Employment Support Project (SSNESP)** aims to improve the efficiency of social spending, quality of social services, and efficiency of active labor market programs. It supports ongoing reform in the social protection sector in the country through technical assistance on improving the targeting methodology in social assistance and strengthening the institutional capacity to implement the targeting of social benefits.

The **Project Development Objectives** are to: (i) support noncontributory cash transfers in reaching the eligible poor and disabled; (ii) improve the efficiency and transparency of benefits administration; and (iii) support job brokerage services for those active job seekers who become ineligible to receive cash transfers or who are vulnerable (e.g., poor, disabled but able to work, hard-to-serve, demobilized soldiers, etc.).

**Results achieved:** The project has provided technical assistance on improving targeting methodologies for noncontributory cash benefits. Different targeting options were considered and analyzed in both entities. Proxy Means Testing is the proposed model for the new social protection legislation that has been drafted in FBiH and for the amendments to the social protection legislation that is planned for 2015–16 in RS. A total of 40 social welfare centers were rehabilitated (35 in FBiH and five in RS). The upgrading of the SOTAC management information system used by the social welfare centers was finalized in FBiH and is currently under way in RS. The upgrade of management information systems used for veteran benefits is under way in both entities. Strong progress was made in delivering job-brokerage services to the most vulnerable active job seekers. About 10,833 unemployed persons have received job brokerage support under the project (7,146 in FBiH and 3,687 in RS). Outcomes in terms of employment status after service provision are positive. In FBiH, 64 percent of beneficiaries were employed six months after the employment services contract had expired, while 55 percent were employed 12 and even 18 months after the contract had expired. 44 percent of beneficiaries in FBiH are women. In RS, 54 percent remained employed both six and 12 months after the end of the contract for training, self-employment, and employment with employers. 52 percent of beneficiaries in RS are women.

**Key Partners:** The World Bank team is working closely with the FBH Ministry of Labor and Social Policy; the RS Ministry of Health and Social Welfare; the RS Ministry of Labor and Veteran-Disability Protection; and the Public Employment Funds in the two entities.

**Key Development Partners:** Close coordination has been established with the EC and the United Nations Children's Fund (UNICEF).

## BOSNIA AND HERZEGOVINA: IRRIGATION DEVELOPMENT PROJECT

### Key Dates:

**Approved:** May 3, 2012

**Effective:** March 29, 2013

**Closing:** December 31, 2017

### Financing from all co-financiers, million US Dollars:

Financier	Financing
IDA Credit	40.0
Government of Bosnia and Herzegovina	7.0
<b>Total Project Cost</b>	<b>47.0</b>

### World Bank Disbursements, million US Dollars \*:

	Total	Disbursed	Undisbursed
IDA Credit	40.0	8.55	28.25

\*as of February 2015

*Note: Disbursements may differ from financing due to exchange rate fluctuations.*



The agriculture sector is and will remain economically important for BiH and is an integral part of the rural economy, providing important sources of employment for rural inhabitants and having significant backward and forward linkages to the rest of the economy. According to official statistics, the primary agriculture sector still accounts for approximately 9 percent of GDP and employs more than one-fifth of the total labor force. Crop yields and potential options for growing high-value crops and double cropping are restricted without irrigation, primarily due to prolonged dry spells during the summer season. Typical yield losses are estimated to be in the order of 30–40 percent in the southwest, while in the northern areas along the Sava river plain, typical yield losses amount to 20–30 percent, with less in the central and mountain areas. In addition, in many of the plains and valleys, productivity also regularly suffers from waterlogging and inundation. Thus, drainage is as important as irrigation.

The Irrigation Development Project aims to improve the performance of the irrigation systems and the irrigation institutions to support agricultural producers in the project areas.

The **Project Development Objective** would be achieved through: (i) rehabilitating irrigation and drainage infrastructure, including construction, reconstruction, upgrading, and modernization, on existing agricultural land; (ii) introducing new technologies in irrigated agriculture; and (iii) promoting institutional development, strengthening water resources management institutions, and introducing a participatory approach to water management. The project would support better water resources planning and management for the sustainable use of the water resources in irrigation and drainage, mitigation of the impact of droughts and floods, and in general preparation of more suitable adaptation strategies that can also cope with climate change.

**Expected results:** The project will support better water resource planning and management for the sustainable use of water resources in irrigation and drainage and the mitigation of the impact of droughts and floods, and in general help prepare more suitable adaptation strategies to also cope with climate change.

**Progress thus far:** Progress toward reaching the Project Development Objective has been satisfactory. Works have been completed in three subproject sites (two sites in RS and one in FBiH), worth around US\$8 million, or 20 percent of total project costs. In parallel, for these sites, agreements are under way with municipalities and Water User Associations (WUAs) to modernize the water-monitoring systems and to train farmers on improved irrigation practices. In parallel, works are ongoing on the remaining subprojects from the first batch (in Siroki Brijeg and Gorazde). The second batch of irrigation schemes has been selected in RS and the design and supporting studies are under way. In FBiH, the preselected subprojects for the second batch were affected by the May 2014 floods, and therefore their participation in the project activities is still pending, awaiting the final decision of municipal authorities.

**Key Partners:** The Bank team is working closely with the Ministry of Foreign Trade and Economic Relations, Ministry of Agriculture, Water Management and Forestry in FBiH, Ministry of Agriculture, Forestry and Water Resources in RS.

**Key Development Partner:** EC.

## BOSNIA AND HERZEGOVINA: REAL ESTATE REGISTRATION PROJECT

### Key Dates:

**Approved:** October 25, 2012

**Effective:** September 23, 2013

**Closing:** July 31, 2018

### Financing in million US Dollars\*:

Financier	Financing
IDA Credit	34.1
<b>Total Project Cost</b>	<b>34.1</b>

### World Bank Disbursements, million US Dollars\*:

	Total	Disbursed	Undisbursed
IDA Credit	34.1	7.60	24.98

\*as of February 2015

*Note: Disbursements may differ from financing due to exchange rate fluctuations.*



**The project aims** to support the development of a sustainable real estate registration system with harmonized land register and cadastre records in the urban areas of BiH. The Real Estate Registration Project (RERP) and its predecessor, the Land Registration Project (2007–12), are part of a programmatic approach toward supporting a well-functioning land administration system in BiH by 2016. The RERP will support this goal with a focus on the scaling-up of cadastre activities and on the sustainability of land registration and cadastre institutions.

**The beneficiaries** of the project will be (i) the public, which can own, lease, and use real estate under the protection of the legal registration of rights, (ii) the business community, which can invest more, relying on the secure access to real estate and improved access to credit, (iii) the government institutions and municipalities that can make use of the online access to accurate spatial information to increase their revenues and inform their decision making, and (iv) real estate registration institutions that will gain from more sustainable operations and staff policies.

Society overall will benefit from improved land governance supported by the up-to-date and accessible spatial information on real estate and on their transactions, which will increase accountability and informed decision and policy making concerning land, real estate, and natural resources.

### Results achieved:

Project implementation is progressing well, with many activities under way. In RS, the Real Estate Cadastre establishment is ongoing in 62 Cadastre Municipalities (CMs), while work has been completed in six CMs. The Vulnerability Mapping (VM) has been conducted in 112 CMs. Geodetic and computer equipment has been purchased for harmonization teams, 160 commissions have been contracted, and technical specifications for vectorization and cadastral database creation have been finalized. Tender for the development of a new coordinate system is under way. In FBiH, harmonization is ongoing and vulnerability mapping has been conducted in seven CMs, and the reports produced. FBiH Geodetic Administration has started public awareness activities. The RS Geodetic Administration has finalized tender documentation for the development of the new coordinate system and also finalized the purchase of two offices, while the purchase of the remaining offices is under way. FBiH has initiated office renovation activities.

**Key Partners:** The Bank team is working closely with the Administration for Geodetic and Real-Property Affairs of the Federation of BiH; Administration for Geodetic and Property Affairs of the Republika Srpska; and the entity-level ministries of justice.

**Key Development Partners:** SIDA, EC, and the Government of Norway.

## BOSNIA AND HERZEGOVINA: SUSTAINABLE FOREST AND LANDSCAPE MANAGEMENT PROJECT

### Key Dates:

**Approved:** January 15, 2014

**Effective:** June 9, 2014

**Closing:** May 31, 2019 (expected)

**Financing in million US Dollars\*:**

<i>Financier</i>	<i>Financing</i>
Global Environment Facility	5.58
<b>Total Project Cost</b>	<b>5.58</b>

### World Bank Disbursements, million US Dollars\*:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
Global Environment Facility	5.58	0.00	5.58

\*as of February 2015

*Note: Disbursements may differ from financing due to exchange rate fluctuations.*



Relative to the size of the country, the forest resources of BiH are among the richest in Europe in terms of their extent and variety. BiH has a total forest area of 3.2 million hectares, covering some 62 percent of the total land area, making it the most forested country in Europe. The rural population (estimated to be 2 million) considers the forests to be an important source of employment, energy (wood fuel for heating, largely from forest residues), and recreation. As BiH is a mountainous country, forests also have important watershed protection values, especially for the middle and lower Danube.

Some 17 percent of the forest areas are classified as low, degraded forests, while an additional 6 percent of the forest estate is classified as underutilized pasture land or bare landscapes. Improved forest management would allow BiH to take advantage of timber production values, providing income for local people while also protecting environmental values associated with watershed protection. Potential climate change hazards such as fires and pests threaten vulnerable forest lands and the economic opportunities they otherwise might provide; sustainable management reduces their vulnerability.

**The Project Development Objective** is to build the capacity of forest sector stakeholders and demonstrate approaches for sustainable forest and land management through the integrated management of vulnerable forest, scrub, and pasture landscapes.

**The Project** addresses key issues through support to: i) enhanced planning and monitoring for sustainable management; and, ii) the demonstration and replication of sustainable management techniques in vulnerable areas.

**Expected results:** Procurement planning and tendering procedures are well advanced, with a view to addressing high-priority issues that were seasonally constrained in 2014. These include investments in equipment for firefighting for the summer fire season, as well as the commencement of forest seedling nursery operations in anticipation of an autumn afforestation program on degraded and vulnerable lands on the national forest estate. Ongoing efforts in both ministries will support forest monitoring and certification efforts that improve access to continental export markets. A total of 3,000 hectares of land are being directly addressed over the project lifetime, of which 600 will be in the first calendar year. Cooperation with the Food and Agriculture Organization (FAO) prior to effectiveness has involved training in information systems suitable for carbon monitoring on the forest estate.

**Key Partners:** The Bank is working closely with: the Ministry of Agriculture, Water Management, and Forestry in FBiH; and the Ministry of Agriculture, Forestry and Water Management in RS.

## BOSNIA AND HERZEGOVINA: ENERGY EFFICIENCY PROJECT (BEEP)

### Key Dates:

**Approved:** March 13, 2014

**Effective:** not yet effective; Financing Agreement signed October 29, 2014

**Closing:** June 30, 2018

### Financing in million US Dollars\*:

<i>Financier</i>	<i>Financing</i>
IDA Credit	32.00
<b>Total Project Cost</b>	<b>32.00</b>

### World Bank Disbursements, million US Dollars\*:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IDA Credit	32.00	-	32.00

\*as of March 2015

*Note: Disbursements may differ from financing due to exchange rate fluctuations.*



The **Project Development Objective** of the Energy Efficiency Project for Bosnia and Herzegovina is to demonstrate the benefits of energy-efficiency improvements in public sector buildings and support the development of scalable energy-efficiency financing models.

The project has three components. The first component, energy-efficiency investments in public facilities, will support energy-efficiency investments (subprojects) in schools, hospitals, and clinic centers. This component will finance energy-efficiency upgrades as well as related technical consultancy services (for example, energy audits, technical and social monitoring and evaluation, technical designs, supervision, and subproject commissioning). The second component, support for the development of scalable financing mechanisms and capacity building, will support the development of sustainable energy-efficiency financing mechanisms in the public sector, strengthen implementation capacity, and help to increase public awareness on energy efficiency. The third component, project management, will ensure effective project management by the project implementing units (PIUs) through financing additional experts, training PIU staff, and covering incremental operating costs.

**Key Partners:** Ministry of Physical Planning of FBiH and Ministry of Physical Planning, Civil Engineering and Environment of RS.

**Key Development Partners:** The World Bank is cooperating with the USAID, which is preparing detailed energy audits for several buildings likely to be included in the BEEP; the FBH PIU is also cooperating with the Swedish and Swiss Embassies for additional support for subproject preparation activities.

## BOSNIA AND HERZEGOVINA: DRINA FLOOD PROTECTION PROJECT

### Key Dates:

**Approved:** May 16, 2014

**Effective:** not yet effective

**Closing:** December 31, 2019

### Financing from all cofinanciers, million US Dollars:

<i>Financier</i>	<i>Financing</i>
IBRD + IDA	24.00
Borrower	4.27
Total Project Cost	28.27

### World Bank Disbursements, million US Dollars \*:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IBRD + IDA	100.0	-	100.0

\*as of March 2015

*Note: Disbursements may differ from financing due to exchange rate fluctuations.*



The **objective** of the Drina Flood Protection Project for BiH is to provide increased protection from flood events to agricultural and commercial interests and communities in the project areas.

There are two components to the project. The **first component** is flood protection works and support for the Bijeljina area. This component will fund civil engineering works and related investments in flood protection in the Bijeljina area, in the downstream flat plains near the confluence with the Sava River. This includes resources for the Agriculture Project Coordination Unit (APCU) at the RS Ministry of Agriculture, Forestry and Water Management (MoAFW), including staff for procurement and financial management (FM), as well as technical assistance as may be required for the supervision of works and contract management and the provision of administrative and coordination support to the RS Waters Institution in Bijeljina, which will support the project at the technical level.

The **second component** is flood protection works and support for the Gorazde area. This component will fund civil engineering works and related investments in flood protection in four clusters of works in the Bosnia Podrinje Canton (around Gorazde), in the Middle Drina. This includes resources for the Project Implementation Unit (PIU) at the FBiH Ministry of Agriculture, Water Management and Forestry (MoAWF), including staff for procurement and FM, as well as technical assistance as may be required for the supervision of works and contract management and the provision of administrative and coordination support to the Sava River Watershed Agency in Sarajevo, by which the project is technically supported.

### Expected results:

- i. avoided damages of agriculture production on land likely to suffer frequent floods;
- ii. avoided damages of assets (private houses, apartment houses, industrial facilities, roads, electricity, schools, kindergartens, health facilities, and other public buildings);
- iii. avoided losses of business due to uninterrupted production, provision of services, interrupted communications, traffic disruption, etc.;
- iv. avoided human health costs due to reduction of the pollution in the water supply systems, reduced water borne diseases, and reduced risks of human life losses;
- v. increased recreation benefits, including tourism development;
- vi. indirect economic development effects.

**Key Partners:** The Bank team is working closely with the Ministry of Finance and Treasury of BiH, RS Ministry of Agriculture, Forestry and Water Management, and FBiH Ministry of Agriculture, Water Management and Forestry.

## **IFC PROJECT BRIEFS**

**BOSNIA AND HERZEGOVINA: MF Bank****Key Dates:****Approved:****Signed:** September 2014**IFC financing (million € million):**

<i>Financier</i>	<i>Financing</i>	<i>Fiscal Year</i>
IFC	4.00	2015
<b>Total Project Cost</b>	<b>4.00</b>	



The International Finance Corporation (IFC), a member of the World Bank Group, is lending to MF Banka to support the bank's lending to micro and small enterprises in Bosnia and Herzegovina.

The investment in MF Banka, a new IFC client, would help scale up the bank's lending capacity to underserved micro and small enterprises ("MSEs") in BiH. Located in Republika Srpska, MF Banka is an ideal partner for IFC's microfinance strategy in Central and Eastern Europe, which seeks to create and support commercially viable financial institutions able to attract enough capital to diversify and expand their MSE products. MF Banka is the only dedicated MSE market player in BiH with a banking license and therefore seeks long-term funding to sustain dynamic growth and offer new products to targeted customers. With a successful MSE lending track record, the bank has a well-defined development strategy and strong capacity to use IFC's funds to shore up finance for underserved segments of the economy.

**IFC's expected role and additionality:**

- **Longer-term resources for MSE lending:** This project would provide long-term funding, now limited from other commercial sources, thus opening up financing channels with additional longer-term resources to underserved MSEs in the BiH economy.
- **Building a long-term relationship with Mikrofin group:** Through this project, IFC would build a long-term partnership with a major MSE bank in BiH, reinforcing the bank's focus to serve more customers, expand its outreach in rural and low-income areas, and promote sustainable best practices in the MSE sector.

**The development impact of the project is expected to include:**

- Increased access to funding for underserved MSEs in a fragile and conflict-affected state (FCS);
- Demonstration effect by reengaging in the BiH microfinance sector and building confidence in the financial sector; and
- Job creation, contributing to economic growth and poverty reduction.

## BOSNIA AND HERZEGOVINA: BEKTO PRECISA

### Key Dates:

**Approved:** June 2013

**Signed:** June 2013

**IFC financing (million € million):**

<i>Financier</i>	<i>Financing</i>	<i>Fiscal Year</i>
IFC	8.00	2013
<b>Total Project Cost</b>	<b>12.00</b>	



The IFC, a member of the World Bank Group, is lending to a Bekto Precisa to support the local manufacturing sector, create jobs, and generate exports.

An IFC loan of €8 million will enable Bekto Precisa, a local supplier of plastic and metal products for the automotive and electrical industries, to expand and become more competitive. The investment will allow the company to handle larger orders and facilitate the partial refinancing and restructuring of its existing debt.

Bekto Precisa's operations are based in Gorazde, 100 kilometers east of Sarajevo, where it employs more than 350 people. The export-oriented company offers production solutions covering design, engineering, precision tool-making, and molding.

### IFC's expected role and additionality:

- **Long-term Financing:** The proposed long-term IFC financing will help Bekto Precisa to grow/modernize by (i) funding its capital expenditure program to improve its competitiveness by broadening its products' dimensions; and (ii) restructuring its debt through extending the maturity that is not readily available in the market at favorable rates to enhance the company's financial flexibility.
- **Corporate Governance Advice:** IFC is expected to accelerate the company's transformation from a family-owned business to a more institutionalized firm.
- **Global Sector Expertise and Knowledge:** IFC will share its global sector expertise and knowledge to help improve the company's lean manufacturing programs and fine-tune its long-term strategic vision to grow beyond its traditional customer base.
- **Standard Setting:** IFC will help the company improve its environmental and social practices to exceed local regulatory requirement and be a pioneer in the country.

### The development impact of the Project is expected to include:

- On top of the company's existing labor force, Bekto Precisa is expected to create additional direct skilled jobs in a country where the official unemployment rate is around 45 percent.
- Moreover, the multiplier effect is estimated at three times for indirect jobs in small and medium-sized enterprises (SMEs) focused on factory and machine maintenance and small mechanical workshops located mainly in Gorazde, a small remote mountain town, supporting local micro, small, and medium-sized enterprises (MSMEs).
- The increased sales and production capacity of the company as well as export-oriented production and sales will boost the hard currency flow to BiH, with a certain positive impact on the country's current account deficit and tax revenues.
- Finally, given that Bekto Precisa mainly sources its main processing material and services domestically, which corresponds to more than 50 percent of total annual expenses of the company, the project will have a direct positive local supply chain impact.

## BOSNIA AND HERZEGOVINA: SISECAM, SODASO LUKAVAC

### Key Dates:

**Approved:** June 2013

**Signed:** June 2013

**IFC financing (million € million):**

<i>Financier</i>	<i>Financing</i>	<i>Fiscal Year</i>
IFC	18.00	2013
Canada Climate Change Program	5.60	
<b>Total Project Cost</b>	<b>23.60</b>	



IFC, a member of the World Bank Group, with the support of the Government of Canada, is helping Turkey's Sisecam Group enhance competitiveness and cleaner production in its BiH subsidiary, Sisecam Soda Lukavac (SSL), a soda ash producer.

IFC will provide €24 million in financing to Sisecam Soda Lukavac, including €7.5 million from the IFC-Canada Climate Change Program (CCCP). The loan will help the company improve resource and energy efficiency.

In 2007, IFC provided a €24 million loan to Sisecam to help finance the acquisition of Soda Lukavac, then a loss-making state-owned enterprise. In 2010, IFC provided another €15 million loan to Sisecam's subsidiary in BiH. Sisecam has been an IFC client for over 35 years with multiple investments, first in Turkey and then abroad, as IFC helped finance the group's expansion into Bulgaria, Russia, the Balkans, and other countries in Europe and Central Asia.

Canada's contribution was instrumental, helping to make the financing package viable.

### **IFC's expected role and additionality:**

- **Longer tenor:** IFC will provide long-term financing not readily available in the current environment in BiH. IFC funds will be in the form of a senior loan.
- **Environmental and social support:** IFC has worked with the client during previous projects and is continuing its efforts to improve its (i) waste management, and (ii) clean production
- **Blended finance:** CCCP funding to partially finance investment in energy-efficiency equipment

### **The development impact of the project is expected to include:**

- **Local enhanced supply chain:** An increase in the production capacity will result in an increased demand for raw materials from local brine and limestone mines (which sell more than half of their output to SSL) and local subcontractors (transportation and catering services), thereby supporting significant employment in the local supply chain.
- **Employment preservation:** Had it not been privatized, the plant would have been shut down, adding to unemployment in BiH. SSL is one of the largest employers in the Tuzla area (around 550 people) in a country where the official unemployment rate is 45 percent.
- **Demonstration effect:** IFC's investment in SSL continues to have a strong demonstration effect, as SSL has become an example of a successful privatization and foreign direct investment (FDI) in BiH, an IDA country. This is a South-South investment that will also (i) strengthen economic ties between Turkey and BiH; and (ii) send an encouraging signal to other foreign investors in the region. The continued success of SSL will increase investor appetite for state assets in BiH.

## BOSNIA AND HERZEGOVINA: RENEWABLE ENERGY SMALL HYDRO POWER PLANTS PROJECT (SHPP)

### Key dates:

**Start Date:** October 01, 2010

**Effective:** August 30, 2013

**End date:** June 30, 2016

**Total Budget:** US\$1,426,840.00

**Donor:** Austrian Ministry of Finance (BMF)



The project in BiH aims to facilitate at least US\$120 million of investment into small hydropower plant (SHPP) construction (out of which US\$15 million would be provided by IFC) to support construction of 40 SHPPs, with a total installed capacity of 80 megawatts (MW) that could directly avoid 500,000 tons/year of greenhouse gas (GHG) emissions (the estimation is based on a reduction in coal-fired electricity production).

### **The Project Development Objectives:**

The overall goal of the project in BiH is to create a comprehensive framework to support the development and implementation of SHPP projects. This goal will be achieved through the systematic implementation of three individual objectives:

- Improve the existing regulatory framework to enable SHPP sponsors to develop and construct feasible SHPPs
- Work with SHPP sponsors to improve their SHPP designs and business plans
- Work with selected financial institutions (FIs) in BiH to improve their internal capacities and knowledge on SHPPs and project financing

### **Results Achieved:**

- Regulatory improvements in both entities led to the adoption of the Renewable Energy Law in RS and the Renewable Energy Law in FBiH.
- The Law on Concessions, with a few essential articles drafted by the IFC team, has been adopted by the National Assembly of RS.
- The Renewable Energy Action Plan (REAP), the decree on incentives for electricity generation from renewable energy sources, and the methodology for determining levies for incentives have been adopted by the Government of FBiH. Development of both documents was supported by the IFC team.
- The following reviews of technical design documents were finalized:
  - Three SHPPs owned by the Marvel Company
  - Three SHPPs developed by Most International
- Renewable energy training to two FIs, UniCredit Bank Mostar and UniCredit Bank Banjaluka, has been delivered.
- IFC's direct and indirect work in BiH's renewable energy sector has led to the commissioning of a total of 53 renewable energy plants since the program began, generating annually an additional 98,283 megawatt hours (MWh) of clean energy.

**Key Partners:** Ministry of Energy, Mining and Industry of FBiH, Ministry of Energy, Mining and Industry of RS, and privately owned HPP Marvel.

**Key Development Partners:** Austrian Ministry of Finance (BMF).

## BOSNIA AND HERZEGOVINA: BOSNIA PUBLIC-PRIVATE PARTNERSHIPS ROAD

### Key dates:

**Start Date:** June 01, 2013

**Effective:** August 30, 2013

**End date:** December 31, 2014

**Total Budget:** US\$600,000

**Donor:** Austrian Ministry of Finance (BMF)



IFC will provide transaction advisory support to the Government of FBiH through the Public Company of Motorways Federation of BiH to assist with the implementation of a road project under a public-private partnership (PPP) scheme. This will include the upgrading, operation, and maintenance of a section of the Corridor Vc motorway between Karuse and Poprikuse in FBiH. The project is a critical enabler of the Government's objective of improving the road network in the country. IFC will conduct its mandate in two phases. In phase one, IFC will carry out technical, commercial, legal, and regulatory due diligence for the project and will present the proposed transaction structure to the FBiH Government. As part of phase two and following the approval of the proposed transaction structure by the Government, IFC will assist the latter with implementing an open and transparent competitive bid to select a private developer for the project.

### **The Project Development Objectives:**

The objective of this project is to assist the Government of FBiH with structuring and implementing a successful tender process for the selection of a private concessionaire that will upgrade, operate, and maintain the motorway section between Karuse and Poprikuse. Successful implementation of the project will improve access to road infrastructure for Bosnian and foreign drivers and facilitate trade and tourism in the region. The program is supported by three donor partners: Austria, Norway, and Switzerland.

### **Results Achieved:**

- Signed mandate with Motorways of FBiH for a 40-kilometer section on the Corridor Vc.
- Legal, technical, and financial due diligence has been completed. Recent client deliverables include: recommended transaction structure and summary term sheet and risk allocation matrix
- Awaiting feedback from the Government before committing to the next tender phase.

**Key Partners:** Motorways of Federation of BiH.

**Key Development Partners:** Austrian Ministry of Finance (BMF).

## BOSNIA AND HERZEGOVINA: MICROFINANCE BOSNIA AND HERZEGOVINA

### Key dates:

**Phase I start Date:** September 01, 2010

**Phase II started:** June 01, 2013

**End date:** June 30, 2016

**Total Budget:** US\$1,142,857.00

**Donor:** Swiss State Secretariat for Economic Affairs (SECO)



The project works to address the microfinance crisis that originated with sector over-liquidity in 2008. Principally, the project aims to strengthen the delivery of responsible and quality microfinance services in BiH. The focus of the project is to help create policies for a better environment ensuring more efficient and effective microfinance operations; cooperation with the SMART Campaign, which measures the level of adherence to the internationally recognized principles of consumer protection; and addressing the issue of over-indebtedness of microfinance clients. To this end, the project works at mainstreaming the debt counselling, developed during Phase I of the project, to local municipalities and free legal aid offices. This work establishes a solid exit strategy and strengthens the capacity of local institutions in providing services to the population on this issue. During this time, the Debt Advice Centre “UPlusu,” also established during Phase I of the project, serves as a resource center for debt counseling.

### The Project Development Objectives:

The overall objective of the project is to further the development of the microfinance sector in BiH by improving the conditions for microfinance institutions (MFIs) to conduct their business on a sustainable basis under post-crisis conditions. Specifically, the project aims to maintain a microfinance portfolio in the country at a sustainable level of US\$350 million while driving down the level of nonperforming microfinance loans from 8.2 to 4.0 percent. These development impact indicators are expected to be achieved by 2016.

### Results Achieved:

- Altogether, 19 municipalities have already received training in debt counseling, launching free debt advice services in the local communities, and nine more have signed up for training in the first quarter of 2015, resulting in 81 debt restructuring cases resolved in the period July–December 2014 alone, out of 163 clients counseled.
- Three BiH microcredit organizations (MCOs) have received the SMART Campaign’s certification for treating clients responsibly, among the first six such MFIs in the world to receive this rigorous certification in 2014. The same three MCOs applied for recertification in 2015, demonstrating continued understanding of the benefits that SMART certification brings in terms of responsible financing, and the process is gaining credibility with clients and MCOs. No legislative changes have been made in the sector, but there has been a notable decrease in multiple borrowing by microfinance clients, as evidenced by IFC’s annual over-indebtedness study.
- In terms of policy reforms, together with EBRD, KfW, and the European Fund for South Eastern Europe (EFSE), a joint policy-level approach related to the necessary microfinance sector reforms has been agreed. The first microfinance transformation, one of the project goals, has been accomplished in FBiH.

**Key Partners:** U Plusu, a nonprofit debt counseling service provider, Central Bank BiH, FBiH Banking Agency, RS Banking Agency, Ministry of Finance and Treasury BiH, Ministries of Finance FBiH and RS; EFSE, EBRD, and KfW. EFSE provides financing for debt counseling.

**Key Development Partners:** Swiss State Secretariat for Economic Affairs (SECO).

## BOSNIA AND HERZEGOVINA: INVESTMENT CLIMATE PROJECT

### Key dates:

**Start Date:** November 03, 2011

**Effective:** August 30, 2013

**End date:** December 31, 2014

**Total Budget:** US\$2,944,360.00

**Donor:** Swedish International Development Cooperation Agency (SIDA); Austrian Ministry of Finance (BMF)



The project proposes programmatic assistance on the national, entity, cantonal, and municipal levels of government. The proposed project will provide critical regulatory, agribusiness, and investment policy tools to help BiH in its EU accession process, reduce the administrative burden to businesses, assist governments in attracting FDI and increasing exports, and assist in enabling a single economic space.

### **The Project Development Objectives:**

The project goal is to increase the competitiveness of BiH by assisting selected governments at all four levels in the country to achieve investment climate reforms. The proposed project will provide critical regulatory and investment policy tools to help BiH in its EU accession process, reduce the administrative burden to businesses, and attract FDI. In this respect, agribusiness will be a key sectoral focus of the project. The project is well on track with implementation, with project targets being met or exceeded six months before project close.

### **Results Achieved:**

Regulatory simplification work on the local, cantonal, entity, and national levels has led to direct and verified private sector savings for businesses in the amount of US\$6.49 million, and US\$106 million in savings in indirect costs (waiting and processing time for companies). This is a result of streamlining the process for licenses, permits, approvals, etc., reducing the processing time and fees, and eliminating information requirements and unnecessary documents in many cases. The project has also resulted in over US\$30 million in new investments/reinvestments in BiH facilitated by project partners.

Furthermore, a regulatory impact assessment has been introduced as a mandatory regulatory quality control mechanism in FBiH. This is the first time this kind of regulatory governance system was introduced in FBiH, aiming to improve the quality of regulations. In addition, several significant legal acts have recently been adopted: Law on Registration of Business and Law on Offenses in FBiH, Law on Spatial Planning and Construction in RS, Law on Construction in Zenica-Doboj Canton, Law on Construction in Tuzla Canton, and secondary legislation on provisions related to food information for consumers at the national level. In cooperation with the RS and FBiH Ministries of Agriculture, the Governments of RS and FBiH adopted strategies for increasing competitiveness and FDIs in three value chains (fruits, vegetables, and dairy).

Finally, transparency has been improved by creating online electronic registers at the national, entity, cantonal, and local levels (a total of 14 registers created), with online information about requirements for licenses, permits, costs, documents, and forms. Such information did not exist before in online format for each of the government levels.

**Key Partners:** Council of Ministers BiH, Government of FBiH, Government of RS, Governments of Zenica Doboj, Tuzla and Una-Sana Canton, Municipalities of Teslic, Zivinice, Vitez, Bosanska Krupa, Srebrenik, Tuzla, Ilidza, Zenica, Visoko, Prnjavor, Cazin. **Key Development Partners:** SIDA, BMF.

## REGIONAL PROJECT - ECA CORPORATE GOVERNANCE PROJECT BOSNIA AND HERZEGOVINA

### Key dates:

**Start Date:** May 01, 2012

**Effective:** August 30, 2013

**End date:** December 31, 2015

**Total Budget:** US\$4,480,091

**Donor:** Swiss State Secretariat for Economic Affairs (SECO), Austrian Development Bank (OeEB)



IFC will provide demand-driven corporate governance advisory services based on its established delivery methodology. Specifically, the project will: 1. Build on the capacity of certain partner institutions in selected countries in Europe and Central Asia (ECA) to deliver corporate governance services in their markets. The project will provide training/capacity building to partner institutions, based on IFC's corporate governance methodology and according to their needs and capacity. Such training is expected to include the training of trainers and lead to the development of sustainable training institutions. 2. Provide corporate governance advisory services to targeted companies with the aim of helping them improve their business performance and reach new investment and/or financing. 3. Provide advice to local regulators and other relevant stakeholders on the corporate governance framework.

### **The Project Development Objectives:**

- The project's overall goal is to improve the current state of corporate governance and the delivery of corporate governance services, building on corporate governance project activities previously undertaken by IFC in ECA. Through the project, IFC aims to leave a sustainable legacy for the delivery of corporate governance training and services by local institutions in selected countries. IFC also expects such partner institutions to raise sales revenue from the delivery of corporate governance services. IFC also aims, through its firm-level work in the ECA region, to improve the performance of companies, as well as their ability to raise financing, through recommended improvements to their corporate governance practices.

### **Results Achieved:**

Two local consultancies have been receiving intensive training in corporate governance and have started providing advisory services to companies (eight in-company engagements to date) based on acquired knowledge. The BiH Institute of Directors has been established with project support and is continuously receiving capacity-building support. Three comprehensive corporate governance assessments were conducted in BiH, including one for IFC investment client, Bekto Precisa. Comments on the FBiH Company Law have been provided as part of the Regulatory Impact Assessment process. One regional research and conference on board diversity organized, additional training activities for women on boards conducted. Support provided to the FBiH Chamber of Commerce to improve the competencies of board members in the state-owned enterprises.

**Key Partners:** Advantis Broker Banja Luka, SEE Business Solutions Sarajevo, BiH Institute of Directors, Bekto Precisa Gorazde, Tri Best Banja Luka, R&S doo Sarajevo, Sarajevo Stock Exchange, FBiH Chamber of Commerce, Banja Luka Stock Exchange, Women Entrepreneurs Association "ONE."

**Key Development Partners:** SECO, Austrian Development Bank (OeEB).

## REGIONAL PROJECT - BOSNIA AND HERZEGOVINA SEE REGIONAL TAX

### Key dates:

**Start Date:** October 16, 2012

**Effective:** August 30, 2013

**End date:** August 31, 2015

**Total Budget:** US\$2,598,745

**Donor:** Swiss State Secretariat for Economic Affairs (SECO)



The project/program will work to simplify tax administration procedures to reduce tax compliance costs, particularly for SMEs, and improve the legal framework and efficiency of international taxation procedures, with a focus on Transfer Pricing (TP) and Double Taxation Treaties (DTT). Specifically, the project will start by focusing on Albania, where it will provide advisory services to the Ministry of Finance.

### **The Project Development Objectives:**

- The project goal is to improve transparency and legal/regulatory certainty in tax procedures for international and domestic investors through the alignment of standards (TP and DTT) and simplified processes. The secondary goal is to improve overall compliance and contribute to an improved investment environment. The program will contribute and benefit from ongoing Tax Transparency and TP product development to quantify the link between international tax process alignment and investor decision making. The project has two objectives that will be achieved by the end of the project.

### **Results Achieved:**

The respective ministries of finance (national and entities) and tax administration have been receiving intensive training on key aspects of the legal framework for TP and DTT, covering topics such as permanent establishment, beneficial ownership, residencies, taxation of interests and dividends, and intra-group services. Both the FBiH Corporate Income Tax Law and the RS Law on Amendments and Changes to the Corporate Income Tax Law drafts are currently in their respective parliamentary approval processes.

**Key Partners:** BiH Ministry of Finance and Treasury, FBiH Ministry of Finance, Ministry of Finance of RS, Tax Administration of Federation of BiH, Tax Administration of RS.

**Key Development Partners:** SECO.

**REGIONAL PROJECT - TRADE LOGISTICS WESTERN BALKANS BOSNIA AND HERZEGOVINA****Key dates:****Start Date:** September 01, 2011**Effective:** August 30, 2013**End date:** June 30, 2014**Total Budget:** US\$2,152,061**Donor:** European Union

The Western Balkans Trade Logistics Project aims to reduce the regulatory and administrative bottlenecks to cross-border trade in the region through more streamlined export, import, and transit procedures; closer and more harmonized inter-agency cooperation in-country and between countries; and wider use of electronic systems for data exchange, risk-based controls, and trade logistics-related payments. The objective of the project is to improve the competitiveness of the private sector in the region through more efficient access to regional and global markets. The activities implemented by the project are to result in US\$10 million in private sector savings. The project is implemented by IFC in partnership with the EU and is being delivered in close cooperation with the Central European Free Trade Agreement (CEFTA).

**Project Development Objectives:** (i) Reduction in the number of documents and days needed for goods to be exported and imported; and (ii) Streamlined procedures for the flow of cargo by road, air, and river.

**Results Achieved:**

- The project has succeeded in increasing the working hours of the federal inspectors at the three most frequented border crossing points (BCPs) with Croatia (BC Izačić, BC Orašje, and BC Šamac-Domaljevac) in order to align them with the working hours of customs. About 70 percent of the entire trade volume for FBiH is conducted through these three border points. This alignment shortens the total lead time for the clearance of goods, resulting in savings for the private sector. According to data obtained from the agencies for 2013, this reform has shortened the lead time throughout the year for clearing goods by the phytosanitary agencies by a monthly average of 10.56 percent since January 2013.
- The project assessed the procedures of cargo flow at two ports on the river Sava. It also identified the absence of a customs post at the Brcko port, which was provided for in the legislative framework. The implementation of this post will be followed up on. The Council of Ministers adopted a decree on July 17, 2013, requiring the Indirect Tax Administration (ITA) to deliver a report about the establishment of a Customs Unit within the Port of Brcko within 30 days. However, the ITA turned down the establishment of a Customs Unit within the Port of Brcko.
- The project performed a review of the fees currently imposed by entity inspectorates and has made recommendations for reductions in both the number and amount. The project participated in the organization of a joint meeting of two entity inspectorates, which resulted in the signing of a Protocol about the harmonization of fees and procedures between these two inspectorates. The outcome of these initiatives was to lower the fees for the Quality Certificate at the border that is submitted by the Federal Directorate for Inspection Affairs FBiH by an average of 39.83 percent in direct costs.
- The project hosted the first Risk Management Methodologies workshop, which was designed as an introductory workshop in sanitary and phytosanitary (SPS) agencies in charge of regulating the import and export in/out of BiH. The goal was to discuss the perspectives of facilitating processes/procedures involved in trade and the need for practical opportunities to particularly improve risk-based SPS border controls. As an outcome of this event, the team has received open interest from the Veterinary Office of BiH for the implementation of work assistance. The practical work with the Veterinary Office of BiH has been completed, providing the SOP, Concept Note, and Annual Sampling Plan papers based on Risk Management (RM) Methodology. Completed the final practical training for the veterinary border inspectors. Implementation of the RM was in place at the start of 2015.

**Key Partners:** BiH Ministry of Foreign Trade and Economic Relations, Indirect Tax Administration, FBiH and RS Inspectorates.

**Key Development Partners:** EU, Austria Foreign Investment Advisory Services.

## **RECENTLY CLOSED WORLD BANK PROJECTS**

## BOSNIA AND HERZEGOVINA: FOREST AND MOUNTAIN PROTECTED AREAS PROJECT

### Key Dates:

**Approved:** May 29, 2008

**Effective:** April 16, 2009

**Closing:** October 30, 2013

### Financing in million US Dollars\*:

<i>Financier</i>	<i>Financing</i>
Global Environment Facility	3.40
<b>Total Project Cost</b>	<b>3.40</b>

### World Bank Disbursements, million US Dollars\*:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
Global Environment Facility	3.40	3.40	0.00

\*as of February 2014



BiH covers three globally significant ecosystems and several smaller-scale globally important sites. It is estimated that BiH has the highest proportion of threatened plant species of any European country, and yet by the mid-2000s, it had only 0.55 percent of land set aside as protected areas—the lowest level in Europe. Protected areas were generally underfunded, relying heavily on resource extraction for revenues. Additionally, staff working in protected areas had little or no experience in applied management approaches for ecosystems-based management and new management fields, such as sustainable tourism and participatory conservation. Broad consensus on expanding the protected area network existed in both entities, to protect key biodiversity and cultural assets and to provide new income opportunities for local residents.

**The Project Development Objective** was to strengthen the institutional and technical capacity for sustainable protected area management and expand the BiH network of forest and mountain protected areas.

**The Project** addressed key issues through support to: i) protected area development, including planning, monitoring, and building facilities; ii) enhanced capacity and support for biodiversity conservation; and iii) local initiatives in biodiversity conservation.

**Results achieved:** In FBiH, protected area management plans have been completed and adopted for the Una National Park and Blidinje Nature Park. In RS, all management plans and related protected area baseline ecological assessments for the national parks and forest reserves have been finalized. Numerous small works and rehabilitation efforts have been realized in all the protected areas, including tourist viewing centers, bicycle paths, and research and office accommodations. A capacity to address critical firefighting threats has been built. Overall, protected areas now make up about 2.6 percent of the land area, compared with only 0.55 percent at the time of Board approval.

**Key Partners:** The Bank team worked closely with: the BiH Ministry of Foreign Trade and Economic Relations, the Ministry of Tourism and Environment in FBiH; and the Ministry of Spatial Planning, Civil Engineering and Ecology in RS. They are also collaborating with the Ministries of Agriculture, Water Management, and Forestry in both entities along with cantonal and municipal institutions.

## BOSNIA AND HERZEGOVINA: ENERGY COMMUNITY OF SOUTH EAST EUROPE – ECSEE APL3-BIH

### Key Dates:

**Approved:** June 16, 2006

**Effective:** April 13, 2007; October 2008 (delay of 27 months)

**Closing:** June 30, 2012

### Financing in million US Dollars\*:

<i>Financier</i>	<i>Financing</i>
IDA Credit	36.00
Government of Bosnia and Herzegovina	8.64
Co-financers (EBRD, EIB, KfW)	250.00
<b>Total Project Cost</b>	<b>294.64</b>

### World Bank Disbursements, million US Dollars\*:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IDA Credit	36.00	36.73	1.44

\*as of August 2012

*Note: Disbursements may differ from financing due to exchange rate fluctuations.*



The countries of Southeast Europe, including BiH, the EC, bilaterals such as USAID and CIDA, and international financial institutions (IFIs) cooperated to develop a regional energy market—the Energy Community of South East Europe (ECSEE, now called the “Energy Community”)—and integrate it into the internal energy market of the EU.

**Project Objective:** This project facilitated BiH’s participation in the regional energy market through investments to improve dam safety; reduce adverse environmental impacts at thermal power stations; replace aging existing facilities and equipment at hydropower and thermal power stations; and rehabilitate distribution systems.

**The Project** maintained electricity generation in BiH at or above base levels. Environmental compliance improved at Kakanj, Tuzla, Ugljevik, and Gacko thermal power plants. Dam safety measures were recommended at Grabovica, Salakovac, Jablanica, Rama, Trebinje II, Visegrad, and Bocac hydropower plants. A previous project (Power III) started a pilot activity for the implementation of a Financial Management Information System, which has since been scaled up throughout the enterprise by EPHZHB; the other two power utilities (EPBH and EPRS) are also scaling it up. This system would help improve management control, governance, transparency in power trade and accounting, and the commercial integration of the BiH power system with the regional energy market.

### **Results achieved:**

- Environmental compliance improved at Kakanj, Tuzla, Ugljevik, and Gacko thermal power plants.
- Electrostatic Precipitator (ESP) at Kakanj is functioning better than the contracted performance levels and has helped improve air quality in the vicinity as registered by the project-supported environmental monitoring system, which is fully operational.
- Wastewater treatment, water cooling system rehabilitation, and ash handling at Ugljevik and Gacko have also helped improve environmental performance, through decreasing the overall environmental impact (emissions) into the environment and through the improved and more rational use of natural resources (primarily water).
- Better coal handling in Tuzla indirectly helps improve environmental performance through improved combustion of a more homogeneous coal mix.

**Key Partners:** BiH Ministry of Foreign Trade and Economic Relations; Ministries of Energy of FBiH and RS; EPBH (Elektroprivreda of Bosnia and Herzegovina), EPHZHB (Elektroprivreda of the Croatian Community of Herzeg-Bosnia); and EPRS (Elektroprivreda of Republika Srpska).

**Key Development Partners:** The EU supported power sector reform and restructuring under its technical assistance operations in the region and through its Phase program, in large part cofinanced with EIB, EBRD, and KfW.

## BOSNIA AND HERZEGOVINA: ROAD INFRASTRUCTURE AND SAFETY PROJECT

### Key Dates:

**Approved:** December 13, 2007

**Effective:** September 19, 2008

**Closing:** June 30, 2012

### Financing from all co-financiers, million US Dollars:

Financier	Financing
IDA Credit	25.0
Government of Bosnia and Herzegovina	5.0
<b>Total Project Cost</b>	<b>30.0</b>

### World Bank Disbursements, million US Dollars\*:

	Total	Disbursed	Undisbursed
IDA Credit	25.00	24.66	0.25

\*as of August 2012

*Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*



Although road traffic in and around the major urban areas in BiH was growing 5 percent per year, the quality of the road network was inadequate, despite a decade of substantial expenditures. Large expenditure needs that reflected a legacy of conflict and neglect were not fully met. Road safety remains a serious social and public health issue in BiH. The state of the road network, driver behavior and limited driver education, poor or nonexistent traffic law enforcement, and significant growth in vehicle ownership and use have increased traffic accidents—there were 436 fatalities and 8,470 injuries in 2004. The 2008 rates declined slightly to 5.3 fatalities per 10,000 vehicles, but the rate is still nearly three times higher than the EU27 average. Hence, road safety was a significant and growing concern that required a comprehensive response.

**The Project Development Objectives** were to reduce user costs on the priority sections of the trunk and regional roads, improve road safety, and modernize road maintenance practices.

**The Project** addressed a range of interconnected sector issues by (i) the financing of main and regional road and bridge rehabilitation; (ii) the financing of technical assistance to implement the recommendations of the 2007 Road Safety Management Capacity Review; and (iii) technical assistance on the introduction of output and performance-based road maintenance contracts on a pilot basis in each entity.

### Results achieved:

- Out of 241 kilometers of roads to be rehabilitated by the project and financed from IDA credit, 121 kilometers were rehabilitated in FBiH and 172 in RS, which has reduced project road-user costs by 11 percent in RS over 2007–12 and by 18 percent in FBiH between 2004 and 2012.
- There was significant progress on the development of the institutional framework for road safety, with the approval of entity-level road safety strategies and the establishment of a road safety agency in RS.
- Modernization of road maintenance was progressing more slowly, with a pilot-output and performance-based maintenance contract signed in March 2010 in FBiH and in June 2012 in RS. It is still too early to ascertain with accuracy the efficacy of the new maintenance method in FBiH.

**Key Partners:** The (i) Federation Road Directorate and the Republika Srpska Road Directorate; (ii) RS Ministry of Transport and Communications; and (iii) state and entity Ministries of Transport and Communications.

**Key Development Partners** included EBRD and EIB, which provided parallel financing as part of a program of US\$210 million of magisterial and regional roads rehabilitation, with the former providing US\$75 million and the latter €80 million (US\$105 million). The EBRD contributed to the introduction of output- and performance-based maintenance contracts, while the EIB financed preparation and design for rehabilitation work. Government of Norway.

## BOSNIA AND HERZEGOVINA: LAND REGISTRATION PROJECT

### Key Dates:

**Approved:** April 27, 2006

**Effective:** April 13, 2007

**Closing:** June 30, 2012

**Financing in million US Dollars:\***

<i>Financier</i>	<i>Financing</i>
IDA Credit	15.87
Government of Bosnia and Herzegovina	2.96
<b>Total Project Cost</b>	<b>18.83</b>

### World Bank Disbursements, million US Dollars\*:

	<i>Total</i>	<i>Disbursed</i>	<i>Undisbursed</i>
IDA Credit	15.87	14.19	1.68

\*as of August 2012

**Note:** *Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.*



Property registration systems in BiH have been in disarray since World War II, when many of the records and documents relating to property were destroyed. The situation was made worse during the 1992–95 war, when more records were lost and people were displaced, sometimes permanently, and legal records often no longer matched up. The informal development of large areas occurred because of the difficulty in getting permission to build or occupy property. The breakdown in institutional capacity and the deterioration of land and property records make it very difficult to complete basic real estate transactions, develop property, or borrow money based on property as collateral. Property development in urban areas is also restricted because of inadequate urban planning documentation and the uncertainty caused by a real property restitution initiative.

**The Project Development Objective** was to facilitate the orderly development of transparent land markets through the registration of real estate rights and complimentary policies that enable transactions to be made with security and efficiency.

**The Project** has addressed the issue of building effective registration and cadastre systems by (i) improving the transparency, speed, and accuracy of registering property transactions; (ii) improving the efficiency and speed of providing data on property units for clients wishing to register their property rights; and (iii) developing the strategies and draft legislation required for removing the impediments to business development and economic growth that exist in the land administration sector.

### Results achieved:

- New service standards developed and adopted. Registration took many months prior to commencement of the project in 2007, but now there are backlogs in only two courts: Banja Luka and Mostar. In FBiH, booklets explaining the service standards have been distributed to all courts for the public to review or take copies. A customer survey conducted in February 2010 across the country identified an increased quality of services and timeliness, the improved professionalism of staff, and better access to information.
- 97 percent of property folios digitized in RS and 96 percent in FBiH. 1.9 million hectares of cadastre maps have been digitized, exceeding the project target of 1.4 million hectares.
- Over 18,000 cases from the backlog have been resolved since 2007, at a time when new registration requests have increased by almost 100 percent. Improvements were made in service delivery and to the physical infrastructure of 37 offices, and opportunities for corruption have been largely eliminated. Requests can be processed in a matter of minutes.
- New legislation covering land registration, spatial planning, cadastre, property taxation, and regularization of informal developments have been drafted and some enacted during the period of the project.

**Key Partners:** At the state level (BiH), the project worked with (i) the Advisory Board, with the participation of each entity and the state government; (ii) the Ministry of Justice at the entity level; (iii) the Geodetic Administration (GA) in RS and municipal and cantonal governments in FBiH; (iv) Ministry of Finance at the state, entity, and cantonal levels; and (v) Ministry of Spatial Planning (at various levels).

**Key Development Partners:** SIDA, Austrian Development Agency (ADA), German Society for International Cooperation (GTZ), USAID, and the EU.

## **MIGA PROJECT BRIEFS**

<b>Project name</b>	<b>Mercator – BH Bosnia and Herzegovina</b>
<b>Project ID</b>	10174
<b>Fiscal year</b>	2012
<b>Status</b>	Active
<b>Guarantee holder</b>	Ljubljana (SID Bank, Inc.; Ljubljana) SID – Slovenska Izvozna in Razvojna Banka, d.d.
<b>Investor country</b>	Slovenia
<b>Host country</b>	Bosnia and Herzegovina
<b>Environmental category</b>	FI
<b>Sector</b>	Services
<b>Date SPG disclosed</b>	June 09, 2011
<b>Project Board date</b>	June 23, 2011
<b>Gross exposure</b>	US\$43.1 million
<b>Project type</b>	Non-SIP
<b>Strategic priority area</b>	IDA (blend)

On August 4, 2011, MIGA issued a guarantee of US\$43.1 million for reinsurance of the SID Bank, Inc.; Ljubljana coverage to the Mercator retail group (Mercator) in Bosnia and Herzegovina (BiH). MIGA is reinsuring the investment for a period of up to six years against the risks of transfer restriction, expropriation, and war and civil disturbance.

MIGA's support to SID Bank, Inc.; Ljubljana is in accordance with MIGA's mandate to cooperate with national entities of its member countries, as stated in MIGA's Convention. By providing facultative reinsurance, MIGA is allowing SID Bank, Inc.; Ljubljana to reduce its net exposure to Mercator and to free up capacity for other investment insurance projects.

Mercator is helping to stimulate exports between Balkan countries by carrying goods from the other countries in each of its retail locations. As a result, Mercator is expanding the venue for suppliers to sell not only in their respective countries, but also in neighboring countries where Mercator has an established presence. In addition, Mercator's further expansion in the Balkans, supported by SID Bank, Inc.; Ljubljana and MIGA, will provide employment and retail training opportunities in these countries.

MIGA is also helping to establish best practices with respect to corporate governance as well as environmental and social policies in the host countries.

<b>Project name</b>	<b>M – BL Bosnia and Herzegovina</b>
<b>Project ID</b>	10163
<b>Fiscal year</b>	2012
<b>Status</b>	Active
<b>Guarantee holder</b>	Ljubljana (SID Bank, Inc.; Ljubljana) SID – Slovenska Izvozna in Razvojna Banka, d.d.
<b>Investor country</b>	Slovenia
<b>Host country</b>	Bosnia and Herzegovina
<b>Environmental category</b>	FI
<b>Sector</b>	Services
<b>Date SPG disclosed</b>	June 09, 2011
<b>Project Board date</b>	June 23, 2011
<b>Gross exposure</b>	US\$37.7 million
<b>Project type</b>	Non-SIP
<b>Strategic priority area</b>	IDA (blend)

On August 4, 2011, MIGA issued a guarantee of US\$37.7 million for reinsurance of the SID Bank, Inc.; Ljubljana coverage to the Mercator retail group (Mercator) in BiH. MIGA is reinsuring the investment for a period of up to six years against the risks of transfer restriction, expropriation, and war and civil disturbance.

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MIGA is also helping to establish best practices with respect to corporate governance as well as environmental and social policies in the host countries.

<b>Project name</b>	<b>Mercator – BH Bosnia and Herzegovina</b>
<b>Project ID</b>	11034
<b>Fiscal year</b>	2012
<b>Status</b>	Active
<b>Guarantee holder</b>	Ljubljana (SID Bank, Inc.; Ljubljana) SID – Slovenska Izvozna in Razvojna Banka, d.d.
<b>Investor country</b>	Slovenia
<b>Host country</b>	Bosnia and Herzegovina
<b>Environmental category</b>	FI
<b>Sector</b>	Services
<b>Date SPG disclosed</b>	June 09, 2011
<b>Project Board date</b>	June 23, 2011
<b>Gross exposure</b>	US\$13.9 million
<b>Project type</b>	Non-SIP

On August 4, 2011, MIGA issued a guarantee of US\$13.9 million for reinsurance of the SID Bank, Inc.; Ljubljana coverage to the Mercator retail group (Mercator) in BiH. MIGA is reinsuring the investment for a period of up to six years against the risks of transfer restriction, expropriation, and war and civil disturbance.

MIGA's support to SID Bank, Inc.; Ljubljana is in accordance with MIGA's mandate to cooperate with national entities of its member countries, as stated in MIGA's Convention. By providing facultative reinsurance, MIGA is allowing SID Bank, Inc.; Ljubljana to reduce its net exposure to Mercator and to free up capacity for other investment insurance projects.

Mercator is helping to stimulate exports between Balkan countries by carrying goods from the other countries in each of its retail locations. As a result, Mercator is expanding the venue for suppliers to sell not only in their respective countries, but also in neighboring countries where Mercator has an established presence. In addition, Mercator's further expansion in the Balkans, supported by SID Bank, Inc.; Ljubljana and MIGA, will provide employment and retail training opportunities in these countries.

MIGA is also helping to establish best practices with respect to corporate governance as well as environmental and social policies in the host countries.

<b>Project name</b>	<b>ProCredit Group Central Bank Mandatory Reserves Coverage</b>
<b>Project ID</b>	9188
<b>Fiscal year</b>	2011
<b>Status</b>	Active
<b>Guarantee holder</b>	ProCredit Holding
<b>Investor country</b>	Germany
<b>Host country</b>	Bosnia and Herzegovina
<b>Environmental category</b>	FI
<b>Sector</b>	Banking
<b>Date SPG disclosed</b>	October 05, 2010
<b>Project Board date</b>	November 23, 2010
<b>Gross exposure</b>	US\$12.5 million
<b>Project type</b>	Non-SIP

On December 22, 2010, MIGA issued a guarantee of US\$12.5 million to ProCredit Holding (PCH), covering its investment in its subsidiary in BiH. The coverage is for a period of up to 10 years against the risk of expropriation of funds for mandatory reserves held by the subsidiary in the central bank of its jurisdiction.

This project is part of a master contract that MIGA has issued. PCH is headquartered in Germany and is the parent company of 21 banks (ProCredit group). The ProCredit group is a provider of finance to some 750,000 micro, small, and medium-sized enterprises (MSMEs) in Latin America, Eastern and Central Europe, and Africa. Throughout the world, banks are required to maintain mandatory reserves with the central banks of their respective jurisdictions. The ProCredit group's capital adequacy ratio (CAR) is calculated according to the German Banking Act. Under this act, at a consolidated level, reserves deposited at the various central banks can attract a risk weighting of 100 or even 150 percent, depending on the country. This risk weighting determines the amount of equity required to maintain a specified CAR in accordance with the German Banking Act.

The guarantee issued by MIGA will help PCH obtain capital relief from the CAR requirements. By obtaining MIGA's insurance against the risk of expropriation of funds, the risk weighting for mandatory reserves held at the central bank can be reduced. A lower risk weighting will allow PCH to free up equity currently tied up for CAR maintenance purposes, thereby allowing these funds to be injected into its subsidiary banks. This in turn will allow PCH's emerging market subsidiary banks across its network to increase their lending activities.

MIGA's support will help PCH optimize its capital management across its 21 banks, allowing PCH to direct equity to subsidiaries with the greatest need. These banks will be able to offer additional financial services to MSMEs at a time of macroeconomic challenges. Supporting productive small businesses will help stimulate growth, generate employment, and reduce poverty. MIGA's support for this project is aligned with the World Bank Group's microfinance strategy, which includes improving the supply of microfinance in large but underserved markets; enhancing deposit capacity by assisting microfinance institutions in savings mobilization; promoting capacity building; creating and shaping markets; and fostering innovation.

<b>Project name</b>	<b>Raiffeisen Leasing d.o.o. Sarajevo</b>
<b>Project ID</b>	7591
<b>Fiscal year</b>	2009
<b>Status</b>	Active
<b>Guarantee holder</b>	Raiffeisen Zentralbank Österreich AG
<b>Investor country</b>	Austria
<b>Host country</b>	Bosnia and Herzegovina
<b>Environmental category</b>	C
<b>Sector</b>	Leasing
<b>Date SPG disclosed</b>	April 11, 2008
<b>Project Board date</b>	June 12, 2008
<b>Gross exposure</b>	US\$47.7 million
<b>Project type</b>	Non-SIP

MIGA has issued guarantees of €33.25 to Raiffeisen Zentralbank Österreich AG (RZB) in Austria covering their €35 million shareholder loans to their subsidiary Raiffeisen Leasing d.o.o. Sarajevo (RLBH) in BiH. The loans will fund the RLBH's leasing portfolio. MIGA's coverage is for a period of up to six years against the risks of transfer restriction and expropriation of funds.

RLBH leases vehicles (including cars, trucks, and trailers), various types of equipment (including processing, packaging, and construction equipment), and industrial and office buildings. Loan proceeds are expected to be used to finance vehicle leases to micro and small-sized enterprises and car leases to individuals.

This project is expected to contribute to the development of the financial sector in BiH by improving access to finance, particularly to segments of the economy that are currently underserved.

The shareholder loans support RLBH's ongoing leasing business, thereby contributing toward the continued development and strengthening of the country's leasing sector. The leasing sector in BiH is still relatively small compared to West European countries. Small and medium-sized enterprises (SMEs) are especially expected to benefit from the development of leasing in the country, as they often do not qualify for bank financing and lack the capital to purchase fixed assets to grow their businesses. SMEs and corporates account for more than 90 percent of RLBH's leasing volume.

MIGA's support for this investment is aligned with the World Bank Group's country assistance strategy in BiH for 2008–11 and the country's development objectives, particularly with regard to improving the environment for private sector-led growth and convergence with Europe.



The World Bank  
Country Office in Bosnia and Herzegovina  
Fra Anđela Zvizdovića 1/B-17  
71 000 Sarajevo, Bosnia and Herzegovina  
Tel: (387-33) 251 500 Fax: (387-33) 226 945

<http://www.worldbank.org.ba>