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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

AND

INTERNATIONAL FINANCE CORPORATION

COUNTRY PARTNERSHIP STRATEGY

FOR

BOSNIA AND HERZEGOVINA

FOR THE PERIOD FY12–FY15

August 30, 2011

**South East Europe Country Unit
Europe and Central Asia**

**Europe and Central Asia
International Finance Corporation**

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The last Country Partnership Strategy (CPS) for Bosnia and Herzegovina, Report No. 41330-BA, was discussed by the Board of Executive Directors on December 14, 2007. The date of the last CPS Progress Report was April 15, 2009.

CURRENCY EQUIVALENTS

(Exchange Rate Effective June 30, 2011)

Currency Unit = BH Convertible Mark (BAM)

BAM 1.00 = US\$ 0.74

SDR 1.00 = US\$ 1.59

GOVERNMENT'S FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities
APL	Adaptable Program Loan
BEEPS	Business Environment and Enterprise Performance Survey
BERIS	Business Environment Reform and Institutional Strengthening Project
CEFTA	Central European Free Trade Agreement
CPS	Country Partnership Strategy
CPS PR	Country Partnership Strategy Progress Report
DPO	Development Policy Operation
EC	European Commission
ECA	Europe and Central Asia Region
ECSEE	Energy Community of South East Europe
EFTA	European Free Trade Association
EIB	European Investment Bank
ESW	Economic and Sector Work
EU	European Union
FDI	Foreign Direct Investment
FY	Fiscal Year
GDP	Gross Domestic Product
GEF	Global Environmental Facility
HBS	Household Budget Survey
HEI	Higher Education Institution
HIF	Health Insurance Fund
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IMF	International Monetary Fund

LSMS	Living Standards Measurement Survey
MIGA	Multilateral Investment Guarantee Agency
OECD	Organization for Economic Co-operation and Development
PIU	Project Implementation Unit
PPB	Public Procurement Bureau
QA	Quality Assurance
SAA	Stabilization and Association Agreement
SBA	Stand-by Arrangement
SEE	South East Europe
SME	Small and Medium Enterprises
SPIL	Social Protection Investment Loan
TA	Technical Assistance
TBD	To Be Determined
TF	Trust Fund
UNDP	United Nations Development Program
y-o-y	Year-on-year

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EXECUTIVE SUMMARY

i. **Bosnia and Herzegovina (BH) has accomplished a great deal since the 1995 Dayton Peace Accords helped bring an end to the worst bloodshed on European soil since World War II.** Most important, BH citizens and authorities have restored peace. Despite intense political debate and lingering ethnic division, there is no popular will for a return to violence. BH is a European Union (EU) potential candidate country and moving, though fitfully, toward alignment with EU *acquis* requirements. The authorities have also established a solid record of economic management. Between 1998 and 2008, per capita GDP nearly quadrupled and poverty dropped from nearly 20 to about 14 percent. Perhaps most impressive, a decade and a half after the end of fighting, BH's citizens have managed these achievements within a decentralized and highly complex political and institutional structure which frustrates decision making.

ii. **Critical development challenges remain.** First, the country is embarking on a new growth model dependent on exports in a period of slow growth and escalating financial volatility in Europe, while at the same time its neighbors are undertaking similar strategies. BH has to become more competitive. This will require upgrading in physical infrastructure, business environment and human capital. It will also require greater coherence in the country's highly decentralized administrative system to create a real "single economic space" *within* BH. Second, more needs to be done to complete the reform of the mostly "rights based" social benefit policy which diverts assistance from the truly poor and weakens the efficiency of the labor market. Third, BH is rich in natural resources and one of the most biologically diverse countries in Europe; but its natural resources need to be used sustainably. As throughout South East Europe, climate change threatens not only BH's natural beauty but key sources of growth, such as agriculture, forestry and hydropower.

iii. **Addressing these challenges will require overcoming the current political stalemate which is undermining coordination in key sectors and threatens the reform process.** A government coalition at the State (i.e. central) level has still not yet been agreed, nearly a year from the October 2010 national elections. Still, the Bank Team confirmed during extensive engagement with each Entity and at the State level that the authorities at all levels of government agree on the above challenges, and on proposed solutions. Moreover, for the past three years the State and Entity governments have been pursuing a jointly authored development strategy centered on macroeconomic stability and economic growth, employment and social cohesion, and sustainable development. Explicit in each of these pillars is the overarching goal of EU accession, which is identified as the strategy's guiding principle.

iv. **The Bank Group's objective during the FY12-15 CPS is to support BH through knowledge services and targeted financing, coordination with European financial institutions, and an expanding partnership with the EU, including EU co-financing of the Bank financed operations.**

- **Competitiveness:** Interventions in the early years of the CPS would include continuation of a Development Policy Operation (DPO) series to support macroeconomic stability, including public expenditure reform, and investments in irrigation, land registration, and regional transport, and through stimulating SMEs access to capital. In addition, IFC will continue to provide support through its advisory services in the areas of regulatory reform and regulatory simplification as well as investment policy work.
- **Social Inclusion:** The existing portfolio will continue to support improvement in living standards, including expanding access to primary health care through family medicine, as well as to basic public services; and on-going and new interventions, including, a DPO series, which will help reform the social assistance program to target benefits to the truly poor and strengthen pensions.
- **Environmental Sustainability:** BH is vulnerable to climate change. The Bank is supporting projects to help ensure the sustainable use of natural resources, such as water and forestry, with which BH is extravagantly endowed, and to prepare for growing risk of floods and droughts.

v. **World Bank Group support will be guided by four principles of engagement.**

- **Selectivity:** Limited financing and budget will place a premium on the strategic allocation of Bank resources. The CPS will see a major consolidation of the portfolio, which will free up resources for timely analytical products. Nevertheless, with fewer Bank-financed projects under implementation, staff will be able to meet the growing demand to implement externally (mostly EU) co-financed operations.
- **Flexibility:** A number of projects postponed from the previous CPS will absorb the bulk of new financing in the first years of the new CPS. The selection of interventions for the outer years will be determined at an early CPS progress review as reform priorities for the newly elected authorities evolve, and depending upon performance of the ongoing programs and availability of funds.
- **Results:** Notwithstanding a challenging environment in BH, the Bank Group is delivering significant results, with an efficiently disbursing portfolio meeting clear development objectives. This CPS has been developed to consolidate and build on these results.
- **Partnership:** Virtually all assistance will be designed to support BH's EU accession; and the Bank will continue to expand innovative partnerships with the EU and European financial institutions active in the Western Balkans to leverage external support and integrate programs.

vi. **The CPS is consistent with the Bank Group's regional strategy for Europe and Central Asia (ECA).** The Strategic Pillars of the ECA Strategy are: (i) Deepened Reforms for Improved Competitiveness; (ii) Social Sector Reforms for Inclusive Growth; and (iii) Climate Action for Sustainable Growth. This is appropriate as the challenges for ECA as a whole are similar for those in BH. The drivers of pre-crisis economic growth are unlikely to return quickly. Fiscal pressures and an increase in poverty have underscored the importance of efficient social spending. And while climate threats vary throughout the ECA region, BH, and southeast Europe in general, is highly vulnerable to climate change.

vii. **World Bank financing will remain constrained.** IDA credits are expected to amount to roughly US\$148 million, including IDA regional resources, and be allocated to five or six investment operations. Trust funds—particularly those financed by the EU—will complement and expand the scope of the WBG's operations.

viii. **IBRD financing during the CPS will focus on policy reform.** At present, IBRD resources would be limited to policy lending to leverage reforms initiated under the previous CPS. The current indicative plan, assuming an appropriate governance and macroeconomic policy framework, is to prepare the second in the DPO series (US\$100 million), which would aim at consolidating reforms in BH's social benefits system and advance reforms in public wages and pensions. Board presentation of this operation is tentatively planned for later in FY12. Additional IBRD lending to support the third DPO will depend on satisfactory country performance, demands from other IBRD borrowers, and IBRD's lending capacity.

ix. **IFC expects to increase financing to the private sector to a level of US\$80-\$100 million.** Financing will support competitiveness and sustainable development, with planned activities—direct financing and advisory services—in the financial sector, agribusiness and the energy sector. IFC also plans advisory services to promote PPPs in infrastructure services and support improvements in the country's business environment.

x. **The CPS is subject to two principal risks.** The first is continued political fragmentation; this would undermine crucial economic reforms, slow progress toward EU accession and disrupt the Bank's programmatic DPO series. Second, prolonged volatility and slow growth in the eurozone could stall BH's recovery and weaken efforts to implement Bank supported activities and undermine competitiveness.

I. COUNTRY CONTEXT

A. Political Context

1. **BH has established a solid record of economic and social achievement.** This record has come notwithstanding the extraordinarily complex institutional and political system defined under the 1995 Dayton Accords. Major accomplishments include more than 15 years of peace and stability; the resilience of democratic processes; a heroic reconstruction effort, the transition from a socialist to a market based economy; solid economic growth; improved living standards; progress on MDGs; and a substantial drop in poverty.

2. **However, the country is confronting fundamental questions of whether its highly complex political system is adequate to confront emerging development challenges, including EU accession.** After its successful reconstruction, BH remains stuck in a political, ethnic stalemate. The constitutional framework on which the country was created—the Dayton Accords—ended the conflict by locking post-war BH into two Entity governments—the Federation of Bosnia and Herzegovina (FBH), made up predominantly of Bosniaks (mostly Muslims) and a minority of ethnic Croats (mostly Roman Catholics), and the Republika Srpska (RS), populated predominantly by ethnic Serbs (mostly Orthodox Christians). It also includes a central—or “State” level—administration headed by a rotating presidency, but with few enumerated powers. This framework has allowed each Entity to undertake important measures sometimes in parallel, but generally independently. The continued effectiveness of the model is coming into question. In its November 2010 Progress Report on BH’s political and economic criteria for EU membership, the European Commission (EC) noted that BH’s institutional structure is inefficient, with rules that “complicate decision-making, delay reforms and reduce the country’s capacity to make progress towards the EU”.¹

3. **BH remains under a form of international supervision exercised by the High Representative (HR)/EU Special Representative (EUSR), supported by the Office of the High Representative (OHR).** The HR/EUSR has been exercising extensive legislative and executive powers (known as ‘Bonn powers’) in overseeing the implementation of the Dayton Accords. Despite broad agreement within the international community to transition from OHR to a EUSR-based model, progress towards meeting the criteria for this transition has been limited. The unclear timing of the transition adds additional uncertainty to the governance environment in BH. At the same time, the security situation on the ground has remained stable.

4. **Political tensions are bringing constitutional issues to the fore.** The key factor is the failure of the main political representatives to reach consensus on how political authority and even administrative competencies should be arranged to ensure continued progress towards the EU and to create conditions for the country’s sustainable economic development. Bosniak leaders generally favor a stronger central government, while representatives from the RS in general resist any accretion of State power, and argue that Dayton confers authority to the Entities. Leaders of Croat majority parties are concerned about their level of autonomy, since they share the FBH with the Bosniak majority. While Dayton envisioned a process of negotiation between the Entities toward agreement on additional responsibilities for the State level, constitutional negotiations have not yielded major breakthroughs, and the positions of the main parties are not converging. As the 2010 EC Progress Report notes, efforts at constitutional reform have produced “no tangible results”.²

¹ Bosnia and Herzegovina 2010 Progress Report (SEC) 2010, 1331, page 6.

² Bosnia and Herzegovina 2010 Progress Report (SEC) 2010, 1331, page 5. No changes to the Constitution were introduced even after the European Court of Human Rights issued in December 2009 a legally-binding decision

5. **The costs of the protracted and deepening inefficiencies are increasing.** First, while the respective governments have coordinated to draft a development strategy³, BH still lacks coherent country-wide sectoral policies in such strategic areas as energy, agriculture, education and transportation. The implications of this are significant, not just in deterring foreign investment, but for its effect on slowing progress toward EU accession, which remains a key stated objective of both Entities and popular with the general public. After signing the Stabilization and Association Agreement (SAA) with the EU in 2008, BH's path to EU accession has stalled. The latest EC Progress Report noted that "a shared vision of the direction to be taken by the country remains necessary for smoothly operating institutions, for creating more functional and efficient State structures and for speaking with one voice on EU and international matters"⁴. The stakes are clear. BH risks falling behind its neighbors on the path to EU membership.

6. **Fragmented governance also has implications for Bank support.** Given BH's decentralized governance structure, most Bank lending is implemented at the Entity level. In the past, funds were allocated by the State to the Entities based on a formula combining GDP, population, and war damage. During the previous CPS, the Bank and the authorities moved toward an allocation system based on demand and capacity to implement specific projects. In addition, the Bank has adhered to a principle that its financing would not undermine the development of a single economic space within BH nor progress toward EU accession. The possibility of allocating funds to the entities based on implementation performance was also explored, but the environment in BH has not allowed for progress in this area.

Recent Developments

7. **The political situation is at a stalemate.** The October 2010 elections were in many ways a promising moment for BH. The 56 percent voter participation was the highest on record. An entire generation with little or no memory of the war cast their first ballots. And civil society played a major role in not only turning out the vote but in shifting the campaign to at least some degree away from the ethnic politics which has dominated BH in the past. Almost a year later, however, a State level government coalition has yet to be formed. The RS formed its government in January 2011. The FBH formed a government in March 2011 after the electoral victory of a coalition lead by the Social Democratic Party. But the continued impasse within the FBH among political parties claiming to represent ethnic Croats threatens to deepen ethnic politics and delays an agreement at the State level. In September 2011 talks among all the relevant parties continue toward formation of a government coalition at State level, but have yet to yield results.

B. Economic Context

8. **BH is an open economy with good export potential and a GDP per capita of approximately BAM 6,500 (US\$4,500) in 2010.** Some 65 percent of value added is created in service sectors (retail trade, public administration and financial services, etc.) while the remaining 35 percent is split between manufacturing, 25 percent (industry, construction and energy production); and agriculture 10 percent. During the five years leading up to 2008, exports climbed more than threefold. The chief exports are base metals (aluminum, iron and steel at 18 percent of total exports); mineral fuels, oils and products (10

(Sejdic-Finci vs. BH case) that found the provisions that prevent citizens who do not identify themselves as belonging to the three constituent peoples from standing as candidates for the Presidency and the House of Peoples of the Parliamentary Assembly incompatible with the general principles of the European Convention for the Protection of Human Rights and Fundamental Freedoms

³ Both entities and state level teams have contributed to the strategy but it remains to date a *Working Paper*.

⁴ Bosnia and Herzegovina 2010 Progress Report (SEC) 2010, 1331, page 5.

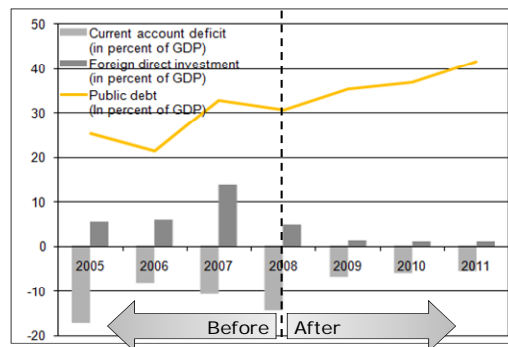
percent); machinery and mechanical appliances (9 percent); furniture (8 percent) and other wood products (7 percent). In 2010, BH exported roughly €3.5 billion, with its neighboring former Yugoslav republics—Serbia, Croatia and Slovenia and Montenegro—accounting for 40 percent of total exports; and Germany, Italy and Austria an additional 35 percent.

Performance before the late-2000s global financial and economic crisis

9. **BH’s pre-crisis growth model, like many transition economies in ECA, relied on foreign financing of booming domestic consumption.** Sustained economic growth was driven mainly by increases in productivity that relied on private-capital inflows. The reverse side of this coin meant that the transition countries had persistent current-account deficits of the balance of payments, i.e. the excess of domestic spending over the country’s total income. In the period from 2004-2008, BH’s GDP growth averaged 5.5 percent, while current account deficits (CAD) averaged 12.5 percent of GDP annually.

10. **Some notable progress on structural reform helped BH’s pre-crisis growth performance.** The completion of privatizations in the metal and wood-processing industries played an important role in the growth of exports. The signing of the SAA further liberalized trade with the EU, paved the way for more EU funds and provided a clear road map for reform. Corporate and personal income taxes were lowered and harmonized across the Entities. Entity Governments took concrete steps to settle domestic claims stemming from the 1992-1995 war in order to improve fiscal sustainability.

11. **A blend of foreign direct investment (FDI), grants and foreign credit financed the CAD.** FDI averaged 7 percent of GDP per year, covering an average of about 44 percent of the CAD between 2004 and 2008, and rising capital account transfers covered another 24 percent during the same period. Debt-creating inflows were largely channeled through international banks incorporated in BH. During this time the authorities built foreign exchange reserves which peaked in 2008 at 6.8 billion KM or 5.5 months of imports.



12. **Commercial bank credit to both households and firms was instrumental in supporting growth throughout this period.** The privatization of commercial banks in BH led to a transfer of ownership to foreign banks⁵ with ready access to cheap financing from their parents abroad. During the 5-year period prior to the onset of the global economic crisis, commercial bank credit to the private sector increased from 37 percent of GDP to 58 percent. Credit to households increased from 23 to 27 percent of GDP between 2004 and 2008. The quality of banking assets remained strong and non-performing loans amounted to less than 3 percent prior to the onset of the economic crisis.

13. **Given the complex political structure and incomplete and stalled privatization process, the public sector plays a very significant role in the economy.** During the reconstruction period (1996-2002) public spending hovered around 50 percent of GDP. Consequently, public employment still represents some 18 percent of official employment in the country, even after some reductions in public expenditure. Furthermore, provision of public administration, education and health care services accounts for 20 percent of value added in GDP.

⁵ 90 percent of bank equity and 95 percent of bank assets are BH is foreign owned.

14. **After a period of improvement between 2004 and 2006, public fiscal management deteriorated sharply in 2007-2008 and growing public expenditure contributed to the widening CAD.** The share of public spending in GDP fell to around 43 percent between 2004 and 2006 and years of fiscal deficits were turned into surpluses. However, following the successful introduction of indirect taxation in 2006 and the associated revenue windfall, fiscal performance deteriorated in 2007 and 2008 as public expenditure increased substantially, magnifying the impact of the rapid private demand growth on the CAD. Overall, in the lead up to the crisis, public expenditure grew faster than GDP, with spending on public sector wages and social benefits leading the way. This resulted in widening current account deficits and a spike in inflation. In 2008, the current account deficit peaked at 14 percent of GDP or €1.8 billion.

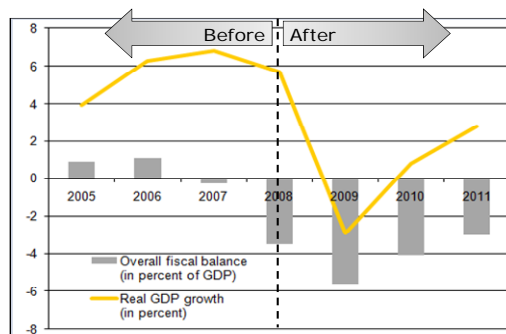
Bosnia and Herzegovina: Change, 2005-08 (Percent)	
GDP, nominal	44
Consolidated general government	
Revenue	53
Expenditure	68
Wages	60
Social benefits	72
Consolidated Federation government	
Expenditure	60
Wages	35
Social benefits	74
Consolidated RS government	
Expenditure	79
Wages	72
Social benefits	69

Sources: CBBH data; and IMF staff calculations.

Impact of the crisis

15. **The global economic and financial crisis was transmitted to BH in three ways.** First, the slowdown in the EU triggered a collapse in the demand for BH's exports—some 55 percent of BH exports go to EU markets; and nearly all go to countries largely dependent on EU growth. Second, the crisis severely curtailed cross-border financial inflows and the pre-crisis credit boom came to a sudden stop. The rapid credit growth – in excess of 20 percent annually – came to halt and has not returned since. The banking system came under strain, as the spate of negative news about foreign banks with subsidiaries in BH triggered a mini-deposit run in late 2008. However, no banks failed as a result of the crisis. Third, the remittances from the diaspora working and living abroad slowed. In other words, the growth model enjoyed during the 2000s largely disappeared.

16. **Declines in GDP (2009 real GDP contracted by 2.9 percent (which represents an almost 9 percentage point drop in the GDP growth rate compared to 2008) and the associated drop in revenues exacerbated fiscal outcomes.** Because of expansionary fiscal policies in 2007 and 2008, the deficit reached 3.5 percent of GDP in 2008 despite strong revenue growth. The budget deficit increased to 5.6 percent in 2009, as the country entered a recession.



17. **Confronted with this situation, the BH authorities recognized that even with a strong adjustment in fiscal policy, continued extraordinary financing would be needed to meet the remaining fiscal gap and boost foreign exchange reserves.** They approached the IMF, the World Bank and the EU for assistance with external financing. The Government has since taken emergency measures to reduce public expenditures and concluded a Stand-by Arrangement (SBA) with the IMF amounting to US\$1.52 billion, which was approved by the IMF board in July 2009. The bulk of the measures in this program pertain to the reduction of the fiscal deficit through both short-term cuts and structural reforms, but the authorities also committed to strengthening financial sector oversight and reconfirmed their commitment to maintain the Currency Board.

C. Social Development Context

18. **The 2008 economic and financial crisis halted solid poverty reduction, and it is too early to determine the lasting impact.** The 2009 Poverty Update showed that positive sustained GDP growth over 2004-2007 had been associated with a reduction in the poverty rate from 18 percent to 14 percent⁶ — strong progress toward meeting the 2015 MDG target of 9 percent. The reversal of GDP growth in 2008 is likely to have eroded some of these achievements. Despite the lack of recent data, evidence suggests a significant slowdown of poverty reduction in BH. The most recent available poverty data is the 2007 Household Budget Survey. While a full assessment of recent poverty trends will have to wait for a new HBS currently in the field (first findings are expected in June 2012), available evidence points in the direction of a significant impact of the recent contraction on the lower income groups. Indeed, one survey found⁷ that more than 60 per cent of households reported to have been seriously affected by the crisis. This compares with an ECA average of about 50 percent.

19. **The crisis is having substantial effect on living standards.** The crisis halted nascent job creation in BH, leaving the country with an unemployment rate in 2010 of 27 percent⁸. Reduced remittances flows are reported by more than 50 percent of the population, and reduced wages by almost 40 percent of total. These labor market trends put significant strain on household welfare. A quarter of the population (30% in rural areas) reported having reduced the consumption of staple foods such as milk, fruits, vegetables or bread, and 10 percent of the population had to delay payment of utilities (3% had utilities cut due to non-payment). Almost 10 percent of the population report having had to delay medical visits when sick, and 4 percent of the population report having to stop buying necessary medicines. Those changes were undertaken after items more easily dispensed with had been eliminated.

II. RECENT ECONOMIC DEVELOPMENTS, OUTLOOK AND RISKS

20. **Following a sharp slowdown in 2009, the BH economy is estimated to have returned to growth of 0.8 percent in 2010, with the recovery gaining momentum toward the end of the year.** The rebound was modest because growth in private consumption was constrained by the legacy of the recession in 2009, including increased unemployment, and by the measures taken to rein in the budget deficit, such as cuts in public-sector wages and social welfare benefits. Private investment growth was also close to zero.⁹ The contribution to growth was due, in part, to the recovery in external demand.

21. **The current account deficit (CAD) adjusted quickly following the onset of the crisis and was cut in half to 6.2 percent of GDP in 2009, and continues to edge lower in 2010 (estimated 5.6 percent of GDP).** For 2010, BH recorded a marked improvement in the trade balance as the trade deficit contracted by 4.5 percent year on year in local currency terms. Exports soared by 18.9 percent year on year, albeit from a low base, with the rise reflecting both a growth in the volume of foreign sales and the impact of higher international prices for some of BH's main exports, such as base metals and electricity.

⁶ Estimates use absolute poverty, i.e., percentage of population living below the poverty line defined as the consumption level of 205 BAM per person per month.

⁷ The 2010 BH-LITS-II survey which was fielded to update our understanding of the socio-economic trends in BH in the absence of other recent nationally representative household survey.

⁸ This is the unemployment rate as measured by the annual Labor Force Survey (May 2010) with unemployment rate differing between men (25.6 percent) and women (29.9 percent). Unemployment rate was the highest among the youth (ages 15 to 24) at 57.5 percent (55.1 percent for young men and 61.3 percent for young women). Administrative data show unemployment reaching 43.3 percent at the end-2010.

⁹ There are no data on private investment, but nominal growth of long-term credit to the private sector of 1.9 percent, indicates very small or non-existent private investment growth.

Imports rebounded more modestly, by 9.1 percent year on year, as a result of depressed import demand, because of weak economic growth and stagnating levels of domestic consumption. Rising international oil and other commodity prices accounted for the growth in imports, a key vulnerability of BH economy. The full-year trade deficit shrank to KM6.5 billion from KM6.8 billion in 2009.

22. **Although the measures taken in the context of the SBA have increased confidence in the financial system, restoring credit to the private sector has been more challenging.** Household deposits have been flowing back into the banking system, and in December 2010 reached a level that is 24 percent above the low point of two years earlier. While the banking sector remained stable throughout the downturn, banks have seen nonperforming loans rise, and their profitability has dropped which has curtailed lending. In 2010, credit to the private sector grew by a mere 1.9 percent. The need to maintain adequate provisioning and to rebuild capital cushions will likely continue to hold back credit growth.

23. **The budget deficit was brought down in 2010 to 4.3 percent of GDP.** The measures implemented in the context of the IMF program were critical to deficit reduction in 2010. In addition, by adopting the necessary legislation as a part of the prior actions for the first in the series of three Public Expenditure DPOs, the Entities have also taken the first step toward a fundamental reform of the system of veteran and civilian cash-transfer benefits. Given the delay in formation of governments following the October 2010 general Elections, however, the progress on implementation of these reforms have been slow.

24. **There have been some recent adverse developments on the fiscal front.** Due to the lack of agreement between Entities as well as between the Entities and State on a Global Fiscal Framework for 2011 (a key requirement under the SBA) and consequent allocation of the indirect tax revenues from the single revenue account, the IMF has not been able to complete the fourth review. The combined second and third review of the SBA was discussed by the IMF Board in October 2010. The fourth review was to have taken place in early spring 2011, but was delayed. The disagreements over the Global Fiscal Framework and over the sharing of revenues have led to budget plans for 2011 that might not be entirely consistent with the SBA deficit targets.

Outlook over the CPS period

25. **Future economic developments depend critically on the willingness and ability of the authorities to: i) form a viable State-level coalition following the elections and ii) make appropriate policy decisions.** In both Entities efforts to contain fiscal deficits need to be focused on the expenditure side instead of the revenue/financing side. This will require steps to contain the public sector wage bill and cash transfer programs. The remainder of this section and path of macro indicators presented in Table 1 are consistent with the IMF program. They assume the authorities are able to take these steps, that there is an agreement on the fiscal framework, and that the IMF SBA remains on track.

26. **Under the baseline scenario, the recovery in growth will primarily be export-led, based on import demand recovery in the Western Balkans and the EU, although investment and consumption growth is also expected to pick up gradually.** The projected rates of growth (see Table 1 below) reflect a recovery of main export sectors based largely on the prospects for import demand growth in the EU and the region. After a strong recovery in 2010, BH export growth is projected to moderate from a high of 18.9 percent in 2010 to 11.0 and 5.7 percent 2011 and 2012 respectively.

Table 1: Recent Economic Developments and Outlook

	2008	2009	2010	2011	2012	2013	2014	2015
	Actual		Est.	Projected				
Real Sector								
Real GDP growth (percent)	5.7	-3.1	0.8	2.2	4.0	4.3	4.5	4.5
Investment (percent of GDP)	28.0	22.1	19.5	20.6	20.7	21.2	21.6	22.1
Unemployment rate (percent), LFS	23.0	25.0	27.0	27.0	26.0	26.0	25.0	25.0
Fiscal Accounts (percent of GDP)								
Revenues, including grants	46.0	44.7	45.8	46.4	46.3	46.3	46.3	46.4
Expenditures	49.5	50.3	50.1	49.1	48.0	47.3	46.8	46.3
Balance, including grants	-3.5	-5.6	-4.3	-2.7	-1.7	-1.0	-0.5	0.1
General Government External Debt	17.2	21.7	24.4	26.2	25.3	23.7	21.6	20.2
General Government Total Debt	30.8	35.4	37.4	38.6	37.4	34.9	31.9	29.1
External Accounts (percent of GDP)								
Current Account Balance	-14.2	-6.2	-5.6	-6.1	-5.8	-5.7	-5.4	-5.3
Exports of Goods and Services	36.8	32.0	37.6	42.0	41.7	40.9	39.9	38.4
Imports of Goods and Services	69.9	55.3	59.4	64.5	63.1	61.7	60.5	59.0
Foreign Direct Investment (FDI)	5.0	1.5	0.1	1.2	1.8	2.0	3.4	3.7
External Debt	48.9	54.1	56.8	56.7	57.0	56.7	54.7	53.0
Reserves (months of imports of G&S)	5.7	5.1	5.2	4.5	4.4	4.2	4.0	4.0
Inflation								
Consumer Prices (period average)	7.4	-0.4	2.1	4.2	2.5	2.5	2.6	2.7

Source: BH Authorities and IMF and WB staff estimates.

27. **The current account is expected to continue to adjust gradually over the forecast period with the concurrent strengthening of the financial account.** In the near term the CAD will widen on the back of higher global food prices (BH is a net food importer). However, going forward, the CAD will continue to narrow driven by dampened domestic demand that will remain below pre-crisis levels and by the recovery of global prices for BH's main commodity exports, mineral fuels, oils and products, metals, and wood products. Remittances will continue to be a major part of the foreign financing as the economic recovery takes firmer hold in the US and the EU. Official remittances are expected to stabilize at 12 percent of GDP. Foreign Direct Investment is forecast to make a gradual recovery (from 0.1 % of GDP in 2010 to 3.7 % in 2015) with the resumption of the stalled privatization process and further improvements in the business environment. Both bank and private sector foreign borrowing are set to recover from post-crisis lows as investment and consumption recover in the second-half of the forecast period.

28. **Inflation is forecast to remain low on the back of lower than pre-crisis domestic demand.** However, given that BH is a net food and oil importer, external price shocks could have a significant impact on the overall domestic price level as was the case in 2008 when average inflation reached 7.4 percent. This is evident once more in May 2011 as the inflation reached 4.2 percent (year on year) as the external price shock from increases in global food prices towards the end-2010 was transmitted to BH.

29. **Fiscal adjustment is the key to this macro scenario and is expected to continue gradually over the medium term: from a deficit of 4.3 percent in 2010 to balance in 2015.** Revenues are projected to remain broadly the same as a share of GDP over the forecast period (around 46.3 percent of GDP), while fiscal consolidation, planned structural reforms of social and veterans' benefits under the DPO series, and containment of the public wage bill are expected to generate savings on the expenditure side (from 50.1 percent of GDP in 2010 to 46.3 percent in 2015). This adjustment is expected to take place in an orderly manner with IMF, WB and EU budget support.

Debt Sustainability

30. **Notwithstanding the need to secure additional external financing as outlined above, the macroeconomic framework presented ensures a sustainable debt level over the medium term, although some vulnerability to shocks remains.** Largely as a result of the increase in public sector borrowing (during the crisis and in the post-crisis fiscal consolidation period), external debt (both public and private) is expected to grow from 49 percent in 2008 to 57 percent in 2012, but to fall thereafter. External public debt would grow from 17 percent in 2008 to 26 percent in 2011, while total public debt would grow from 31 percent in 2008 to 39 percent in 2011 and fall thereafter. The debt appears sustainable under the base-case scenario of the IMF debt sustainability analysis embedded in the overall macroeconomic framework which assumes sustained fiscal consolidation through the implementation of the planned reforms. The scenario would be vulnerable to (unlikely) currency depreciation, a non-interest CAD shock, an unexpected slowdown in GDP growth and inadequate fiscal consolidation. In particular, a depreciation of 30 percent would imply an increase in the debt level to around 85 percent of GDP.

31. **As mentioned, the medium-term macroeconomic framework is not yet fully defined and there are clear and substantial risks associated with this macroeconomic scenario.** External economic developments and the pace of economic recovery in key export markets is both uncertain and beyond the control of the authorities. Political tension and lack of viable state-level coalitions following the October 2010 General Elections bring clear risks for implementation of reforms including fiscal measures that are needed and may even have to be further adjusted over time. The Fiscal Council needs to come to agreement on the fiscal framework, after which the financing arrangements involving the IMF, EC and the World Bank can fall into place. If this is done in a manner that includes the reform measures that are envisaged under both the SBA and DPO series, BH debt will remain sustainable.

III. BOSNIA AND HERZEGOVINA'S DEVELOPMENT CHALLENGES

32. **This CPS builds on an analysis of BH's key development challenges.** To support its EU aspirations and to continue to improve the quality of people's lives, BH will need to address three critical and interrelated development challenges: (i) sustain growth through improved competitiveness; (ii) reform public finances and institutions to improve service delivery and make growth more inclusive; and (iii) achieve the sustainable use of the natural resources, including by adapting to climate change. Lack of progress in tackling weakness in governance may undermine any progress on these challenges.

A. Sustain Growth and Improve Competitiveness

33. **The most pressing challenge is to restore sustainable economic growth under dramatically changed international conditions.** The economy will need to be more competitive and attractive to foreign financing, particularly investment. This fundamentally means to shift from a model based on domestic consumption to one reliant on investment and exports. From one led by the public sector to one where the private sector is the main engine of growth. And from one based on financing from foreign

banking sources to one financed more by FDIs and domestic savings¹⁰. However, the highly supportive international environment prevalent until 2008 is not likely to materialize in the near future. The drivers of the current modest rebound in economic growth are at best uncertain, if not temporary. Thus the foundations for sustained growth over the medium and long-term are still to be laid.

Business Environment and Private Sector Development

34. **Regulatory quality has improved in recent years, but at a slower pace than in neighboring countries.** This has resulted in a relative deterioration of the country's international competitiveness. Indeed, many aspects of the regulatory environment have stagnated in the past three years. According to the 2011 *Doing Business* report, BH continues to fare poorly in terms of starting a business (160th place out of 183 economies); dealing with construction permits (139th place); paying taxes (123rd place); and enforcing contracts through the courts (104th place). The country has made some progress in speeding up some of these processes (notably property registration ranking improved from 141st place in 2010 to 103rd in 2011). A subnational *Doing Business 2011 Report* found that construction permits and business registration procedure was significantly simplified in Banja Luka and Sarajevo. Banja Luka was one of top reformers in the region where the time necessary to register a business was reduced from 51 to 21 days. Nevertheless, other countries, including BH's neighbors, have improved their business environment at a faster pace. According to some indicators, the overall burden the "red tape" places on business remains a problem. The most recent Business Environment and Enterprise Performance Survey (BEEPS) indicates that the 'time tax' (i.e. share of senior managers' time spent dealing with public officials) increased during 2005-2008 from 5 to 13 percent.

35. **In the corporate sector, a key priority for the country is to further reduce the role of the state, including through the privatization of important companies particularly in the metals and telecommunications sectors.** The sale of publicly owned stakes in companies is expected to resume in 2011-12, particularly in the FBH, but the Entities still lack a clear and transparent privatization strategy. Also, many companies privatized in the past by a voucher system have poor corporate governance and need to be either restructured or entered into bankruptcy. One important consequence of the SAA is the reduction or abolition of customs duties on a wide range of imports from the EU. This is already well under way, and will continue to increase competition for many local producers.

36. **The authorities have taken important steps to strengthen corporate sector accounting.** The State and Entity Level Ministers of Finance approved the BH Accounting and Auditing ROSC, which was disseminated in Sarajevo in June 2011. The report contains policy recommendations designed to guide the authorities in the further development of the corporate financial reporting system towards the requirements in this area for eventual EU membership. The Vienna based CFRR is now working with the stakeholders in financial reporting reform to develop a proposed project for potential EU funding to support implementation of the ROSC recommendations.

Governance, Rule of Law and Public Sector Management

37. **Political stability and government effectiveness remain the weakest dimensions of governance in BH.** These weaknesses are closely related to the country's complex institutional architecture and the political dissonances between the Entities, which have repeatedly led to impasses in decision-making, have blocked major policy and institutional reforms and have hindered decision-making by the national Fiscal Council. EU accession remains the entry point for governance reform.

¹⁰ IMF presentation "Bosnia and Herzegovina: Macroeconomic Situation in 2011" by Milan Cuc. May 31, 2011, Sarajevo, EU Counselors Meeting.

38. **The rule of law has been strengthened, but BH's courts are slow by sub-regional standards.** Public trust in the judicial system has improved modestly and is higher than in neighboring countries, as shown by surveys of firms and the general public. However, firms report dissatisfaction with the slow judicial process. According to the 2011 *Doing Business* report, it takes some 19.5 months to enforce an outstanding claim through the court. The latest progress report from the EC states that "the development of an independent and effective judiciary in line with European standards remains at an early stage. Significant efforts are needed to ensure implementation of the justice sector reform strategy. The fragmented legal framework across the country and the absence of a single budget restrict effectiveness. The backlog of cases and political pressure on the judicial system continue to be cause for concern."¹¹

39. **Citizen satisfaction with public services has improved significantly in recent years, but petty corruption in public services remains a concern, according to the 2010 Life in Transition Survey.** On the other hand, the reported frequency of unofficial payments appears to have increased somewhat, particularly in the public healthcare system. According to the 2010 Global Corruption Barometer survey conducted by Transparency International, 23 percent of respondents from BH reported paying a bribe in the past 12 months (compared to 5% in Croatia; 16% in Kosovo; 17% in Serbia; and 21% in FYR Macedonia), placing BH in the group of countries with medium levels of petty corruption.

40. **While BH has undertaken important efforts to increase accountability in government, corruption remains a serious problem.** The 2010 EC progress reports notes that BH "has started to tackle corruption by adopting an updated anticorruption strategy, and by appointing an acting director who is overseeing the implementation and the establishment of the anti-corruption agency. However, corruption remains prevalent in many areas and a serious problem throughout the public and private sectors. Anti-corruption policies and measures are not adequately implemented."¹² Still, the effects on firms have declined. The most recent round of the BEEPS (2008) showed that reported bribe frequency had declined significantly since 2005 and was lower than in the ECA and South European averages, though it remained above EU 10 levels. The reported incidence of unofficial payments is highest in applying for construction permits (14 percent of firms said such payments were frequent), in obtaining an electricity connection (13%), and applying for import licenses (9%).

41. **The 2010 SIGMA report¹³ states that "the Public Procurement Law adopted in 2004 generally complies with the main principles of the EU public procurement system, although several discrepancies remain".** The implementation of the Public Procurement Law (PPL) needs improvement and the central public procurement institutions (Public Procurement Agency and Procurement Review Body) are not sufficiently pro-active in disseminating information on the public procurement system and in providing contracting authorities (and economic operators) with practical assistance. The administrative capacity of contracting authorities and the professional ability of procurement officers to properly implement the system remain unsatisfactory. BH's business community perceives the public procurement practices as frequently unprofessional, prone to corruption and political pressure. However, there has been no significant change in the legislative framework of public procurement, and there has been no significant progress in the area of public procurement since the PPL was adopted in 2004.

¹¹ Bosnia and Herzegovina 2010 Progress Report (SEC) 2010, 1331, pages 12-14

¹² Bosnia and Herzegovina 2010 Progress Report (SEC) 2010, 1331, pages 14-15

¹³ SIGMA is a joint initiative of the European Union (EU) and the Organization for Economic Co-operation and development (OECD), principally financed by the EU.

42. **In most areas of public financial management (PFM) progress was made, though opportunities remain for further strengthening.** Some priorities brought to the attention of the Bank include: knowledge exchange and training on performance auditing for supreme audit bodies; unique macroeconomic forecasting tools, particularly for public revenues; improvement in centralized wage payment systems; internal audit of program-based activity; capital investment management in the cantons; implementation of IPSAS accounting standards; drafting and implementation of the fiscal responsibility law. Weaknesses have been identified in the operation of PFM where targeted technical assistance could help. In particular, support for improving the functioning of the global financial framework, improving the quality and consistency of financial information and strengthening cross government systems and standards offer opportunities to engage in priority areas that could make a significant impact. There would also be benefit from efforts to improve financial management, governance and oversight in state owned enterprises and concessions building on the findings of the Bank's 2007 review.

Transport Infrastructure

43. **BH's Development Strategy recognizes the importance of stepped-up transport capacity.** It notes as a top priority: "*achieving and increasing mobility of goods and people, and contributing to overall sustainable social and economic development.*"¹⁴ The country has therefore committed to an ambitious agenda of upgrading transport capacity and to meeting EU Transport policy standards. In 2010, the Bank produced a Transport Sector Review¹⁵ to enhance dialogue inside BH toward the development of a national transport policy, and focused on the following areas.

- **Roads:** About half of BH's road network is in good condition. A large portion of the network has been rehabilitated since the end of the war, mainly through external financing, leading to a significant improvement of road conditions. Nonetheless, the emergency nature of the interventions led to the use of rudimentary techniques, mainly patches and overlays. This is particularly true in rural areas—about one million BH citizens cannot reach other parts of their village or town via a paved road. The institutional structure in the sector is complex and costly. There are too many institutions in BH, with separate arrangements for motorways in both entities. Another major issue is road safety, with road traffic accidents costing BH 1.5 to 2 percent of GDP, representing the second largest cause of death and injury. The recent adoption of the 2009-2013 Road Transport Safety Strategy and the RS Law on Road Transport Safety by the RS National assembly is a step in the right direction.
- **Rail:** Rail can be an important part of BH's transport system. Indeed, both passenger and freight traffic had been growing, and projections prior to the 2008 crisis pointed to a doubling of freight traffic by 2015. But tracks need to be overhauled, and tunnels and bridges rehabilitated. Sector management is, again, highly decentralized, with a rail company in each Entity; a state-level rail corporation was established in 1998, but it has few concrete responsibilities and limited budget and staffing. By contrast, both Entity railway companies are overstaffed.
- **Inland Waterways:** BH's extensive networks of waterways provide an efficient and sustainable mode of transporting goods and people within and outside the country. Before the war, for example, the Sava River, running through Slovenia, Croatia, BH and Serbia, played a critical role in the region's transport network. Total freight carried on the river in 1990 amounted to 5.2 million tons; by 2008, volumes had dropped to 400,000 tons. The Bank is currently preparing the Sava River Navigability project to increase navigability of River Sava and provide an alternative transport corridor linking BH with neighboring Croatia and Serbia. This regional operation is prepared and financed in cooperation with the EC.

¹⁴ BH Department of Economic Planning, Strategy of Development of Bosnia and Herzegovina, May 2010 p. 102

¹⁵ Bosnia and Herzegovina: The Road to Europe – Transport Sector Review; 2010

Energy

44. **The energy sector is characterized by high energy intensity, high carbon emission intensity, and significant potential for improving energy efficiency.** BH's power sector is not only able to meet domestic demand in full but also to export substantial electricity to the regional market. Of about 4,000 MW installed capacity, one third is hydro and the remaining is thermal. BH has significant reserves of coal, but its mines are inefficient, and, partly due to the decline in demand, coal production is no more than half of the production levels in the 1990s. Almost all oil is imported and about 80 percent is used by the transport sector. For natural gas, used primarily for heating, BH depends on only one supplier, making it vulnerable during winter to supply disruptions. The District Heating utilities supply about 12 percent of household demand while the remaining is met through electricity, wood biomass, and gas.

45. **The three power generation and distribution utilities are generally well performing, both operationally and financially.** Recent measures have also helped bring the transmission network into compliance with its obligations under the Energy Community Treaty. Challenges remain, however:

- **Invest in new power facilities.** Over the next eight years, BH needs to invest about €6 billion for rehabilitation and construction of new power plants, which will require private sector financing.
- **Improve energy efficiency.** Buildings are poorly insulated and savings could exceed 30 percent. A “no-regret” action would be to start with energy efficiency in public buildings. Saved energy through end-use efficiency would become available for export.
- **Develop renewable resources.** Exploit the substantial hydro potential as well as wind power by adopting appropriate policies, feed-in-tariffs and incentive mechanisms, and take advantage of potential revenue from the sale of carbon emission reductions. However, BH has not yet established a Designated National Authority, depriving it of potential carbon revenues.
- **Resolve long-standing dispute about the structure and management of the transmission company (Elektroprenos).** This will be crucial to attracting significant private investment.
- **Introduce climate change mitigation and adaptation measures.** BH is vulnerable to climate change. Priority mitigation measures include: energy efficiency, reduction of losses, development of water infrastructure, and adaptation measures to improve dam safety.

Agriculture

46. **Although its share in the economy is small, the agriculture sector absorbs much of the economically active population.** The share of agriculture in the economy decreased from 15.1 percent in 1999 to 9.8 percent in 2007. The 2010 Labor Force Survey estimates that the agriculture sector accounts for 19.7 percent of employment in BH, compared to 49 percent in the services sector, and 31 percent in the industry¹⁶. Most of agriculture sector employment is in the informal economy; and subsistence agriculture still plays an important role as a social buffer.

47. **Fragmented arable land, and poorly defined property rights undermine the development of rural markets.** Farms in BH are generally small and fragmented. Indeed, the average farm size in BH today is smaller than it was in Southern Europe in the 1970s. Smaller farms have greater difficulty generating enough production to be commercially viable, to integrate with value chains, or earn enough to invest in modern production methods. Land consolidation is undermined by the poor track record in privatizing state owned farms and uncertainties regarding land ownership.

¹⁶ BH Agency for Statistics, Labor Force Survey 2010, p38

48. **BH needs to better exploit the considerable potential of the sector, including by taking full advantage of the preferred access to European markets.** Agricultural products are increasingly valuable due to high international food prices. Moreover, BH has potential comparative advantages due to relatively low costs of land and labor and a strategic location for producing high value products for domestic and EU markets. The authorities have also improved the legal and institutional framework in the fields of food safety and veterinary and phytosanitary services, but more needs to be done.

49. **High quality rural infrastructure is needed to link producers and processors to domestic and foreign markets.** Substandard rural infrastructure, including irrigation and drainage, and roads constrains development of the agriculture sector. For example, although BH is a water-rich country, insufficient water supply in 2005 resulted in higher losses for agri-food businesses in BH than any country in ECA. And BH, like the rest of South East Europe, needs to plan for climate related challenges.

Creating Jobs, Skills and Labor Tax Wedge

50. **One of the striking features of the BH labor market is how few people are looking for jobs.** The activity rate—the percentage of the eligible working population looking for work—is 44 percent; this is well below the rates of other countries in the region. The social and psychological impact of the war is clear; many people cite post-conflict trauma as the reason for not looking for work. Additional factors include the perceived difficulty in finding work, access to remittances, and the generous cash benefits system. For those looking for work, 87 percent of the unemployed have been jobless for longer than 12 months. Here too the effects of the war endure, as more than one-quarter of the registered unemployed are demobilized soldiers, members of families of deceased soldiers and persons with war related disabilities. At the same time, and perhaps most worrying, is the high level of youth unemployment—some 47 percent of 15-24 year olds are jobless. This number, combined with one of the lowest tertiary enrollment rates in ECA, means that large numbers of young people are neither working nor studying. This constitutes a significant threat to BH's long term competitiveness.

51. **The data suggest a lack of skills to meet the challenges of a globalized economy.** Higher education is being rewarded in BH. Between 2008 and 2010 the economy actually *created* jobs for those with tertiary education. This is notable as the sharp decline in unemployed tertiary graduates during 2006-2008 coincided with an increase in their numbers—in other words, even though more tertiary graduates were looking for work, a larger percentage found jobs. Evidently, however, more graduates are needed. A 2009 survey of firms found that 83 percent of respondents answered they have unfilled need for qualified workers. The reason most firms cite for being unable to fill open positions are skills related (soft skills in particular), and not related to wages, labor mobility or flexibility in hiring. And skills deficiencies are most acute in larger firms and those that export.

52. **There are significant gender implications as well.** The female labor force tends to be better educated than that for males. In the FBH, for example, where jobs held by women are more skill intensive than those held by men, the shedding of jobs at the low end of the skills distribution and the creation of jobs at the top means that now there are 20 percent more women with tertiary education employed than those with primary education or less.

53. **In order to sustain international competitiveness within the Currency Board Arrangement, the Authorities face the challenge of reducing the relatively high social contributions rates, but have difficulty finding the fiscal space to do so given past surges in the cost of wages and transfers.** Collection of social contributions has been streamlined and transferred to a single collection point in the Entities' tax authorities. This aids with tax compliance and fights evasion (i.e. an employer cannot pay one tax without paying all social contribution taxes). However, social contribution rates are much higher

than all other taxes in BH and higher when compared to other countries. For all social contributions combined, the rate in the FBH amounts to 41.5 percent of gross salary. This is higher than in the RS (33 percent) or the OECD average (29.5 percent) or EU-8 average (38.1 percent). The Consumption tax (VAT) in BH is 17 percent while both corporate and personal income tax rates are at 10 percent. The authorities have been trying to reduce social contribution rates in recent years, and managed to reduce the contribution rate for unemployment from 2.5 to 1.5 percent. However, in the face of increasing current expenditures on transfers and the wage bill, there has been no fiscal space for a more serious reduction.

54. One of the consequences of high social contribution rates is a large informal sector in BH. The difference between two different measures of unemployment (officially registered unemployed i.e. “administrative unemployment” vs. employed as measured by a Labor Force Survey using ILO standards) demonstrates the scale of informal unemployment. Currently, administrative data show an unemployment rate of 41 percent while data from the LFS indicate unemployment of 27 percent. As currently designed, incentives are tilted in favor of informality. An employer has an incentive not to register an employee in order to save on high social contribution rates, and employees are willing to agree to such an arrangement as they can register as unemployed in order to claim a free health insurance benefit. Consequently, the rate of “registered” unemployment is significantly higher than that which is measured by Labor Force Survey. The ratio of those who work in the formal sector and pay social contributions to those who are entitled to healthcare is around 1:5. A system of health insurance that is entirely financed by social contributions, with a large grey economy, is not only unfair, but it also undermines firm competitiveness and creates disincentives to formality.

55. Government engagement in active labor market policies is scant and fragmented. The key institutions responsible for labor markets are the Entity and Canton level Employment Funds, with budgets financed by employer contributions. However, these resources are used largely for right based cash transfers, which do little to generate employment. In 2008, for example, the FBH spent 17 times more on these cash transfers, mainly to unemployed demobilized soldiers, than on active labor market measures. In the RS, the ratio was 2 to 1 in favor of cash transfers. Not surprisingly, few job seekers and fewer employers use the Entity job-brokerage services.

B. Improve Public Service Delivery and Make Growth More Inclusive

56. Despite a massive reconstruction effort, insufficient local infrastructure and service delivery have left many people without access to basic services. More than one-third of BH citizens have no access to running water or waste removal. Less than a fifth of the rural population is connected to public sewerage systems, and one in five rural households rely on latrines or outhouses. In many areas, insufficient trash disposal poses health and environmental threats. Every year the country generates two to three million tons of solid waste, but only two-thirds of households have regular waste removal services. As a result, people burn or dump their waste illegally, polluting land, roadsides, and rivers.

57. Progress is underway at the local level. Both Entities have adopted Local Government laws that clarify functional assignments to municipalities and their revenue sources. Of particular importance was the introduction of a VAT, further revisions to the Indirect Taxation Authority (ITA), and reforms in municipal borrowing, which have institutionalized a more stable and autonomous source of revenues for municipalities. The key outstanding challenge is establishing accountability. Higher level governments can work with municipalities to establish minimum service standards—and estimate the fiscal resources required to meet them. Civil society can play a more active role; some municipalities have established public hearings, feedback lines and ombudsmen to facilitate input on concerns and ideas. And development partners can promote systematic benchmarking of service delivery and PFM performance.

58. **Political incentives are also improving.** Public services will only improve when users are able to send clear signals to those responsible for providing them, and providers see an incentive to respond. This has been particularly elusive in BH as ethnic politics have tended to overwhelm other issues. The growth in the number of jurisdiction-based mayors is one source of optimism, as candidates—and their political parties—needing votes outside of their ethnic base will be more inclined to campaign on effective service delivery. NGOs and civil society are also well placed to advocate for municipal performance. The emergence of statutory bodies called local communities, established by Local Self Governance Laws to liaise between citizens and government bodies are an increasingly effective mechanism for signaling user satisfaction. This in turn is encouraging newly organized citizens groups as points of leverage to monitor and comment on municipal public service provision.

Box 1: Gender Disparities in BH: Lessons for Bank Support – Land Registration

There is a widespread perception that gender disparities are less relevant in the ECA region than elsewhere because of the region’s socialist legacy. Looking at a broad range of gender outcomes shows that though gender disparities are not as glaring in ECA as elsewhere in the world, gender equality has not yet been achieved. BH is no exception. Despite a relatively higher enrollment of girls than boys in secondary school, overall women are less likely to participate in the labor market (participation is 80 percent of men). Those who are active in the labor market are much more likely than their male counterparts to be unemployed. Those with jobs are often in low quality jobs (11 percent of women compared to almost no men are in unpaid employment). Still in BH as elsewhere the performance of women is very heterogeneous. In the public sector, for example, which in BH typically provides better paid and more secure jobs than the private sector, women are just as likely as men to work. And gaps in labor market indicators for women with tertiary education are much smaller than for the rest, suggesting that the present “positive gaps” in enrollment could lead to much better results for younger cohorts of women. But a note of caution in interpreting these findings is needed. Consider for example the case of land. Recent analysis as part of the Bank’s support for a land registration project shows that while women’s legal rights are protected (i.e. there are formal institutions supportive of gender equality), tradition frequently favors male inheritance of property so that women waive their inheritance rights in favor of their brothers (i.e. informal institutions militate against effectively implementing the laws). Therefore, designing projects and reforms that work and that support gender equality requires awareness and conscious efforts to identify the barriers that might prevent women’s participation. Gender reviews of other elements of the portfolio are now going to be undertaken regularly as part of the new Regional Programmatic Gender Monitoring activity, which has been introduced for the new CPS period.

As for the specifics of the land registration project review, a follow-on land registration project would support a communications campaign to raise public awareness of women’s legal rights, IT systems which collect and monitor disaggregated data by gender, and the broad involvement of civil society to carry out gender assessments to gain a deeper understanding of true impediments to women’s property rights in BH.

Education

59. **The Dayton Accords defines complex governance arrangements for the education sector.** The state has no authority in educational matters handled at the entity level. Decentralization is even more pronounced in the FBH. Each of the ten cantons is responsible for all matters in the education sector, and there is little coordination among them. This highly decentralized system, especially in the FBH, has resulted in inequitable—and increasingly inefficient—spending on education. This has been exacerbated by a sharply declining school age population in the past decade, which has resulted in small class sizes and low student teacher ratios, leaving too many resources for secondary and primary schools but too little for upper secondary and tertiary education.

60. **Inefficiencies in BH’s education system have undermined competitiveness, but progress is underway.** The State and Entity governments are working toward establishing a national standardized

student assessment system; and from 2007-2010, BH participated in the Trends in International Mathematics and Science Study (TIMSS)¹⁷. At the tertiary level, BH in 2007 adopted the Framework Law on Higher Education, which provides the legal basis for the establishment of two new state level institutions for coordination and support to higher education development and a legal foundation for integrating autonomous faculties. The law also confirms BH's commitment to the Bologna objectives, which include moving toward EU standards.

61. **BH must also ensure schools are not exacerbating social tensions.** Another major challenge, and one with long terms implications for the country, is how the country manages educating BH's diverse population. Recent years have seen a worrying trend toward ethnic segregation in the delivery of the curriculum. For example, in the FBH, with its "Two Schools Under One Roof" arrangement in some communities, ethnic Croat and Bosniak children attend classes in the same building but are physically separated from each other, entering the building through separate doors, taking classes with separate curricula at different times of the day or in separate parts of the school.

Health Sector

62. **Health outcomes in BH generally lag behind other countries in the region.** Child and infant mortality have declined, but the rates continue to be about twice that of new EU member states.¹⁸ BH, like many countries in the region, also suffers from high rates of mortality and morbidity stemming from non-communicable diseases (NCDs) related significantly to lifestyle choices, such as tobacco and alcohol use. However, the health system, which has retained its focus on specialist curative services (not primary health care), is not fully addressing these challenges.

63. **Health expenditures are growing at an unsustainable rate and burdening both public and household budgets.** Health spending in BH has grown from 6.9 percent of GDP in 2000 to an estimated 10.3 percent in 2008. About 60 percent of these expenditures are paid for publicly, and public health expenditures over this period have grown from 6.4 to 14 percent of general government expenditures. The other portion (41.8%) is financed by households through out-of-pocket payments. Health expenditures have an impoverishing effect on a sizeable number of households in BH. The public budget for health is almost entirely financed by the social health insurance contributions collected from employers and the salaries of employees. Because of the small proportion of the population formally employed, the social health insurance tax rates of 16.5 percent in the FBH and 12.5 percent in the RS remain quite high. The high tax rates on labor are themselves barriers to the creation of more formal sector jobs with benefits.

64. **The BH health system remains highly fragmented, resulting in inequity, inefficiency and weak governance.** Dayton stipulated that the entities should be responsible for health regulation, organization, financing and service delivery. In the FBH, the responsibility for health services has been further delegated to the cantons, so the FBH health sector includes the FBH Ministry of Health (MoH), the 10 cantonal MoHs, the FBH Solidarity Health Insurance Fund (HIF), the 10 cantonal HIFs, and 11 Institutes of Public Health (IPH). The RS health system is centralized at the entity level, with a single HIF (HIFRS), MoH, and IPH. Brcko also has a Department of Health and a separate HIF. The FBH spends nearly twice the per capita expenditure as the RS with only little differences in benefits offered. Within the FBH, the variation is starker ranging from 608 KM per capita in Sarajevo to between 356 and 227 KM

¹⁷ While the test is offered at the 4th and 8th grade, BH students took it only at 8th grade level.

¹⁸ Child (age under 5) mortality is estimated (2008) to be about 15 children per 1000 live births and infant (age 0-1) mortality is estimated to be about 13 children per 1000 live births. The comparable figures for new EU member states are 7.9 and 6.6 respectively.

per capita in the other cantons. The FBH's health sector remains weakly governed, not having the tools to sufficiently regulate the minimum health system requirements for the cantons, monitor performance and reduce the duplication of administration. While in the case of RS fragmentation is not a critical obstacle, there is still significant space for improving coordination and management within and among health facilities and the use of information to adjust the service delivery models, to improve the public health programs and to upgrade their performance evaluation system.

65. **The authorities are implementing strategies to introduce the service delivery model of family medicine in order to improve the quality of primary care.** Changing how primary health care is financed, however, has not yet significantly changed although there have been attempts to move towards a system of capitation. Authorities of both entities are considering options for improving contracting, including use of an international patient classification system for measuring the performance of hospitals. Some other policy directions of the two entities have differed. The RS has in recent years been developing and implementing standards of hospital safety. The FBH is developing means of coordination, such as developing a standardized hospital contracting form and methodology.

Social Benefits

66. **BH spends more on social safety nets than nearly every country in the ECA region.** At 3.3 percent of GDP, BH outlays on non-contributory social protection cash transfers is more than twice the ECA average of 1.6 percent and considerably more than the OECD average of 2.5 percent. This level of spending is fiscally unsustainable, economically inefficient, and socially inequitable. A key problem is the large preponderance of benefits targeted to war veterans and their families on a "rights-based" policy. This results in poor targeting and little if any impact on poverty. Less than 40 percent of the overall social assistance budget is targeted to the poorest 20 percent of the population (among the lowest in ECA) – and over 16 percent of the benefits are captured by the richest fifth of the population. Moreover, the cash transfers are "passive"—they do not require positive behavioral changes, and are not linked to social care services. In general, they do not provide incentives for transitioning from social assistance to employment; on the contrary, they provide a perverse incentive for long-term benefit dependency.

Pensions

67. **BH shares a number of pension system challenges in common with other transition economies.** Both entities are affected by aging populations, with longer-lived elderly receiving benefits, while low fertility rates and emigration cause the labor force and contribution revenue to shrink. And both are plagued by the problem, common in transition countries, where the beneficiaries receiving pensions today are those who were of working age during the socialist period when the majority of individuals worked in the formal sector and contributed to, and thus earned rights to, the pension system; while the proportion of working age individuals contributing today is considerably lower. As a result, pension expenditures are high while contribution revenue is relatively lower, resulting in a potential deficit in the pension system. Moreover, as in other transition countries, both entities suffer from significant levels of early retirement, which has swelled the number of beneficiaries. In addition, given the war history in BH, both entities have higher percentages of disabled and widows and orphans receiving benefits, resulting in even more people who are below the retirement age receiving pensions.

68. **Additional problems have also evolved as similar constraints have been implemented differently in the two entities.** Just after the war, to prevent arrears from accumulating in the pension system, a cap was imposed on the pension system limiting benefits in any year to revenues available in that year. Caps were subsequently legally adopted by the two entities and they remain in place to this

day. However, they were implemented differently in the two entities and they have resulted in distortions which are particularly strong in the FBH pension system.

Box 2: Bank Support to Politically Sensitive Reform of Social Benefits: DPO Series

BH's unsustainable and regressive system of social benefits has been a key obstacle to improving fiscal performance and competitiveness and social equity for many years. Prior attempts by the Bank to help the authorities reform the system were not successful. Well organized opposition and a surge in revenues after the introduction of the VAT in 2006 led to abrupt policy reversals. The 2008 global economic and financial crisis, and the fiscal pressures that resulted from it in BH, led the authorities to turn again to the Bank for assistance. The Bank responded, and in April 2010 the Board approved the first in what was to be a programmatic series of public expenditure DPOs. The first operation amounted to US\$111 million—in a combination of IDA and IBRD resources—and supported Government action to fix the long-standing and politically sensitive problem.

In addition to hard learned lessons from previous unsuccessful attempts at reform, the DPO was based on continued policy dialogue underpinned by extensive analytical work, including programmatic poverty assessments, a Public Expenditure and Institutional Review (PEIR), and work on pensions. And it is being accompanied by a US\$15 IDA credit to strengthen institutional capacity necessary for implementation of the social protection reforms.

As part of DPO1, the Governments of FBH and RS took important steps towards rationalizing existing cash transfer programs. First and foremost, they adopted framework laws on Targeting of Cash Benefits to initiate a shift from the predominantly rights-based approach to a needs-focused approach in social assistance. The Framework Laws strengthen fiscal responsibility by introducing mandatory needs-based targeting that takes into account the *actual material needs* of the applicant or beneficiary. Key reforms also include assessing the fiscal impact of any new commitments, indexing benefits to inflation rather than wages, and improving governance and accountability through establishment of beneficiary registries.

Both Entities have taken steps to establish income tests and other measures—but actual reductions in benefits have yet to be implemented. Reluctance to confront organized opposition ahead of the October 2010 elections, and the delay forming new governments that has followed, have slowed progress.

The Bank and elected authorities plan to follow this with a second DPO in FY12, depending on accelerated implementation of policies introduced under DPO1 and the overall macroeconomic framework. Key actions include (i) developing updated tools to improve targeting of benefits to those who are socially and economically vulnerable; (ii) improving the cost-efficiency of benefit administration through better institutional management, with the ultimate objective of establishing a unified registry. The second DPO in the series will likely address reforms in public sector wage and employment policies and in pension administration.

C. Sustainable Use of Natural Resources and Climate Change

69. **BH needs to develop a country-wide strategy to protect its natural riches.** BH's natural treasures—including magnificent forests and abundant bodies of water (“Bosnia” from the ancient word *Bosana*, meaning “water”)—are also critical sources of economic growth, and at risk. In April 2009 the EC presented a framework for adaptation measures and policies to reduce the EU's vulnerability to climate change. The proposed measures focus on developing supportive institutions for sectors to successfully adapt to climate change. Any forward-looking planning or growth strategy must take into account consequence of global climate change.

70. **The dominant challenge for BH related to Climate Change today is adaptation to already on-going changes and the impacts this is likely to pose on the BH economy and livelihoods.**¹⁹ BH, and South East Europe more generally, is vulnerable to climate change in four critical areas.

- **Energy:** BH's reliance on hydropower for electricity generation (30–40%) has implications for energy security. The country could experience reduced hydropower generation exacerbated by increased urbanization and cooling demand. Dam integrity and reservoir management could also be affected by flooding. Flash flooding could temporarily impact power supply. Even non-hydro generating facilities could be affected by water availability and/or restrictions linked to cooling water. Overall this could lead to higher energy prices and less reliable supply.
- **Agriculture:** Irrigated small holder farms may be hard hit by droughts and heat waves. Climate change is expected to threaten its competitiveness. Projections show that the main maize-growing regions in the north of BH could suffer yield declines of 10 to 25 percent. In the south, where fruit and vegetable crops are more common, the projections indicate that, without adequate irrigation, crops could suffer even more.
- **Water:** BH is well endowed with water resources though the southern part (Herzegovina) has low precipitation and the northern plains along the Sava and Drina face structural drainage and flood management challenges. Flash-floods are occurring across the region. All main rivers are shared with neighboring states. Water and rivers are a high-value resource as they are essential for economic growth and jobs in agriculture, hydropower generation, fish culture, and ecosystems sustainability (tourism). BH faces major challenges, notably: (i) the country needs to develop its institutional and regulatory frameworks that are compliant with the EU Water Framework and Floods Directives, and develop integrated river basin management plans to facilitate cross-sectoral planning and cooperation—building on the experience with the on-going Neretva-Trebisnjica Management Project; (ii) much of the water infrastructure needs to be rehabilitated or modernized after two decades of maintenance backlog; and (iii) climate change will induce different patterns of rainfall and droughts demanding adaptation of institutions and infrastructure.
- **Forestry:** Forestry remains important for rural livelihoods both through direct employment and through ecosystem services. Forests face tree loss and degradation from extreme events and from the combination of earlier snowmelt and hot, dry summers. Regional droughts and shifting wind patterns have already increased the frequency and intensity of wildfires. Strong winds, which are projected to increase as climate changes, can not only spread wildfires but also spark the initial conflagration. A changing climate can also redistribute tree species, with warming causing shifts to higher latitudes. The new patterns can also provoke outbreaks of insect infestations, as seen in the northern march of damaging pests in boreal forests around the world.²⁰

71. **Energy efficiency is a priority.** More than half of the CO₂ emissions in BH are generated in the energy sector (52 percent). Coal accounts for 75 percent of BH emissions. Adopting and enforcing key EU environmental regulations are key steps towards more sustainable energy mix, reduced emissions, and further integration with the rest of Europe. In particular, compliance with the EU Directive on large combustion plants by 2017²¹, and the Europe 2020 Initiative on energy efficiency.

¹⁹ According to the 2009 World Bank ECA flagship report “Managing Uncertainty: Adapting to Climate Change in Europe and Central Asia” – BH is ranked in the middle among ECA countries in terms of the impact index which captures the relative strength of future climate change relative to today’s natural variability.

²⁰ Easterling et al. 2007.

²¹ The EU Large Combustion Plant Directive sets emission standards for member countries for nitrogen oxides, sulfur dioxide and particulates from all power stations with an installed capacity greater than 50 megawatts. Under the directive legislation power stations that do not meet the specified emission standards must either retrofit appropriate pollution control equipment or close down.

IV. COUNTRY RESPONSE TO CHALLENGES AND PRIORITIES

72. **BH drafted a Country Development Strategy.**²² As might be expected, the strategy is the product of coordination among the different administrative levels and stakeholders. While the current draft has not been adopted and it may require more work to become a "countrywide" strategy, it reflects the contributions of all levels of government (the state level Council of Minister, FBH, RS, and Brcko district) and it reflects development objectives and activities that are broadly followed by all levels of government in BH.

73. **Moreover, while ethnic divisions continue to shape political alignments and undermine governance efficiency, there are no fundamental ideological or even significant technocratic differences among the authorities at the Entity and State level on most macroeconomic and sectoral issues.** Policymakers at all levels of government see BH's future as an open, export oriented market fully engaged with the EU, and understand that improved transport and communications infrastructure are critical for economic growth and integration in South East Europe. There is consensus on seizing the country's rich potential in forestry and water, but in a sustainable fashion. And there is universal agreement that BH must strengthen its human capital through better education outcomes and intensive worker training. Underlying all of this, even on the toughest issues, most acknowledge that a reduced economic role for the state is necessary for improved competitiveness. By and large, BH policymakers, civil society and the private sector share a vision for the priority development challenges in their country; however, the vision is far less clear with respect to how these priorities should be achieved and the degree of coordination between Entities, and Entities and the State level that is desirable to achieve.

74. **EU Integration:** There is a broad consensus that EU integration should be the guiding principle of every segment of social and political community in our country. Progress toward EU membership will require a less cumbersome governance system, and that the key challenge in the near future is the development of a single methodological approach for meeting *acquis* requirements and ensuring implementation is the same in the whole country. The Development Plan also, however, stresses that this will have to be undertaken in BH's unique context: "*reforms require the need to strengthen administrative and institutional capacities....in accordance with the existing constitutional structure*"²³.

- **Macroeconomic Stability:** The authorities acknowledge that BH can only achieve macroeconomic stability by reducing the size of the public sector and redirecting reduced spending from public administration and social transfers to infrastructure and social investments. In addition, the Strategy notes the importance of the investment climate and trade.
- **Competitiveness:** BH is among the least competitive economies in ECA, and it is moving in the wrong direction according to the 2009-2010 World Economic Forum survey. Major problems include inadequate infrastructure, an underdeveloped legal system, which contributes to poor contract enforcement, and a fragmented regulatory framework. BH's Strategy notes that simplified and harmonized regulations would contribute to the establishment of a single economic space, which would stimulate growth and competitiveness. The Strategy also commits to increase the number of students with technical training, encourage on-the job training, and to stop the brain drain out of BH, which accelerated during the war, and to bring expatriate talent back home.
- **Employment:** To increase employment, the authorities have prioritized increasing SME's access to financing for capital investment, human resources, and for encouraging the development of

²² Draft Strategy of Development, Bosnia and Herzegovina, Council of Ministers, Directorate of Economic Planning, 2010

²³ Draft Strategy of Development, p. 111.

business incubators. The Strategy also looks at introducing greater flexibility in the regulations governing the hiring and firing of workers, hours, wages, and types of work arrangements. As mentioned above, it calls for more effective and responsive labor market institutions to help those who are unemployed and seeking work back into the labor market.

- **Sustainable Development:** BH is a predominantly rural country, and while agriculture production represents a great area of potential for economic growth and employment, and must be modernized, the country’s rural areas must be developed “holistically,” based on a versatile use of natural resources, and their protection for future generations. In agriculture, the Strategy calls for investments in technology to improve the efficiency of primary production, and to move toward secondary production, or processing, to boost employment. It also looks beyond farming to improve living conditions and diversify the rural economy and job opportunities. The Strategy is also explicit about stronger integration of environmental protection, particularly by adopting EU policies, and focuses significantly on stimulating renewable sources of energy.
- **Social Inclusion:** The strategy aims to “increase participation of the inactive, discouraged population and their reintegration into social life, the labor market, and the equity of opportunities for employment”. This will reduce the fiscal burden of social transfers and increase the contributions and talents of more BH citizens, particularly women.

V. WORLD BANK GROUP STRATEGY

A. Experience and Lessons Learned

Current portfolio

75. **The World Bank supports a portfolio of 12 operations with commitments totaling US\$302.3 million (June 30, 2011).** These operations are financed by seven IDA credits totaling US\$154 million, three IBRD loans of US\$130 million, and three GEF grants of US\$18.3 million. The FY11 disbursement ratio exceeded 25 percent. This robust disbursement performance, sustained over the last three FYs, and the continued reductions in effectiveness delays, achieved in the context of a uniquely complex institutional environment, testify to ownership of the Bank supported program and concerted efforts from all local stakeholders. Indeed, the disbursement ratio improved significantly throughout the CPS period. In the first year of the CPS it was at 13 percent, well below ECA and Bank average, and in FY10 it peaked at 26 percent (see Table 2). Moreover, the time between Board approval and effectiveness was reduced from 11 months in the period 2007-2009, to seven months in 2010. Most operations maintained satisfactory ratings in Implementation Progress (IP) and Development Objective (DO) during the CPS.

Table 2: Trends in Disbursement Rates (% of undisbursed balances)

	FY07	FY08	FY09	FY10	FY11
Bosnia and Herzegovina	13	13	16	26	25
ECA	19	19	18	19	20.5
Bank	23	22	27	24	22.5

Lessons from the CPS Completion report

76. **World Bank Group support over the FY08-FY11 CPS was highly relevant under both pillars of the FY08-11 CPS: (i) improving the environment for private sector led growth and convergence with Europe, and (ii) improving the quality of Government spending and the delivery**

of public services for the vulnerable. Both areas have remained central to BH’s development agenda, and Bank Group activities have provided direct, timely support.

77. **The FY08-11 CPS Completion Report (CSPR) identified a number of lessons related to the overall strategy, project implementation, and Bank and borrower performance that are helping to guide the new CPS.** Key lessons are noted below:

- **The Bank can support structural reforms in BH’s politically complex environment, but long-term commitment is needed.** Bank support to structural reforms—e.g, business environment reform through the Business Enabling Environment Structural Adjustment Credit—suggests structural reforms in BH take time to implement, and desired outcomes may be achieved only in stages and over the medium term. Thus, a longer-term commitment and a combination of financial and advisory services are needed to achieve lasting results.
- **It is crucial to build consensus during project preparation.** In a politically complex environment such as BH, it is necessary to reach basic consensus on all aspects of institutional and implementation arrangements during the project preparation.
- **Limited World Bank group resources should be allocated strategically to maximize development outcomes in key sectors.** The Bank’s portfolio has been consolidated from 16 projects worth US\$300 million in 2008 to 12 projects worth US\$300 million in June 2011. Further consolidation will continue in the new CPS, focusing on fewer but larger operations. Small stand-alone operations should be avoided. Additional financing and project restructuring should be considered in sectors where there is need to scale up operations or where new circumstances require a different approach. This will require making tough strategic choices in consultation with the local authorities and in some cases even exiting certain sectors.

Table 3: Portfolio Consolidation*

	FY11	FY12	FY13	FY14	FY15
Existing Portfolio (beginning of FY)	15	12	10	10	11
Closing in FY	3	4	2	2	3
New Investment Operations	0	2	2	3	0
Existing Portfolio (end of FY)*	12	10	10	11	8

*Includes GEF financed projects, including regional GEF operations

- **The Bank’s decision to maintain flexibility to adapt to changing circumstances while pursuing “core” and “non-core” program areas has proven successful.**²⁴ This enabled the Bank to pursue investment lending in “core” areas while maintaining policy dialogue and opportunity for engagement in the “non-core” areas. For example, when the opportunity emerged, the Bank played a lead role in helping the Governments achieve the objective of reviewing and streamlining social spending schemes with a view to improving their effectiveness.
- **Results are possible even in BH’s politically difficult environment when interventions are well aligned with investment priorities of the government.** The Bank applied lessons learned

²⁴ The CPS defined as “core” those activities for which the political commitment and ownership by the various administrative level of BH has been tested, and as “non-core” those important areas for investment and/or reform for which political commitment needs testing or for which commitment is apparent but ceilings on available resources prevent implementation at a given time.

during the FY05-FY08 CAS period and fully aligned its portfolio to the investment priorities of the governments in BH. Whereas in the previous CAS, the portfolio included structural adjustment credits and associated TA projects for which there was little commitment, the structure of the portfolio during the last CPS period mainly included investment operations for which there was high level of commitment and readiness for implementation.

Table 4: Portfolio Performance as of June 2011

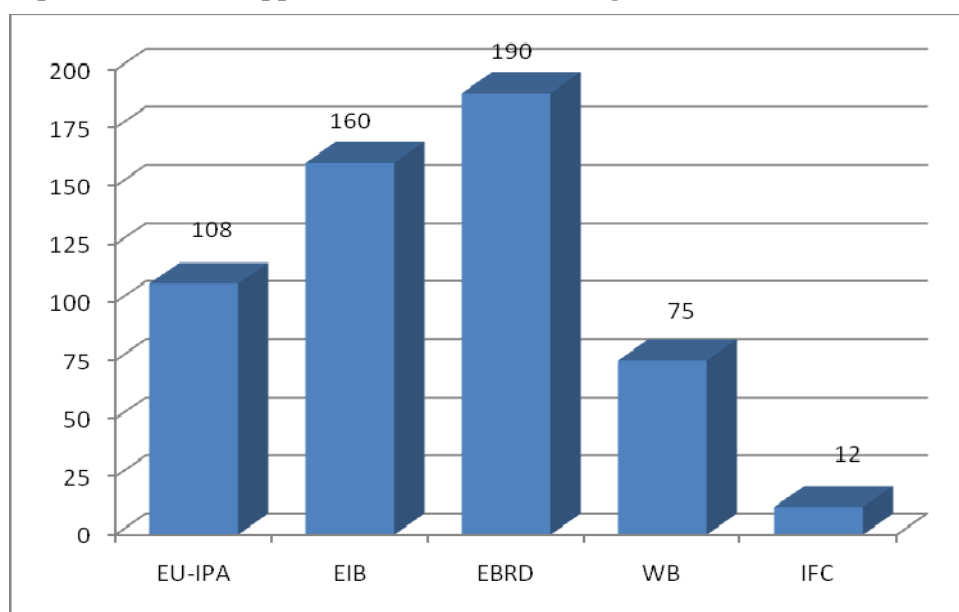
Sector	Project Name	Board	Revised Closing	IDA/IBRD/GEF US\$m	Disbursement (%)	Age (yrs)	Latest IP	Latest DO
HD	HEALTH SECTOR ENHANCEMENT	3/31/2005	12/31/2014	27.00	60.0%	6.2	S	MS
	SOCIAL SAFETY NET	2/25/2010	10/31/2014	15.00	9.30%	1.3	MS	S
SD	AGR & RURAL DEVT	6/19/2007	6/30/2012	21.00	32.5%	3.9	MU	MS
	ECSEE APL3-BiH	6/16/2006	6/30/2012	36.00	57.3%	5.0	S	S
	FOREST & MOUNTAIN AREAS GEF	5/29/2008	4/30/2013	3.40	31.2%	3.0	MS	MS
	LAND REGISTRATION	4/27/2006	3/31/2012	15.00	72.0%	5.1	S	S
	ROAD INFR & SAFETY	12/13/2007	6/30/2012	25.00	82.8%	3.5	MS	S
	QUALITY PROTECT GEF	6/7/2005	8/28/2012	8.90	56.5%	6.0	MS	S
	SOLID WASTE II	11/25/2008	2/28/2014	40.00	6.0%	2.5	S	S
	SARAJEVO WASTE WATER	12/22/2009	11/30/2015	35.00	3.4%	1.4	S	S
	NERETVA & TREBISNJICA GEF	5/29/2008	12/31/2013	6.00	34.0%	3.0	S	S
	ECSPF	ENHANCING SME ACCESS	12/15/2009	7/31/2014	70.00	23.2%	1.5	S
				302.3	38 %	3.8		

- **The Bank should continue to strengthen ties with development partners.** Important collaboration is underway with the EU and IFIs (IMF, EBRD, EIB, CoEDB) in particular, but also with bilateral donors, as with Swedish SIDA, an important partner in activities related to business climate and export competitiveness. The IMF has been the key partner in structural reforms in the social sector as these reforms are central to the IMF's stabilization program. Successful partnerships are also ongoing with EBRD and EIB in the transport sector and energy sector, and with CoEDB in the health.

78. **Donor assistance in BH has been dominated by funding from European institutions, including assistance through the EU IPA mechanism.** In 2010, the EIB approved contracts of €205 million to BH to improve the quality of health care, strengthen emergency flood relief, and provide credit lines for SME growth—bringing its total portfolio to €348.7 million. The EBRD supports an active portfolio of €1.03 billion through 25 public and private sector projects, mainly in municipal, environmental and transport infrastructure. BH's funding from IPA and EU sources equaled nearly €440 million in the period from 2007 to 2011, and assistance was directed at virtually all development sectors. The Bank remains an important player with annual disbursements averaging US\$83 million during FY09–FY11 as discussed above. More modest funding is provided from other international institutions, including the United Nations Development Program (UNDP), which supports projects in achieving MDGs and reducing human poverty, fostering democratic governance, improving energy infrastructure, and environment. The Global Fund to Fight AIDS and Tuberculosis has also been active in Bosnia and Herzegovina, providing US\$3.6 million in 2010. Key bilateral donors including, *inter alia*, Germany,

France, Sweden, Austria and the United States, have also engaged in a number of sectors such as infrastructure, private sector development, housing construction, water and sanitation, health and justice.

Graph 1: Financial support to BH: Annual average commitments: 2008-2011 (in mil. €)



Source: Donor Mapping Report 2009-2010, Ministry of Finance and Treasury, Bosnia and Herzegovina

79. **The Bank remains active in efforts to improve aid effectiveness and coordination in BH.** For example, the Bank is leading an initiative aimed at strengthening the coordination between the BH authorities and the European multilateral and bilateral lenders on the implementation of a sizeable outstanding project portfolio in transport, energy and local infrastructure. The partnership with the EC is described in Box 4 (page 37).

80. **This CPS is the product of intensive dialogue with BH authorities, civil society, and donor partners.** Given the highly decentralized nature of BH, and particularly in light of the fluid dynamics leading up to and following October's elections, special effort was required to ensure the CPS would be informed by the authorities and civil society. The Bank organized a series of six policy roundtables during the period June 2010-June 2011. The purpose of these roundtables, organized in partnership with local think-tanks and academia, was to gather a broad group of stakeholders (government officials, MPs, CSOs, academia, private sector, international organizations, and media) to discuss key issues affecting economic development in BH as the country moves towards EU accession. The overarching theme was how to improve the competitiveness of the economy. In addition to generating policy dialogue about development priorities in the key sectors, the roundtable discussions provided input for the CPS design.

B. CPS Objectives, Pillars and Expected Outcomes

81. **With the overall objective of supporting BH's European integration goal, it is expected that this CPS will: (i) support economic growth, by tackling some of the bottlenecks to faster productivity and competitiveness; (ii) improve social inclusion by strengthening the targeting and fiscal sustainability of social benefits and improving the delivery of basic public services; and (iii) strengthen the sustainable use of key natural resources, such as water and forests, and improve climate change adaptation.** The CPS recognizes that the goals of competitiveness, social inclusion and environmental sustainability are fundamentally interrelated, and that planned interventions will support a

range of development objectives. For example, increasing access to basic services such as water and solid waste sites impacts all three areas—we know, for example, that access to such services expands social equity; it also reduces obstacles to investment and promises a cleaner, healthier country going forward. Equally, the DPO is listed below under “competitiveness”, but could easily be included under “social inclusion”. The mapping of CPS outcomes to the Bank’s ongoing and planned interventions reflects their cross cutting nature. Activities under this CPS will consider and capitalize on these linkages.

82. Planned lending during the CPS period is underpinned by AAA activities carried out over the past 2-3 years and new AAA activities (both country-specific and regional). Design of each of the major lending activities foreseen for the CPS builds on recently-completed or ongoing AAA activities. New AAAs will aim to supplement the lending program to achieve specified CPS outcomes. The public expenditure DPO series, for example, builds on a major study on how BH fared in protecting the poor during the crisis; similarly, planned lending in irrigation and land registration will be fundamentally informed by a 2010 Agriculture Sector Policy Note which has provided the basis for engagement with the authorities. Looking forward, the Bank Group envisages continued engagement. For instance, to help establish a stronger, more competitive business climate, work will continue on regional analysis in the area of financial sector development and private sector accounting and auditing, including through the Vienna based REPARIS activities, following the recommendations of the 2010 ROSC. This will be followed in the second year of the CPS with a regional study on innovation and analytical activities. IFC will complement this work with advisory services, particularly to promote public-private partnerships in infrastructure. To support new approaches to social inclusion, intensive work has been underway in the Western Balkans on poverty and gender analysis—this will continue with studies during FY13-15; and to better understand both the fiscal and demographic challenges facing BH, a pension study is planned for FY12 to support the DPO series. To help BH better protect its natural resources, work will continue on an integrated water study for the Vrbas river; and in FY14 on an energy strategy to help the country reach consensus for both productivity and environmental purposes.

83. The program will benefit from analytical work on climate change undertaken elsewhere in the region. The Bank, with support from Sweden and Norway, is undertaking a major study in FYR Macedonia on how to reduce its high energy intensity, strengthen the dependability of energy supply, and meet EU green house gas emissions standards. The study, which follows similar work in Poland, is designed to help FYR Macedonia balance the challenge of ensuring continued economic growth and competitiveness with fuller consideration of climate change and environmental quality. Meeting the EU environmental *acquis*, promoting efficient use of natural resources, preserving biodiversity, and enhancing tourism opportunities are increasingly important to national development concerns. As all of the Western Balkans confront similar challenges, this work can inform development choices in BH.

84. Underlying progress in all these areas will be a more efficient and effective public administration, not just in each Entity, but across the country. The Bank will be supporting this with a Public Expenditure Review as well as through regional work in public financial management. The Bank hopes to use this work in the broader area of governance to build on ongoing engagement with respect to the administration of Bank financed (and externally financed) projects in PFM.

85. To strengthen governance and anti-corruption policies in BH the Bank will align its efforts with the EU accession process. The EC, several European donors, USAID and UNDP continue to lead the efforts in public administration reform, training of journalists, and the Governance Accountability Project. The Bank will complement these efforts in its areas of expertise: the strengthening of government effectiveness and regulatory quality—two important dimensions for the creation of the European administrative space. DPO financing will continue to focus on improving the efficiency and effectiveness of public spending. IFC and the Bank, supported by grant financing from SIDA, will focus

on improving the regulatory quality of governance. The on-going program supporting the delivery of basic public services at the municipal level, which will be complemented by a significant grant program provided by the EC, will continue to strengthen local governance based on the recommendations of the 2009 local governance and service delivery study²⁵. The IFC Southeast Europe Regional Trade Logistics Project will be funded under the EU Multibeneficiary IPA funding and support regional integration as a step towards EU accession.

Table 5: CPS Portfolio and New Lending FY12–FY15 and CPS AAAs

Ongoing Operations FY12-15					
<i>Competitiveness</i>		<i>Inclusion</i>		<i>Environmental Sustainability</i>	
Ongoing investment projects (closing date)					
Road Infrastructure and Safety	FY12	Social Safety Net	FY15	Quality Protection GEF	FY13
Land Registration	FY12	Health Sector Enhancement	FY15	Forest & Mountain Areas GEF	FY13
Agriculture & Rural Development	FY12	Solid Waste II	FY14	Sarajevo Waste Water Management Project	FY16
ECSEE APL3-BiH	FY12			Neretva-Trebisnjica Management Project	FY14
Enhancing SME Access	FY15			GEF	
New Operations FY12-13 (delivery date)*					
DPO II	FY12			CRIF	FY12
Irrigation Development	FY12				
Sava Waterway Rehabilitation	FY13				
Land Registration II	FY13				
DPO III **	FY13				
Non-lending (AAA) FY12-15 (delivery date)***					
Western Balkans Programmatic	FY11-14	Western Balkans Programmatic	FY13-15	VRBAS Integrated Water Management	FY12
Financial Sector Dev		Gender Monitoring			
Western Balkans REPARIS	FY11-14	Pension TA	FY12	Energy Strategy	FY14
Public Expenditure Review	FY12	Education Strategy	FY13		
Western Balkans Public Financial Mgt/PEFA	FY13	Western Balkans Programmatic Poverty	FY13-15		
Western Balkans TA on Science, R&D/Innovation	FY14				

*Lending beyond FY13 will be determined following discussion with the authorities and at the time of an early Progress Report

**The 3rd DPO is presented here as the last in the programmatic series, but will depend on the availability of IBRD financing, along with sustained sound macroeconomic framework.

*** An early Progress Report will assess progress with the AAA program and recalibrate it if needed to respond to country needs.

86. Finally, officials are supportive of a Bank managed Public Expenditure and Financial Accountability (PEFA) project focusing on the State, Entities and Brčko District financial management. A grant funded PEFA assessment could provide a useful, independent perspective on

²⁵ “From Stability to Performance: Local Governance and Service Delivery in BH”, World Bank, January 2009

PFM performance and complement EC efforts in this area. It could also provide the foundation for further efforts to strengthen public financial management and may be a catalyst for drawing the attention of government and development partners to priority areas that need attention. Other international organizations have been providing support to public financial management but this support is likely to shrink during the term of this CPS.

87. **Gender remains an important challenge in BH.** Designing projects and reforms that support gender equality requires awareness and conscious efforts to identify the barriers that might prevent women's participation. The Bank has invested significantly in the Western Balkans in both gender and poverty analysis. During the CPS period, thematic reviews of how gender has been mainstreamed in different sectors in the portfolio, to be conducted under the Western Balkans Programmatic Gender Monitoring, will identify how to increase the gender inclusiveness of the existing portfolio and inform the design of future lending operations.

Expected Outcomes

88. **The contribution of the CPS to the country development goals (CPS outcomes) are described in Annex 1.** The following is a description of how the various activities planned under the CPS will produce the expected outcomes.

I: Competitiveness

89. **BH confronts a large competitiveness agenda.** While the investment and reform agenda is vast, the Bank Group plans to continue to focus on reducing key bottlenecks to increased productivity, and to work with BH's other development partners to establish a coordinated approach in this area. The Bank's support will be focused primarily on reducing restraints to productivity, such as transport, local public services, energy, land registration and agriculture, and enhancing SME's access to capital. These investments are being complemented by TA in corporate accounting and regional work on science and innovation. IFC is providing technical assistance in regulatory reform, reduction of administrative burden and attraction of FDI, as well as direct financing and advisory services in the financial sector, agribusiness and energy sectors. The overall competitiveness of the economy will also be supported by the DPO program aimed at strengthening the quality of public expenditure, particularly in the social sectors, thus supporting macroeconomic stability. The proposed Public Expenditure DPO programmatic series will support (i) increased social assistance to the poor, while reducing the fiscal deficit and creating fiscal space for poverty-reducing growth; (ii) improved structure and efficiency of public expenditure; and (iii) reduced pressures on private sector wages from faster wage growth in the public sector, thereby enhancing private sector competitiveness. In addition, the program aims over the medium term to revise pension formulas in both entities to make the benefits more predictable and the financing sustainable, and limit the burden on the private sector imposed by the fiscal deficit, the pension and health insurance system and public sector wages.

- **CPS Outcome: Improved Business Environment:** IFC assistance will focus on reducing the costs and risks of doing business and increase competitiveness of BH's decentralized economic space at the sub-national and national levels. At the sub-national level, IFC will help to reduce administrative barriers and increase competitiveness through regulatory simplification to create more uniformity and transparency in regulations as well as facilitate development of a single economic space through regulatory reform at the local, cantonal, entity and national levels. At the national level, IFC will support the country's efforts to streamline international taxation treaties and avoid double taxation of entities, as well as to attract FDI by improving the regulatory, policy and institutional framework for investment.

IFC will also explore options to deepen work in the agribusiness sector and increase competitiveness and attraction of investments. IFC will also support BH to further improve trade logistics' related regulatory and administrative constraints, harmonize border clearance with other countries, and further aligning rules on EU practices linked to the CEFTA regional trade agenda. BH is benefiting from IFC's regional approach in the Western Balkans including regional Trade Logistics project and Energy Community of South East Europe program.

- ***CPS Outcome: Improved investment climate and reduced costs and risks of conducting business in BH.*** Sweden is continuing support to BH through two Trust Funds—executed by the Bank and IFC—designed to further strengthen BH's export competitiveness. The World Bank Group has been supporting BH' business environment reforms for many years through policy advice and lending operations. In 2002, the Bank in collaboration with the Swedish International Cooperation Development Agency (SIDA) launched the BAC (Business Environment Adjustment Credit). The BAC initiated a number of reforms which were further supported by IFC advisory services and other technical assistance. A follow-up Swedish TF of some US\$5 million will build on the result of previous activities by streamlining and reorganizing inspections in accordance with EU requirements; speeding up business registration and reforming the bankruptcy process. IFC is proposing to carry on a project during FY12 - FY14 that provides support at the national and sub-national level to reduce administrative barriers and increase competitiveness through regulatory simplification to create more uniformity and transparency in regulations; assist in improving competitiveness of agribusinesses sector and reduce double taxation burden to businesses. At the national level, the project will support the country's efforts to improve its low levels of FDI attraction, and address its strategic goal of EU accession by improving the regulatory, policy and institutional framework for investment. Finally, the project will look at administrative barriers to export in key sectors in BH and help government to streamline the processes. In particular the project will improve transparency and quality of information on bilateral and international taxation agreements legally binding in BH. Finally, IFC plans to continue its work in promoting good corporate governance through an ECA-wide regional project (intended to include BH), principally through focusing on the capacity building of local institutions to offer advisory services in corporate governance. Activities will aim to help companies attract new investors and improve business processes through better corporate governance.

- ***CPS Outcome: Improved access to finance for small and medium enterprises.*** The FY09 Enhancing Small and Medium Enterprise Access to Finance project was developed during the depth of the global economic and financial crisis to address one of the chief constraints to growth in BH's enterprise sector—access to term capital. The main component of the project is a credit line to be extended through participating financial institutions to creditworthy private enterprises for viable projects. The eligible financing will cover investments and/or incremental working capital in industry, agro-processing and the related service sectors. The project, which is scheduled to close in FY15, will seek to increase the number of loans and the amount of medium and long-term credit extended to SMEs; strengthen payment performance of the sub-borrowers in the project and reduce the number and volume of non-performing sub-loans; and, ultimately, improve the investment and export performance of the sub-borrowers, and bolster employment generation.

- ***CPS Outcome: Stronger and broader financial sector:*** IFC will continue its support for the banking sector with a focus on broadening access to finance, especially for micro, small and medium enterprises (SMEs). IFC will provide a wide variety of products tailored to needs of local banks including credit lines for SMEs, energy efficiency and renewable energy products. In addition, IFC will continue to contribute to strengthening of the microfinance institutions, addressing the economic disparity between rural/semi-urban and urban development. As in the past, in addition to financing, IFC will provide advisory assistance to strengthen the microfinance institutions, and support the transformation of

microfinance institutions into sustainable for-profit financial intermediaries in the FBH by clearing bottlenecks in existing regulation. Also, IFC will explore with the entity ministries of finance the mechanisms to address the over indebtedness of micro entrepreneurs in BH.

- ***CPS Outcome: Increased private investment in infrastructure.*** IFC will continue to explore innovative ways of crowding-in private sector financing for infrastructure projects in view of the need to achieve better infrastructure integration both regionally and within the country. As in the past, IFC remains interested in providing advisory services to help the Government create a more commercial approach and generate greater involvement of the private sector in the infrastructure sectors through PPPs in the energy, transport, and health sectors. However, private sector participation in the infrastructure sectors is hampered by the limited role for commercially oriented players and the lack of cost-effectiveness. Also, the regulators in the roads and railways sectors need to be strengthened and further unbundling is a priority in the power sector. Therefore, IFC contribution to successful PPPs will depend on market demand, government progress with privatization/concessions, institutional reforms, and improvements in the legal framework.

- ***CPS Outcome: Improved the competitiveness of local companies in sectors that can successfully compete with their exports in the regional market.*** Since most of the companies in the real sector are MSMEs, IFC will provide its support mainly through the banking sector. However, IFC will selectively look for a few direct SME financing to have a good demonstration affect in the financial market. IFC is committed to support strategic FDI in BH by encouraging good regional companies to expand their operations in BH. Priority sectors include agribusiness, wood and metals processing, energy, property and tourism. In addition, IFC will provide advisory services to the agribusiness sector companies, particularly in the food safety. Though its Regional Cleaner Production program IFC plans to work with private sector clients directly on improving resource efficiency in various sectors in BH.

- ***CPS Outcome: BH's participation in the South East Europe Energy Market, and eventual integration into the EU energy market.*** The on-going ECSEE APL3 project is improving dam safety; reducing adverse environmental impacts at thermal power stations; replacing ageing facilities and equipment at hydropower and thermal power stations; rehabilitating distribution systems; establishing a market operation system, and improving corporate governance through implementation of pilot projects in financial management information system. Progress to date has been solid. Generation and export of electricity have reached record levels; environmental compliance has improved with the installation of emissions controls at the Kakanj thermal plant near Sarajevo; and dam safety measures are being assessed which will form the basis for the European Investment Bank to finance the necessary investments to improve dam safety at seven facilities; one of the power companies (EPHZHB) used its own resources to scale up the financial management information system throughout the company and seeing the benefits the other two power companies (EPBiH and EPRS) have also decided to implement these systems throughout their companies. The project was restructured in late 2010 and until the new scheduled closing date in mid 2012, will focus on implementation of remaining measures for improvement of environmental performance at Tuzla, Kakanj, Ugljevik and Gacko thermal power plants. The Bank is working closely with other providers of funding, including EIB, EBRD, and KFW.

- ***CPS Outcome: Stronger State and Entity institutions to deliver more efficient and effective agricultural services.*** Increasing the competitiveness and productivity of farmers and agro-processors is paramount to ensure the viability of the agriculture sector and improved rural livelihoods. The project has contributed to the increased institutional capacity and agricultural information essential to making BH's agricultural sector more competitive. For example, pest inspections using standard risk analysis are increasing, rulebooks on phytosanitary requirements have been completed, and food safety reference

laboratories are being constructed. Activities in FY12 are designed to help build systems that will bring BH into compliance with EU Agricultural and Regional Development standards.

- ***CPS Outcome: Improved irrigation systems and institutional framework to support increased agricultural production for farmers and agricultural producers.*** 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. In most locations in the country the transition from subsistence and marginal farming to commercial agriculture would rely on the timely availability of irrigation water. Key results would include (i) functioning irrigation schemes growing higher-value irrigated crops; (ii) schemes with significantly changed cropping pattern; (iii) total production (crop areas and yields) increased by 20 percent in the project areas; (iv) service fee collection rates at 70 percent of the agreed tariff within two cropping seasons after the start of the irrigation service; and (v) conducive regulatory framework for irrigation management. Project preparation is to be supported by EU funds.
- ***CPS Outcome: Upgraded road network to reduce traffic accidents and accommodate yearly hikes in traffic volumes.*** The 2007 Road Infrastructure and Safety project, co-financed with EBRD and EIB, (scheduled to close in mid 2012), will rehabilitate some 220 km of roads, reducing user costs, cutting injuries and fatalities, and making the country more competitive as a transit route. Road rehabilitation has been complemented by institutional progress, with Entity level road safety strategies and the establishment in the RS of a road safety agency. During FY12, the project will complete the civil works for the remaining road sections to be rehabilitated and focus on strengthening the collection of road user costs and road condition data, as well as seeing the outputs of the road safety technical assistance.
- ***CPS Outcome: Improved commercial use of Sava River Corridor across boundaries of Croatia, BH and Serbia.*** The 1992-1995 war severely damaged the Sava River, which had served an important role in the region's transportation network. The Sava River Navigability project, scheduled to be presented to the Board in FY13, will support the removal of debris, dredging, strengthening river banks, and other infrastructure repair. It will also modernize navigability on the river through an information and tracking system, strengthened institutional management, and support to generate investment in mine clearance. It is part of a sub-regional initiative, with the Bank financing the rehabilitation works in BH, with the works in Croatia and Serbia likely to be funded by the EU. The project was originally included in the FY08-FY11 CPS, but was postponed in part because of the financial crisis.
- ***CPS Outcome: Orderly development of transparent land markets through registration of real estate rights and complimentary policies that enable transactions to be made with security and efficiency.*** With less than half a year until its closure, it is expected that the project will complete the reduction of what was an enormous backlog of cases (80,000 in 2006). Impressive progress has been achieved in large courts, such as Sarajevo, Banja Luka, Tuzla and Mostar. Renovation works will continue to improve the working conditions and service provision in land registration and cadastre offices. Digitizing of records has proceeded well, both for the digitizing of land book folios and the cadastral maps. The expected outputs for the whole project are already over 90 percent achieved, and it is expected that all targets will be achieved before the end of the project period. A potential follow on operation would further improve the quality and accuracy of land records and support local development by helping to solve the problems that investors experience in the land market and in obtaining construction permits.

II: Inclusion

90. **This CPS will support the country goal of improved social inclusion** by focusing on increasing the targeting and fiscal sustainability of cash transfers, strengthening job services, and improving the delivery of local level basic public services such as waste management.

- ***CPS Outcome: Increased share of social benefits reach the poorest, with more effective job services.*** Despite extraordinarily high expenditures on social assistance, benefits for those with very low incomes, for child benefits and for people with non-war related disability are either small or non-existent. The Bank supported the Government in the ambitious reform of its social benefits system, to make it both more sustainable and effective in reducing poverty. The 2010 Social Safety Net and Employment project will continue throughout the CPS to provide BH with technical assistance toward establishing a targeting system, improved transparency and reporting about beneficiaries, and the provision of job brokerage services to vulnerable active job-seekers.

- ***CPS Outcome: Reduced incidence of non-communicable disease through increased access to quality family medicine primary health care.*** The 2005 Health Sector Enhancement project, which has been extended until 2014 through additional financing, is supporting both Entities in developing primary health care strategies to increase the number of qualified primary health care practitioners and the physical infrastructure necessary for their practice; improved management capacity; and strengthened evaluation of the sector. In 2010, the authorities requested additional financing to scale up project activities in both Entities to enhance the development impact, covering the education of more family medicine doctors, the retraining of more existing primary health care teams and reaching more communities through the upgrade of the family medicine offices. The project will provide this support throughout the CPS period. To address the larger sectoral policy issues, the Bank is providing analytical support through a review of public expenditures including health.

- ***CPS Outcome: Improved availability, quality, environmental soundness, and financial viability of solid waste management services in participating utilities/regions.*** The Second Solid Waste Management project, which became effective in late 2009 and is expected to close in early 2014, is designed to achieve the following outcomes: reduce by half the number of BH households not served by the formal waste management system; close a quarter of the dangerous wild dump sites that scar the countryside; improve ground water quality at disposal sites; strengthen cost recovery of solid waste utilities; and improve environmental monitoring of the sector. EU co-financing for landfills in Banja Luka and Mostar will further improve the quality and expand the scope of solid waste management services. Additional EU co-financing (€5.7 million) will also be available during this CPS period to finance investments in five more regional landfills and consequently further increase the scale of the ongoing Second Solid Waste Management Project.

III: Environmental Sustainability

91. **The CPS aims to ensure that natural resources important for the country's economic and social development, such as water and forests, are managed sustainably.**

- ***CPS Outcome: Reduction in the population's exposure to, and reliance on, highly polluted water from the Miljacka and Bosna Rivers; and improved efficiency of waste water collection in the Sarajevo Canton.*** The Sarajevo Waste Water project, a co-financing partnership between the World Bank and the EU, is expected to close at the end of the CPS period. The project will support the

reduction of river pollution through treatment of waste water treated at the primary level and the upgrading of waste water infrastructure in the project area.

- ***CPS Outcome: Reduced pollution from municipal sources into the Neretva and Bosna Rivers, and ultimately reduced municipal pollution and nutrients in the Adriatic Sea and the Danube Basin.*** The GEF Water Quality Protection and GEF Neretva and Trebisnjica projects are strengthening water management, including regional cooperation with Croatia, Montenegro, and Serbia toward a comprehensive water improvement plan. Before its closure in August 2012 and December 2013 respectively, the project will continue to rehabilitate waste water treatment plants in participating cities and identify achievable annual reductions in nutrient and effluent discharge and movement toward compliance with the EU water law. EU grant co-financing for GEF Neretva and Trebisnjica Management project will allow for additional investments to rehabilitate the sewerage network in Ljubuski.
- ***CPS Outcome: Improved sewerage and water treatment at municipal level.*** A planned partnership with the EC is likely to mobilize additional EU IPA grant funds to support the improvement of sewerage and waste water treatment under the IPA 12-13 allocations.
- ***CPS Outcome: Expanded network of protected forest and mountain areas, and strengthened institutional and technical capacity for their sustainable management.*** The GEF Forest and Mountain Protected Areas Project, which is expected to close in mid-2013, is supporting protected area development through local initiatives in biodiversity conservation. To date, both Entities have allocated budget for protected area management—with protected areas having nearly quadrupled since the project's approval—and management plans are underway for new national parks.

Box 3: IFC - Renewable Energy in BH

Renewable Energy (RE in Bosnia and Herzegovina (BH) is part of the larger regional Balkan Renewable Energy Program (BREP) with a focus on small hydro power plants. The Project in BH expected to facilitate more than US\$120 million in financing, including US\$15 million from IFC, to support the construction of 40 small hydropower plants with a total installed capacity of 80 MW and potential for green-house-gasses emission reduction of 0.5Mt CO₂/year. Through this project IFC will contribute to improving the existing regulatory framework to enable financing in renewable energy projects, assist to the sponsors to strengthen their designs and business plans, and improve the capacities of selected financial institutions to evaluate and finance small hydropower plants and other renewable energy projects. These activities would be complemented with workshops and seminars targeting sponsors, financial institutions and wider public to create a comprehensive framework to support the development and implementation of renewable energy projects. IFC will provide long-term financing to the local banks interested in financing renewable energy projects. Also, as an IDA country, BH can benefit from IFC's Infra Venture facility that assumes joint work with a sponsor on project development and/or financing.

- ***CPS Outcome: Greater Energy Efficiency:*** In the infrastructure sector, financing renewable energy projects remains one of IFC's priorities in BH. IFC's strategy is to contribute to a more environmentally sustainable and efficient energy sector by supporting private investments in greener energy with a particular focus on supporting the construction of new hydro power plants. IFC expects to play an increasing role through its advisory services as well as its financing to facilitate private financing for PPP transactions for new hydro power generation facilities. Although the Government has recently passed a new concessions law that is generally consistent with international best practice, the by-laws and regulations have yet to be adopted. The Government has limited experience implementing PPP projects and IFC expects to play an important role through both financing and advisory services. Financial support for the key corridors remains also a priority for BH and PPPs would be an effective and sustainable solution for their financing and maintenance. IFC will look for opportunities to engage with financial institutions interested in providing lending to industrial/commercial and residential housing sector clients with a focus on energy efficiency projects.

- ***CPS outcome: better insurance coverage for BH businesses and households in the event of a natural or climatic disaster.*** The Bank plans to provide investment support to facilitate BH's participation in the Regional Southeastern Europe and Caucasus Catastrophe Risk Insurance Facility (SEEC CRIF). The objective of the SEEC CRIF is to increase access to financial protection for the Government as well as homeowners, farmers and small and medium enterprises (SMEs) from losses due to weather extremes caused by climate change and relevant geo-hazards, such as earthquakes, landslides, droughts, floods, etc. The Government has requested the Bank to provide a small (US\$5 million) IDA credit to finance its participation in this regional facility, which would be provided out of both the country's allocation and regional IDA resources.

- ***CPS Outcome: better flood preparedness and management along the Drina river basin.*** The Western Balkans Flood and Drought Initiative would bring a GEF grant to develop cross-border cooperation between BH, Serbia and Montenegro for integrated river basin planning and management on the Drina—the Sava's largest tributary—which saw major floods twice in 2010. The Initiative will address flood protection, early flood warning capability, drought mitigation, hydropower operation and eco-system management. It will introduce best-practices in river management at a regional scale in compliance with the EU Water Framework Directive (WFD), and help apply measures for adaptation to climate change. The Initiative would generate substantial national as well as regional benefits, with an important role for the International Sava and Danube Commissions. Additionally, BH would use this planning and capacity building to seek incremental Regional IDA credits to reduce vulnerability against floods along the Drina. This could include investments for rehabilitation and improvement of dyke and related infrastructure, and restoration of flood plains and river channels, to improve flood security. Policy options and designs will be informed by the integrated river basin management analysis resulting from the Regional GEF Initiative. The BH flood and drought investments may potentially attract IPA funds.

C. Operational Principles and Partnerships

92. **Four principles underlie the operational approach in this CPS: (i) selectivity, (ii) flexibility, (iii) result focus, and (iv) partnerships.** These principles are derived from the lessons of experience in the previous CPS and consistent with best practice in Middle-Income Countries. Additionally, there will be an emphasis, whenever the conditions allow it, to promote the use of regional projects to support the further integration of the BH economy with neighboring economies and cooperation in the region.

- **Greater selectivity will lead to portfolio consolidation.** Lending for fewer, larger projects and greater selectivity in new lending are key elements of the Bank strategy in the ECA region. It represents a critically important change necessitated by limited lending envelopes and constrained administrative budgets, and will free up Bank internal resources for more analytical and advisory work to provide timely knowledge to address the country's emerging challenges.²⁶
- **The framework will be applied flexibly over the course of the CPS.** An initial selection of programs for FY12-FY13 is proposed below (table 7). The technical analysis and a good part of preparation for these programs were completed during the FY07-FY11 CPS. However, the selection of interventions—particularly for the outer years of the CPS—remains open to modification at an early CPS progress review, as reform priorities for the newly elected authorities evolve and based upon performance of the ongoing programs and availability of funds.
- **The operational framework will focus on the impact of WBG supported activities.** The emphasis on results contributing to the achievement of the program's development objectives will guide the implementation of the CPS and joint reviews of the program with the local authorities.

²⁶ Additionally, with fewer Bank-financed projects under implementation, the Bank will in a better position to meet the growing demand to implement externally (mostly EU) co-financed operations.

- **Partnerships with other development partners will be developed and strengthened.** In particular the partnership with the EU will continue to be strengthened on the principle that Bank's assistance should be aligned almost entirely with and support BH's EU accession effort

93. **This CPS builds on an analysis of BH's key development challenges, and proposes support and expanded coordination with European partners to help advance EU accession.** The EU has established clear criteria for BH's accession and the EC identifies the strategic objectives of the Instrument for Pre-accession Assistance (IPA) on the basis of a Multi-annual Indicative Planning Document (MIPD)²⁷. The EU is supporting the MIPD agenda with some €108 million per year IPA funds. Further it monitors progress in each potential candidate country along three key areas: Political Criteria; Economic Criteria; and ability to assume the obligation of membership in various sectors, and issues annual reports on the progress achieved. Proposed Bank Group assistance is informed by these reports, with specific interventions determined by where there is a comparative advantage.

94. **The Bank strategy supports some key EU MIPD goals.** Under the MIPD political criteria the priority is the strengthening of administrative capacity in BH to achieve a more sustainable and functional public sector. Social inclusion of vulnerable groups and the implementation of a vigorous anti-corruption strategy are also priorities. The Bank is contributing to these goals with the DPO program and the Social Safety net project, and other project and AAAs activities targeted at technical issues of governance. The MIPD economic criteria focus on macroeconomic stability, business environment and competitiveness for economic growth and job creation, particularly through the strengthening of regulatory capacity, the development of the SMEs sector and local economic development, as well as through the strengthening of active labor market measures. The EC's 2010 progress report noted some areas of progress, including adherence to the IMF SBA and the reform of social expenditures supported by the Bank's DPO, the maintenance of monetary and financial stability, and overall market integration with the EU. Areas of concern relate to high unemployment and the structural rigidities such as the high rates of social contributions and low labor mobility that hurt job creation and labor market participation. It further notes high and poorly targeted social transfers that reduce the propensity to work. These are all areas in which the Bank is active and will continue to provide support during this CPS. Finally, with respect to BH's capacity to adopt European standards, the MIPD supports among other priorities the strengthening of a single economic space in BH, the expansion of quality infrastructure, the enhancing of agriculture, food and rural development, the prioritization of environmental infrastructure, and cross-border cooperation with Croatia, Montenegro and Serbia. Again, Bank Group assistance proposed in this CPS strategy is fully aligned with these goals.

95. **The Bank Group and the EC have also agreed to develop a program of co-financing in the area of environmental infrastructure.** Box 4 describes this program mostly focused on water and water treatment and solid waste management at local level and the table below illustrates where the Bank has and will continue to complement and leverage the EU investments.

²⁷European Commission, Instrument for Pre-Accession Assistance (IPA) Multi-annual Indicative Planning Document (MIPD) 2009-2011

Table 6: WB Program Alignment with EU Criteria

EU Criteria	POLITICAL CRITERIA	ECONOMIC CRITERIA	EUROPEAN STANDARDS
Key Areas and WBG Instruments From Current Portfolio and Proposed in FY12-FY15 CPS	<u>Public Administration</u> Development Policy Operation (DPO)	<u>Macro Stability and Quality of Public Spending</u> DPO, and PER	<u>Single Economic Space</u> DPO, All Investment Projects, Sector Analysis and Country Dialogue; ROSC
	<u>Governance – Anti Corruption</u> Social Safety Net Project; PFM and Public Procurement AAAs, and PER	<u>Sector and Enterprise Structure</u> IFC	<u>Transport Policy</u> Road and Safety Project, Sava River Project
	<u>Economic and Social Benefits</u> Social Safety Net, Primary Health Care, Land Registration and Cadastre Projects; DPOs; Gender and Poverty Analysis	<u>Business Environment</u> IFC/WB/SIDA: Business registration, “Guillotine”, Inspection Project;	<u>Agriculture policy</u> Agriculture (being restructured) Project
		<u>Upgrading Infrastructure</u> Transport, Energy, Water and Sanitation, Solid Waste, Irrigation, Water Quality GEF projects	<u>Energy Policy</u> SEE III (Power Sector IV) Project
		<u>Competitiveness and Productive Capacity</u> Land Registration and Cadastre, SME, Irrigation, and Sava navigability projects	<u>Water and Environment</u> Water and Sanitation, Solid Waste Management, Forestry and Mountain area GEF, Neretva and Trebisnjica GEF, Water Quality GEF Projects
		<u>Structural rigidities</u> DPO1; DPO2-3 (pensions, wages, health, insurance...) Social Safety Net project	<u>Social policies and Public Health</u> DPO; Social Safety Net, Primary Health Projects
			<u>Industry and SMEs</u> SME Project
		<u>Cross-Border Cooperation</u> Sava navigability, Flood Control, CRIF	

D. The CPS Financing Program

96. **New World Bank financing during the CPS period will be constrained.** The majority of financing during FY12-FY15 will likely come from completion of operations started under the previous CPS. Total remaining disbursements of the active portfolio are expected to amount to some US\$200 million.

97. **Total new IDA credits are expected to amount to roughly US\$148 million, including 18 million designated for regional projects²⁸.** The proposed CPS lending program indicates that the IDA resources will be allocated to five or six investment operations, including an irrigation project, a regional inland waterway project (Sava River), a follow-up land administration project, and a small operation to support BH's participation in a regional catastrophe risk insurance program (CRIF). Each of these operations represents continuity with the previous CPS since the delivery of these operations was delayed to respond to the global economic and financial crisis with the first DPO and the line of credit for SMEs.

²⁸ Actual allocations will depend on: (i) the country's own performance; (ii) its performance relative to that of other IDA recipients; (iii) the amount of overall resources available to IDA; (iv) changes in the list of active IDA-eligible countries; (v) terms of financial assistance provided (grants or loans); and (vi) the amount of compensatory resources received for MDRI.

Preliminary discussions with the authorities have also identified interest in municipal development, forestry, energy/energy efficiency, health sector computerization, corporate restructuring of voucher privatized companies, and regional flood control for the latter period of the CPS. Continued engagement ahead of the CPS Progress Report will determine which of these sectors to support, taking into consideration portfolio consolidation, its performance, and available resources.

98. **IBRD financing will also be highly selective.** At present, IBRD resources would be limited to policy lending to leverage reforms initiated under the previous CPS. The current indicative lending plan, assuming an appropriate macroeconomic policy framework, is to prepare the second in the DPO series in late FY12 (US\$100 million), to consolidate reforms in BH's social benefits system and advance reforms in public wages and pensions. Given the uncertainty in the political situation and macroeconomic framework, this schedule will remain highly flexible. Consideration of the 3rd operation of the programmatic DPO series will depend on satisfactory country performance, particularly a sound macroeconomic framework, demands from other IBRD borrowers, and IBRD's lending capacity in BH.

Table 7: Proposed IBRD/IDA Lending Program by Fiscal Year (in US\$m)

	IDA		IBRD	TOTAL
	Country	Regional		
FY12				
2 nd Programmatic Development Policy Operation			100	
Disaster Management CRIF	2	3		
Irrigation Development	40			
<i>FY12 Total</i>	42	3	100	145
FY 13				
Land registration II	30			
Sava Waterway Rehab	16	15		
3 rd Programmatic Development Policy Operation*			100	
<i>FY13 Total</i>	46	15	100	161
FY14-15				
Sector Investment Operations**	42			
Regional Flood Control GEF**				
<i>FY14-15 Total</i>	42			42
<i>Overall Total</i>	130	18	200	348

*The 3rd DPO is presented here as the last in the programmatic series, but will depend on the availability of IBRD financing, along with sustained sound macroeconomic framework.

**The Number of investment operations in FY14 and FY15 will be revisited in the CPS Progress Report and will depend on the progress in consolidating the portfolio and client priorities. Annex 3 describes the on-going and planned Trust Fund program that will complement above Bank financing

99. **Portfolio consolidation will not result in disengagement.** The Bank will support fewer but larger projects during this CPS. This will free up internal Bank resources for timely analytical products. It will also free up staff time to help meet increasing demand from the EC and other partners for project implementation assistance from the Bank through IPA and donor financed trust funds.

100. **Trust Funds managed or implemented by the WBG total US\$60 million and provide additional financing to support the CPS goals.** There are three GEF grants helping to improve water and sanitation in urban infrastructure, and enhancement of ecosystem protection. As indicated in Box 4, the EC has approved EU IPA €23.6 million for Bank managed TFs in the environment and regional waterway transportation. Among bilaterals, Sweden is a particularly important development partner, with

Trust Fund support in agriculture, business climate and water management. Recent TF programs, such as the ones agreed with the EC and SIDA, were designed to cover the WB costs to manage their implementation. Future new TFs will also abide to this principle. Several multi-donor TFs are supporting country specific and regional analytic work which will benefit BH in a number of areas: (i) integrated development and management of water resources and hydropower in river basins; (ii) science, R&D and innovation; and (iii) accounting standards in the private and public sectors; (iv) public financial management; (v) Catastrophe Risk Insurance Facility. The work supported by these TFs will continue during the FY12-15 CPS period. Details of each of the TFs and the amounts allocated are included in Annex 3.

Box 4: A successful partnership - EC and the WB in BH and the Western Balkans

The European Commission (EC) and the World Bank have been cooperating in BH for many years, most recently on the implementation of EU Instrument for Pre-Accession (IPA) grants in the environmental infrastructure sector. This has allowed the Bank to even better align its operations in BH to the EU agenda while expanding the scope and impact of Bank supported operations. For the EC, this cooperation offers the possibility of strengthening implementation of IPA funds in a complex environment, while benefitting from technical analysis and project management during design and implementation. The EC and the National IPA Coordinator (NIPAC) approved EU IPA €22.6 million for TFs to be managed by the Bank, which provide co-financing resources for five investment operations supported by the Bank: Solid Waste Management - landfills in Banja Luka and Mostar; Water Quality Protection GEF - waste water treatment plant in Zivinice; Neretva and Trebisnjica GEF - sewerage system in Ljubuski; Sarajevo Waste Water Management; and Sava Navigability - feasibility studies and demining. Administrative agreements with the Bank will be signed in early FY12 (see Annex 3). Strong partnership with the EC will continue to be pursued in the area of water management and environment under this CPS.

Further possibilities for cooperation between the EC, European IFIs and the Bank in the Western Balkans have been opened by the agreement in June 2011 to grant associate membership of the World Bank Group to the Western Balkans Investment Framework (WBIF). The WBIF is a financing mechanism designed to pool grants, loans and expertise from the countries of the Western Balkans, the EC, IFIs and bilateral donors to prepare financing for a common pipeline of priority investment projects. This framework provides for the possibility to allocate some of the funding to analytical, policy reform and sector strategy work as well as capacity building. This new type of project, called a "sector development project" would be complementary to the other types of support currently provided by the WBIF (mainly technical assistance and co-financing). These grants would be linked to future investment plans and open possibilities to finance projects through the blending of grants and loans. Similarly, the policy based work and sector strategies funded in this way could also lay a solid foundation for sector based approaches to be implemented under national IPA envelopes, such as in BH, as well as to improve the overall policy, institutional and regulatory environment for all domestic and IFI investment projects.

101. IFC expects to increase its financing to the private sector to a level of US\$80-US\$100 million. IFC seeks to improve the competitiveness of the country and contribute to its sustainable development through direct financing and advisory services in key sectors including financial sector, agribusiness and energy sectors. Also, through its advisory services IFC will provide its support to improve country's business environment. IFC's priorities are to: (i) support access to finance for SMEs through financial intermediaries and for the most vulnerable through microfinance institutions; (ii) continue to promote markets for energy efficiency and renewable energy; (iii) promote PPPs in infrastructure sectors; and (iii) provide advisory services to governments to improve the business enabling environment for SMEs and to help strengthen financial sector infrastructure.

102. The current net exposure of the Multilateral Investment Guarantee Agency (MIGA) as of March 31, 2011, amounted to US\$60.1 million in 9 projects. The majority of these projects provide guarantees to support equity investments and shareholder loans from Western financial institutions into their local subsidiaries in Bosnia and Herzegovina. One project involves a guarantee supporting the

establishment of a greenfield manufacturing facility for high-grade processed steel components for export to the automobile industry abroad. MIGA's continuing support to these projects signals the Agency's efforts to continue to underwrite projects in the country, encourage inward FDI despite the challenging business environment, and add to the World Bank Group's strategy of encouraging private sector development by addressing real and perceived bottlenecks in the country's operating environment.

VI. RISKS

103. **The principal risk in BH is continued political fragmentation and stalemate.** Based on the Bank's previous experience with policy lending in BH, the risk of policy reversal is significant. In particular, failure to advance with sensitive reforms in social assistance benefits agreed to under DPO I or an overall deterioration of the macroeconomic framework would lead to postponing or even cancelling DPOII. In this case the Bank will consider reallocating the remaining IBRD resources (about US\$50 million) to investment operations. Moreover, should completion of the reform of the social benefits system languish, fulfillment of expected outcomes in competitiveness and social inclusion would also be put at risk. It would undermine progress toward gains in fiscal stability and stall reductions in the labor tax wedge; and, most important, the goal of targeting scarce resources to the truly poor will be once again postponed. To help mitigate this risk, the Bank will engage in policy reforms under the DPO series only if there is demonstrated political willingness to undertake them. Technical assistance on benefit targeting is underway, and social inclusion is fully integrated into the Government's dialogue with the IMF. Finally, specifically related to Bank resources, the Bank is ready to reallocate the original amount of IBRD financing remaining from the FY08-FY11 CPS to high impact investment operations. The Bank will help mitigate the negative impact of a prolonged political stalemate to the operations through: strong partnership with the EC, *in primis*, the IFIs, and other development partners, and by adhering to the principle of the single economic space.

104. **Prolonged volatility and slow growth in the euro zone and neighboring countries may undermine BH's economic recovery.** In light of the concentration of BH' trade with Europe and neighboring countries, the implications of slow growth in these regions or of a deepening of the sovereign debt crisis in the Euro zone, may be great for the BH economy and put pressure on the currency board arrangement. While the mitigation of these risks is largely beyond the scope of this CPS, the Bank remains focused on monitoring the evolution of the crisis in Europe and in the ECA region to provide timely advice on the implications for the BH economy. Additionally, the CPS program is focused on removing some of the bottlenecks to competitiveness and productivity and on creating an effective and affordable safety net.

105. **Third, extreme weather events and growing variability in rainfall and temperature are already affecting the ECA region, and BH is among the most severely affected countries in the region.** Intensifying flooding and drought could undermine growth in a number of critical areas to BH's development, including agriculture, forestry and hydro-power. Planned operations in irrigation, regional flood control and catastrophe risk mitigation should help BH prepare for these potential challenges.

Annex 1: Bosnia and Herzegovina - Country Partnership Strategy FY12-FY15

RESULTS MATRIX

Country Development Goals	Issues and Obstacles	CPS Outcomes	Milestones	Bank Program (and Partners)
<i>Pillar I - Competitiveness: Support economic growth by tackling some of the bottlenecks to competitiveness and faster productivity growth</i>				
<p><i>Competitiveness increase through, inter alia, improvement of business environment.</i></p> <p><i>Improve employment opportunities through support for SMEs creation and development, including promotion of entrepreneurship among women.</i></p> <p><i>Promote sustainable development through; inter alia; establishment of a functional institutional capacity for agriculture and rural development; stimulating development of the energy sector; and further developing the transport infrastructure.</i></p>	<p>At least three country goals outlined in the Country Development Strategy 2010-2014 (CDS), (<i>increased competitiveness, employment and sustainable development of agriculture, energy and transport</i>), will be supported by the World Bank Group (WBG) activities under Pillar I. The CPS program will contribute to the achievement of these country development goals through both existing and new operations.</p> <p>BH is ranked at 110th place in the Doing Business 2011. Country's weak business environment is one of the main factors affecting its overall competitiveness. The WBG program will contribute to improving the overall business environment, and competitiveness by:</p> <p>(i) improving fiscal sustainability as a foundation for growth and competitiveness. This goal will be supported under the DPO program - see Pillar II below.</p> <p>(ii) improving business environment by strengthening</p>	<p><i>Transparent land markets developed through registration of real estate rights, and complimentary policies that enable transactions to be made with security and efficiency.</i></p> <p>Baseline (2010): 80,000 backlog of cases and several months (on average) to complete transactions (2010)</p> <p>Target (2011): almost no backlog of cases and transactions completed in one day for 95% of cases. Target (2015) in case of the follow up project: further improved transparency and efficiency by making the integrated registration and cadastre information available on line nationwide.</p> <p>~</p> <p><i>Improved investment climate by: a) reducing costs and risks of businesses by improving inspection services, business operations and exit processes; b) improving the information and data exchange system among institutions in BiH in order to comply with respective EU processes, and c) enabling capacity building within institutions.</i></p>	<p><i>Registration data entered into automated database for 2 million folders.</i></p> <p>Baseline (2010): 1,453,171 folders completed (RS: 556,171 and FBH 897,000).</p> <p>Target (2011): 1,600,000 folders completed.</p> <p><i>Completion of systematic registration and cadastre in eight pilot sites.</i></p> <p>Baseline (2010): In the FBH - two pilot sites completed, and works are ongoing at two additional sites.</p> <p>Target (2011): 8 sites completed. Target (2015) in case of the follow up project: 25% of the country covered.</p> <p><i>Regulatory simplification of administrative procedures to be completed in selected municipalities, cantons, entities.</i></p> <p>Baseline (2011): So far only 15 out of 143 municipalities, 1 out of 10 cantons underwent regulatory simplification work of administrative procedures.</p> <p>Target (2014): 12-13 municipalities, 2-3 cantons to undergo regulatory</p>	<p><u>Current portfolio:</u> Land Registration Project (P096200)</p> <p><u>AAAs:</u> Public Expenditure and Institutional Review (underway, FY12 deliverable); REPARIS; Innovation and Science; Benefits of economic integration.</p> <p><u>Partners:</u> GtZ, EC,</p> <p><u>Potential new financing:</u> Land Registration II</p> <p><u>New financing:</u> IFC Advisory Services TA Project on Investment Climate and Competitiveness</p> <p><u>Partners:</u> SIDA, SECO, Austrian Government</p>

	<p>and upgrading the system of property registration (Land Registration Project I and II), and through advisory services, aimed at strengthening the regulatory framework and eliminating administrative bottlenecks for business registration and operations (IFC advisory services - competitiveness project).</p> <p>(iii) improving access to finance for SMEs and micro-entrepreneurs through IBRD financed line of credit for SMEs and IFC's support to the corporate, and the financial sector, including partnership with MCO MI-Bospo which provides credit services to female entrepreneurs.</p> <p>(iv) REPARIS (Road to Europe Program of Accounting Reform and Institutional Strengthening) will assist Western Balkan countries in aligning their accounting and auditing framework for the private sector with the EU <i>acquis communautaire</i>.</p>	<p>Baseline (2011): 12 procedures, 55 days to register a business in BH.</p> <p>Target (2014): Reduction in time and procedures to commence operations in BH for 10%, and improvement of investment climate through reformed inspection services and information exchange</p> <p><i>Enhance access to finance for SMEs in the context of the global financial crisis.</i></p> <p>Baseline (2010): lending under the Enhancing SME Access to Financing project by participating PFIs to SMEs - 0 US\$</p> <p>Target (2014): US\$ 70 million.</p> <p><i>Improved confidence in the financial statements of business entities, including SMEs, will enhance access to finance and alleviate the administrative burden on SMEs by using accounting standards adapted to their size</i></p> <p>Baseline (2010): Partial implementation of the EU <i>acquis communautaire</i> as it relates to corporate financial reporting. Uneven application of international standards for financial reporting.</p> <p>Target (2015): Better implementation and application of the EU <i>acquis</i> and international standards</p>	<p>simplification of administrative procedures; both entities to continue regulatory simplification.</p> <p><i>Medium and long-term loans disbursed under the project by participating PFIs to SMEs.</i></p> <p>Baseline (2011): US\$ 8.2 million</p> <p>Target (2014): US\$ 70 million</p> <p><i>Improved accounting and auditing framework implementing EU requirements.</i></p> <p>Baseline (2011) As related in the Accounting and Auditing ROSC, the corporate financial reporting framework is partially aligned with the EU <i>acquis</i>; IFRS for SMEs adopted as the accounting requirement for SMEs remains to be implemented and further aligned with EU requirements.</p> <p>Target (2015): Legislative and regulatory proposals for the Corporate Financial Reporting to be aligned with the EU <i>acquis</i>. Better application of financial reporting standards and quality assurance mechanisms over audit of public interest entities.</p>	<p><u>Current portfolio: Enhancing SME Access to Finance</u> (P111780); IFC investments in MFIs..IFC's Microfinance Advisory Project</p> <p><u>AAA</u>: Western Balkan Financial Sector Assessment; Consumer Protection TA.</p> <p><u>Partners</u>: EBRD</p> <p><u>AAA</u>: REPARIS; National Program on Corporate Financial Reporting</p> <p><u>Partners</u>: EC, ADA, SECO, Government of Luxembourg</p>
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	<p>Lack of institutional capacity and coordinated policy interventions limit productivity and undermine the achievement of country's full export potential in agribusiness, particularly towards the EU. The on-going Agriculture and Rural Development Project aims precisely to strengthen institutional capacity for agriculture and rural development. Furthermore, the strengthening of agricultural production will be supported with new investments in irrigation systems.</p> <p>Various on-going and planned operations under the new CPS will support the country goal of further developing transport infrastructure. BH participation in the development of a regional energy market in South Eastern Europe is being supported under the ECSEE APL3 operation, while the reduction of roads users costs and the improvement of road safety are pursued through the on-going Road Infrastructure and Safety Project. Expanding the Sava river potential for commercial use is going to be supported by the planned regional Sava River Navigability Project (FY12) prepared with the support of a EU grant TF. Development of the renewable energy sector in BH has been supported by the IFC.</p>	<p><i>Stronger State and Entity institutions deliver more efficient and effective agricultural services.</i></p> <p>Baseline (2010): Lack of adequate farm and client livestock registers necessary for tracking of direct payments and tracking of livestock movement. Lack of effective demand driven extension services. Regulatory framework under development by FSA, APPH, and SVO to operationalise registries, and inspections services. Capacity building at laboratories under way. Draft extension strategies in both entities completed. Drafts lack strategic vision to develop sustainable system.</p> <p>Target (2012): 50% of holdings registered in central farm and client register; 70% of large livestock registered in the national register. 60% of regulatory framework approved by the Council of Ministers.</p> <p><i>Improved irrigation systems and the institutional framework to support increased agricultural production for farmers and agricultural producers.</i></p> <p>Baseline (2011): area (ha); number of functional WUAs tbd in CPS Progress Report</p> <p>Target (2016): tbd in CPS Progress Report</p> <p><i>BH participates in the SEE energy market, and is meeting requirements for integration into the EU energy market.</i></p>	<p><i>Entity payments made through transparent paying system, MoFTER accesses entity agriculture payments databases and information systems for reporting purposes.</i></p> <p>Baseline (2010): no transparent payment system. In the FBH, 30% of payments made on IPARD approximating principles, in the RS 50% of payments made on IPARD approximating principles.</p> <p>Target (2012): a) 100% of IPARD approximating RD payments made through transparent paying system and policy decisions; MoFTER has access to agriculture payments database and publishes consolidated reports.</p> <p>.</p> <p><i>Irrigation project design completed and project approved by the Board.</i></p> <p>Baseline (2011): Project concept approved, preparation underway.</p> <p>Target (2012): Project approved by the Board and declared effective by the end of 2012.</p> <p><i>Progress in addressing environmental issues, and strengthening capacity of three power management companies.</i></p>	<p><u>Current portfolio:</u> Agriculture and Rural Development Project (P101213)</p> <p><u>Partners:</u> SIDA, EC.</p> <p><u>New financing:</u> Irrigation Development Project (FY12), CRIF, Regional Flood Control Project - if these operations are pursued, performance indicators will be included in the CPS PR.</p> <p><u>Current portfolio:</u> ECSEE APL3 (P090666)</p> <p><u>Partners:</u> KfW, USAID, EC, EBRD, EIB</p>
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	<p>All the above mentioned operations are fully aligned with the fifth strategic goal of the BH's CDS - EU accession, which - under the old and new CPS remains the cross-cutting theme of the WBG's assistance in BH.</p>	<p>Baseline (2005): electricity generation - 12,800 gWh. In 2009, generation and export reached record levels. Regulatory framework for renewable energy projects not enacted. Twenty RE projects developed.</p> <p>Target (2012): Equal or greater electricity generation. Number of laws / regulations /amendments enacted on entity level 12: (FBH 6; RS 6). No of renewable energy projects implemented - 60. As a result of new RE plants – 0.5 MtCO₂e/year avoided</p> <p><i>Upgraded road network, and reduced user costs on the priority sections</i></p> <p>Baseline (2010): the FRD and RSRD collect data on road user costs for rehabilitated road sections.</p> <p>Target (2012): 10% road user cost reduction.</p> <p><i>Improved commercial use of the Sava river corridor (Croatia, BH, and Serbia) in BH.</i></p> <p>Baseline (2011): sections of the river are not navigable.</p> <p>Target (2017): Priority sections of the Sava river returned to navigability.</p>	<p>Baseline (2010): Progress in EPBiH - 15%; EPHZHB - 80%; EPRS - 15%. Regulatory framework for renewable energy projects not developed.</p> <p>Target (2012): 100% in all three power management companies. Two entity-level Renewable Energy Laws drafted. Amendments to Laws on Concessions, standardized contracts/agreements and selection criteria documents drafted. Work with 10 RE Project sponsors initiated.</p> <p><i>220 km of non-rural roads rehabilitated.</i></p> <p>Baseline (2010): 134 km (82 km in the FBiH, and 52 km the RS).</p> <p>Target (2012): 220 km.</p> <p><i>Project design completed and project approved by the Board.</i></p> <p>Baseline (2011): project preparation underway.</p> <p>Target (2013): Project approved by the Board and declared effective by the end of 2012.</p>	<p><u>Potential new financing:</u> Energy Efficiency; IFC investments in renewable energy. Performance indicators will be included in the CPS PR.</p> <p><u>AAA:</u> IFC advisory services - Renewable Energy Bosnia and Herzegovina Project.</p> <p><u>Current portfolio:</u> Road Infrastructure and Safety Project (P100792)</p> <p><u>Partners:</u> EBRD and EIB.</p> <p><u>New financing:</u> Sava Waterway Rehabilitation Project (FY13 deliverable)</p> <p><u>Partners:</u> EC. IPA grant funds,(EUR 5.6 million) managed by the WB, will finance important preparatory activities such as feasibility studies and demining.</p>
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Pillar II - Inclusion: Improve the delivery of public services for the vulnerable and the targeting and fiscal sustainability of social benefits to the poor

<p><i>Improve social inclusion, access to basic services, increase participation of inactive, discouraged population and their re-integration in social life, labour market, and equalisation of opportunities for work.</i></p> <p><i>Six specific strategic sub-goals include:</i></p> <ul style="list-style-type: none"> • Social policy aimed at employment; • Improve position of families with children; • Improve education; • Improve health protection; • Improve pension policy; and • Improve position of persons with disabilities. 	<p>Social inclusion is the sixth strategic goal outlined in the CDS, and the main theme of a separate Social Inclusion Strategy. This goal will be primarily supported under the three year programmatic DPO series. DPO I, which was approved and disbursed in 2010, helped develop a legal framework necessary to improve targeting of non-insurance based cash transfers (both veteran and civilian categories). DPO II (FY12) will continue to support development of effective, efficient and equitable social protection policies. In addition to this, the DPO II will likely support pension reforms. A third phase of the DPO program will continue to focus on improving the safety nets, facilitating pension and public wage reforms. By improving targeting of cash transfers – thus generating some fiscal space - the DPO program will also contribute to the first strategic goal of the CDS - macroeconomic stability. Simultaneously, the on-going Social Safety Net and Employment Support Project will provide technical assistance to strengthen institutional capacity for implementation of effective social protection policies. With recently approved</p>	<p>Increased share of social benefits reach the poorest. Fiscal savings resulting from reforms of cash transfers equal 1.8% of GDP . More effective job brokerage services extended to the vulnerable active job-seekers.</p> <p>Baseline (2011):t will be established with the 2011 Extended Household Based Survey. Job-brokerage services extended to 1,468 vulnerable active job-seekers. Legal framework in place for implementation of means/income testing for non-insurance cash transfers. Bylaws regulating means/income thresholds need to be adopted.</p> <p>Target (2014): Improved targeting accuracy by 25%. Job-brokerage services extended to 10,000 vulnerable active job-seekers, 35% are employed one year after receiving the services. Mean/income testing underway for selected vulnerable categories. Fiscal savings equal 1.8% of GDP.</p> <p>Reduced incidence of non-communicable diseases through increased access to quality family medicine primary health care.</p> <p>Baseline (2010): about 58% of population covered through family medicine (FBH: 1,000,000; RS 1,200,147).</p> <p>Target (2014): about 70% of population covered (FBH: 1,500,000; RS: 1,250,000)</p>	<p>Implementation of the legislated measures adopted as a part of the reform of the overall system of non-insurance cash transfers - underway.</p> <p>Baseline (2011): no means/income thresholds established. Legislated provisions for targeting of transfers not implemented for veteran categories.</p> <p>Target (2012): New eligibility processes and -formulae identified . Pension reform underway. Job-brokerage services extended to 3,000 vulnerable active job-seekers.</p> <p>Increased number of teams operating family medicine, and increased number of health buildings constructed, reconstructed or renovated.</p> <p>Baseline (2010): 1,301 FM teams (FBH: 652; RS:649), 155 buildings rehabilitated (FBH:79; RS:56).</p> <p>Target (2014): 1,450 FM teams (FBH:900; RS:650). 239 buildings rehabilitated (FBH:129; RS:110).</p>	<p>Current portfolio: Social Safety Net and Employment Support Project (P116774).</p> <p>New financing: DPO II (FY12 deliverable).</p> <p>AAA: Western Balkan Poverty Assessment; Poverty TA and Pension TA.</p> <p>Current portfolio: Health Sector Enhancement Project-Additional Financing (P088663)</p> <p>Partners: Council of Europe Development Bank.</p> <p>Current portfolio: Solid</p>
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	<p>additional financing for the Health Sector Enhancement Project (FY11 - US\$ 10 million) the World Bank will help further improve the quality of primary health care through the expansion of the family medicine model.</p> <p>The Bank will continue to improve access and quality of basic services such as solid waste management.</p>	<p>Improved availability, quality, environmental soundness, and financial viability of solid waste management services.</p> <p>Baseline (2010): 75% of households in targeted area not served by the formal waste management system. 145 of estimated 1,200 wild dumps closed.</p> <p>Target (2014): number of unserved households reduced by 50%. 25% of wild dumps closed.</p>	<p>Increased number of established inter-municipal solid waste districts.</p> <p>Baseline (2010): 12 inter-municipal districts established.</p> <p>Target (2014): 16 inter-municipal districts established.</p>	<p>Waste Management II (P107998)</p> <p>Partners: EC, SIDA. EC grant financing (EUR 5.5 million) will support investments in Banja Luka and Mostar sanitary landfills, and will expand the scope and impact of the WB financed project. SIDA financing – focusing on collection – will complement WB financed activities in waste management.</p>
<p>Pillar III - Environmental Sustainability: <i>Ensure a sustainable use of natural resources, such as water and forestry, which are key to economic growth in BH, and adapt to climate change. Promote the sustainable development of basic municipal services</i></p>				
<p><i>Promote sustainable development through, inter alia, supporting measures for environmental and biodiversity protection, and sustainable use of natural resources.</i></p>	<p>The CPS program will contribute to promoting the concept of “sustainable municipalities”, mainly through investments waste-water management. This strategy is co-financed by the EC and SIDA. The World Bank will also continue to assist BH to conserve its globally significant biodiversity in critical forests and mountain ecosystems. Depending on available financing – the CPS will support sustainable forestry in BH. Through these activities, the CPS program will help the country meet the EU requirements for water quality and biodiversity policy. Finally, the Bank will explore possibility of mobilizing GEF grant resources to strengthen</p>	<p>Reduction of the population’s exposure to highly polluted water from Miljacka and Bosna rivers, and improved waste water collection in the Sarajevo Canton.</p> <p>Baseline (2010): 0 m3/day of waste water collected treated at primary level. 0 connections rehabilitated.</p> <p>Target (2015): 200,000 m3/day treated at primary level. 48,000 connections rehabilitated.</p> <p>Reduced pollution from municipal sources into the Neretva and Bosna, subsequently reduced pollution in the Adriatic sea and Danube basin, and more sustainable water management.</p> <p>Baseline (2010): 5.5% of municipal</p>	<p>Cumulative length of repaired sewage collectors increased.</p> <p>Baseline (2010): 0 km sewage collectors repaired. Preparation for works on the WWTP</p> <p>Target (2015): 16 km cumulative length of repaired sewage collectors. Works on WWTP 100% completed.</p> <p>Launch of sub-project - WWTP in Mostar (phase I), and Zivinice (phase II). Piloting of integrated river basin management models.</p> <p>Baseline (2011): SIDA and the EC co-financing arrangements effective. No river basin management plans.</p>	<p>Current portfolio: Sarajevo Waste Water Project (P090675).</p> <p>Partners: EC, EBRD. EU grant financing (EUR 8 million) that will be administered by the WB will close the financing gap identified in Sarajevo Waste Water project. EBRD financing will complement WB financing.</p> <p>AAA Vrbas River basin management (P117927)</p> <p>Current portfolio: Water Quality Protection - GEF (P085112), in partnership with the EC and SIDA. EU grant financing (EUR 1.5 million) managed by the WB will support</p>

	<p>BH capacity to mitigate the risk of natural disasters such as flooding and drought.</p> <p>The result matrix for the Pillar III will be updated with new indicators in the early Progress Report.</p>	<p>waste water is treated and discharged according to standards. No integrated water management in any river.</p> <p>Target (2012): 11% of municipal wastewater treated in accordance with new water standards. Main rivers are covered by completed or near-completed frameworks for sustainable water management.</p> <p><i>Expanded coverage of protected forest and mountain areas, and strengthened institutional and technical capacity for their sustainable management.</i></p> <p>Baseline (2010): 2.1%, or 112,000 ha of areas under formal protection.</p> <p>Target (2013): 3% or 153,000 ha formally protected.</p>	<p>Target (2012): works completed. Four main river basins have completed or near-completed sustainable river basin management plans.</p> <p><i>FBH: proposal on legal establishment of 2 new PAs submitted and feasibility study for one PA completed. FBH and RS: establishment of PAs with management plans that include ecosystem-based management approaches and tools.</i></p> <p>Baseline (2010): FBH: feasibility study for additional PA underway. FBH and RS: PA management plan for 1 NP contracted and PA management plans for 4 more PAs being contracted.</p> <p>Target (2013): FBH: 1 more new PA formally proposed and considered. FBH and RS: at least 3 parks, including Sutjeska, fully implement new ecosystem-based approaches.</p>	<p>investments in Zivinice waste water treatment plant. SIDA will co-finance waste water treatment plant in Mostar.</p> <p>Neretva and Trebisnjica Management - GEF (P084608), in partnership with the EC (EU IPA grant financing EUR 2 million)</p> <p>Forest and Mountain Protected Areas - GEF (P087094).</p> <p><u>Potential new financing:</u> Forestry Project II, Regional Flood Control, CRIF, and Sustainable Municipalities Project. If these operations are pursued, performance indicators will be included in the CPS PR.</p>
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Annex 2: FY08 – FY11 CPS COMPLETION REPORT

This report is a self-evaluation by the World Bank of the experience in implementing the FY08 – FY11 Country Partnership Strategy (CPS) in Bosnia and Herzegovina (BH). The main purpose of this report is threefold:

- i) assess progress towards achieving country goals and in that light examine the development outcomes and overall performance of the CPS program;
- ii) assess the performance of the World Bank in delivering the CPS program; and
- iii) derive lessons from the implementation of the CPS program that will be taken into consideration for the design and implementation of the new CPS for the period FY12 - FY15.

I. SUMMARY OF FINDINGS

1. **Overall, the CPS program achieved expected outcomes in both core and non-core areas.** The CPS program and consequently its expected outcomes were divided into “*core*” and “*non-core*” program areas. Core program areas were related to sectors in which there was strong demand for investments along with clear commitment for reforms by the authorities, while the non-core program referred to reform areas where political commitment needed to be verified prior to engagement. Under the core program, all major outcomes were either fully or partially achieved. In particular, all core program indicators were fully achieved in Pillar II of the CPS which aimed at improving the quality of public spending and the delivery of public services for the vulnerable. Progress was also made in non-core program areas where three out of four non-core program goals were partially achieved. An indicator related to Sava river navigability was dropped as the project, which would lead to that particular outcome, was postponed to the next CPS. An increase in formal employment was the only outcome which was not achieved. In spite of the progress made during the first two years of the CPS program implementation, performance in this area was severely affected by the economic crisis,

2. **World Bank performance in delivering the CPS program has been satisfactory.** Based on the lessons learned from the implementation of the previous Country Assistance Strategy FY05 - FY07, the World Bank followed the principles of result orientation, flexibility, and partnership in delivering the program. In particular, the World Bank demonstrated flexibility in adjusting its lending program in response to the impact of the global economic crisis. Given the rapidly changing economic environment, the BH authorities and the World Bank pursued an urgent reprogramming of the CPS program to help mitigate the impact of the crisis with focus on maintaining macroeconomic stability, protecting the vulnerable through improved targeting of social benefits, and mitigating the effects on the real economy, and small and medium enterprises in particular. Consistent with these priorities, in FY10 the World Bank approved four projects for a total amount of US\$231 million, a record amount since the period of post-conflict reconstruction.

3. **Key lessons and recommendations for the new CPS** can be summarized as follows:

- The World Bank can support structural reforms in BH’s politically complex environment, but a long-term commitment is needed.
- Policy dialogue in key areas should be maintained even in the absence of lending, as it provides valuable input and forms a basis for future policy making.
- Build consensus around institutional arrangements to be pursued under the project during the project preparation.

- Maintain flexibility in allocation of resources.
- Results are possible even in the politically tensed environment when interventions are aligned with investment priorities of the government.
- Reinforce operational cooperation with development partners, IFIs, and the EC in particular.

II. PROGRESS TOWARDS ACHIEVING COUNTRY GOALS

4. **In the absence of the formal Country Development Strategy, the declaration entitled “Platform for Action” from October 2007, which outlined key reform areas that governments at all levels in BH will pursue, served as the basis for the CPS design.** A new Country Development Strategy for the period 2008 - 2013, was still under preparation at the time when the CPS was agreed. The Platform for Action outlined the commitment by the authorities to take collective and coordinated action in the following three areas: **i) improve fiscal coordination and stability; ii) create a more conducive business environment; and iii) promote other reforms that ensure sustainable development.**

Improving Fiscal Coordination and Stability

5. **Satisfactory progress was made in terms of improving fiscal coordination and stability.** The state level Law on Fiscal Council was adopted in 2008 and the BH Fiscal Council was subsequently established. The Fiscal Council was the key forum for discussion related to the IMF Stand-by Arrangement in the amount of about EUR 1.1 billion (600 percent of the quota) which was approved in July 2009. The Fiscal Council agreed to an overall fiscal envelope for 2009 and 2010, which was an explicit condition under the IMF’s Stand-by Agreement. The World Bank was not directly involved in activities related to establishment and performance of the Fiscal Council.

6. **Entity governments launched structural reform of the social protection schemes.** Reviewing and streamlining the social spending scheme with a view to improving its effectiveness was an explicit objective in this area of the Platform for Action. Recognizing that the system of social protection in BH was poorly targeted, inequitable, and fiscally unsustainable, entity authorities partnered with the World Bank in designing a reform program that would improve targeting of social benefits and ensure provision of services to the most vulnerable on a sustainable basis. A policy matrix developed for the First Public Expenditure Development Policy Operation (DPO I) contained a set of policy measures that initiated the process of structural reforms in the area of social protection. Legislative changes that were adopted in late 2009 in the RS and early 2010 in the FBH as a part of the DPO I supported policy reforms, were possibly the most significant structural reforms pursued in BH over the last five years.

7. **The economic crisis halted any promise of BH reducing public expenditure as a share of GDP.** Due to the impact of the global economic crisis, GDP in BH was reduced for the first time since the war. At the same time, governments in BH tried to maintain the same level of expenditures during the crisis. Consequently, the public expenditure increased from 49.5 percent of GDP in 2008 to 50.4 percent of GDP in 2010. Simultaneously, there was a drop in public revenues from 46 percent of GDP in 2008 to 45 percent of GDP in 2010. Resulting fiscal deficit was partially closed by the IMF stand-by arrangement and the World Bank’s DPO I.

Creating a Better Business Environment

8. **Modest progress was made in improving the business climate in spite of significant progress in property registration.** While progress was made in simplifying business registration, starting a business is still slow and complex. The World Bank's Doing Business 2011 report ranks BH at 110th place. BH is the second lowest ranked economy in South East Europe, and only Kosovo is ranked lower at 118th place. However, progress was observed in terms of property registration. The time it takes to register property has been reduced from 84 days in 2009 to 33 days in 2010. Doing Business 2011 recognized this progress and BH moved from 139th to 103rd place in terms of registering property indicator. While the Bank correctly recognized that there was little commitment to pursue reforms in the area of business environment ("non-core" program), there were positive outcomes in this area where there was substantial Bank engagement, particularly through the Land Registration Project.

Promoting sustainable development

9. **Accelerated implementation of investment projects lead to satisfactory outcomes in the transport and energy sector, while the development of competitive agriculture was only partially achieved.** Sustained and coordinated efforts by IFIs (EBRD, EIB and the World Bank) resulted in substantially improved road maintenance, and an increasing level of investments in new road sections. Overall, IFIs (EBRD, EIB, and the World Bank) approved about EUR 848 million for investments in the transport sector over the last 5 years, and EUR 336 million was disbursed mainly for road rehabilitation during the period 2009-2010. In the energy sector, export of power reached record levels in 2009, and the three power management companies maintained strong performance both in terms of profitability and in terms of quality of services over the last four years. However, in the agriculture sector absence of political agreement about the role of different levels of government has prevented coordinated action to improve competitiveness of the sector.

III. DEVELOPMENT OUTCOMES AND PERFORMANCE OF THE CPS PROGRAM

10. **The CPS program was well aligned with the priorities outlined in the Platform for Action.** Pillar I of the CPS aimed at improving the environment for private sector led growth and convergence to the EU. Activities under Pillar I responded to two sets of priorities outlined in the Platform for Action: i) create a better business environment; and ii) promote reforms that ensure sustainable economic development. Pillar II which focused on the quality of public spending and the delivery of public services for the vulnerable, responded to the Platform for Action goal of improving stability and fiscal coordination by, inter alia, reviewing and streamlining social spending schemes with a view to improve their effectiveness.

11. **Overall, the CPS program achieved projected development outcomes in "core" program areas, while projects outcomes in "non-core" areas were partially achieved.** As mentioned earlier, the CPS program and its outcomes were divided into "core" and "non-core" program areas, whereby core areas were related to sectors with strong demand for investments along with clear commitment by the authorities, while non-core areas were characterized by less clear political commitment to reforms. In particular, projected outcomes in the core program areas such as land registration, electricity generation, water supply and sanitation, primary health care, and small scale agriculture, were fully achieved. CPS outcomes were partially achieved in other core program areas such as business registration, agricultural policy, energy market integration, and protected areas. Outcomes were also partially achieved in all non-core areas except in the case of non-core indicator related to an increase in formal employment. This goal was not achieved due to the economic crisis. A summary of the CPS outcomes is schematically shown in

Figure 1 below. Please see Result Matrix in Table 1 for a detailed description of progress against individual performance indicators.

Figure 1: CPS Program Performance

CPS Pillar	CPS outcome areas	CPS implementation progress		
		<i>Not achieved</i>	<i>Partially achieved</i>	<i>Achieved</i>
Pillar I: Improve the environment for private sector led growth and convergence to Europe	Business registration			
	Land registration			
	EU compatible agriculture			
	Road network			
	Energy market integration			
	Electricity generation			
	Ecosystem protection			
	Avian influenza			
	Sava river navigability	Not applicable. Project postponed to the next CPS.		
	<i>Privat. & corp. restr.*</i>			
Pillar II: Improve the quality of public spending and the delivery of public services for the vulnerable	Water and sanitation			
	Solid waste management			
	Participatory budgeting			
	Primary health care			
	Commercial agriculture			
	<i>Social benef. targeting*</i>			
	<i>Fiscal coordination*</i>			
	<i>Formal employment*</i>			

* Non-core outcomes

Internal and external factors affecting CPS program performance

12. **BH’s complex and fragmented governance structure and political polarization between the key political parties undermined the advancement of a single economic space.** As recognized in the CPS document, heightened political tensions in the BH’s complex governance structure represented the main risks for the policies aimed at strengthening the single economic space, and coordinated implementation of economic reforms. Project activities that required a degree of political consensus about the role of different levels of government were negatively affected (for example Agriculture and Rural Development Project -ARDP- see para 17 below).

13. **In spite of the unfavorable political environment, the necessity to respond to the impact of the global economic crisis provided strong incentive to initiate reforms.** BH authorities and the World Bank recognized that an effective response to the crisis would require macroeconomic stability, adequate protection of the most vulnerable, and acceleration of investments. In this context, satisfactory results were achieved even in the politically complex environment. Macroeconomic stability was maintained, reforms were initiated to improve targeting of social benefits to the vulnerable, and implementation of investment projects was significantly accelerated.

Pillar I: Improving the environment for private sector led growth

14. **Substantial results were achieved in reducing business registration in courts.** The time needed for courts to process business registration fell from 17 days in 2007 to 6 days in 2010 in the RS, and from 23.7 to 10.4 days in the FBH. The Business Enabling Environment Structural Adjustment Credit, which closed in December 2007, contributed to achievement of these results. However, progress in court registration was not followed by streamlining in other areas of business registration. Thus, in spite of recent progress particularly in the RS, business registration in BH remains complex. As indicated in Doing Business 2011, business registration takes on average 55 days and involves 12 procedures. The World Bank delivered a Doing Business Reform Memorandum in 2008 outlining actions to improve the overall business environment. After successful streamlining of business regulations including business registration in the RS, the IFC currently supports a “guillotine” initiative in the FBH in an effort to reduce excessive business rules and procedures.

15. **Registration of property has been streamlined, and the backlog of cases has been reduced.** The time required to register property has been reduced from 84 days in 2009 to 33 in 2010. A substantial backlog of property registration cases (80,000 in 2006) was significantly reduced to 18,305 in November 2010. As mentioned above, the Doing Business 2011 report recognized this progress and BH has moved from 139th to 103rd place in terms of the registering property indicator. The World Bank has supported reforms in this area through the Land Registration Project. Design of this operation has proven to be sound; and it envisaged the need for a follow-up operation, which will be considered in the new CPS. Design of a follow-up project should inter alia include a communications campaign to raise public awareness of women’s legal rights, and develop an IT system to collect and monitor data by gender. Namely, recent analysis showed that while women’s legal rights are formally protected, tradition frequently favors male inheritance of property so that women waive their inheritance of land in favor of male family members

16. **The Investment Climate Assessment (ICA) found that the private enterprise sector in BH has been on an upswing but its full potential remains constrained.** The ICA report, which was delivered in June 2008, identified the main obstacles for private sector development, and recommended actions that should be considered in the enterprise sector, business environment, and corporate restructuring if private sector-led growth is to become a significant influence in the expansion of the BH economy.

17. **Lack of political consensus affected EU related reforms in the agriculture sector.** Activities related to building the institutional capacity and agricultural information systems are progressing well, while the activities related to establishing the EU compatible payment system remain behind schedule due to the lack of agreement as to the role and authority distribution between the various levels of government. Acknowledging that such an agreement is unlikely to be reached over the short-term, the World Bank is currently restructuring the ARDP to reallocate resources to well performing components, and in response to the flooding crisis in late 2010 in BH which had severely negative effects on farmers in affected areas.

18. **Investments in the transport and energy sector led to satisfactory outcomes.** The Road Infrastructure and Safety Project made strong progress against the target of rehabilitating 240km of roads. The intermediate outcome indicator of 120 km of road rehabilitation in each entity has already been met in the RS, while 89% completed in the FBH. It is expected that outcomes related to road safety and reduction in road user costs will be achieved by the end of the project. In the energy sector, continued

support of the World Bank (currently ECSEE APL3 is under implementation), and other development partners has contributed to achieving record levels of power generation in 2009. The alignment of investments with the priorities of the Entity governments and the implementing agencies led to successful outcomes. Export of power by BH helped alleviate shortages in the region, deepen integration of regional electricity market, and was commercially attractive for BH power utilities. Convergence of national and regional interests helped strengthen regional power trade and is the building block of regional market development in the early stages. These results were partially offset by the failure to promote integration of the power sector into the regional market due to disputes on the functioning of the national transmission company (TRANSCO).

19. IFC financing was well distributed to support SMEs, microfinance, banks, and medium size local companies. IFC's strategy was to actively support the restructuring and modernization of local companies in BH, to improve their competitiveness, encourage broader intra-regional collaboration and provide financing to local and regional investors with focus on export-oriented companies. For example, IFC financing for CIMOS company helped to revive the automotive industry in BH, and has contributed to about 1,000 jobs. In addition, the project helped the company to develop management and technical skills, transfer knowledge, improve productivity, and promote efficient use of raw materials and labor, which in turn helped to strengthen the competitiveness of the domestic automotive industry in the country. IFC supported micro-entrepreneurs and SMEs through credit lines to two local banks as well as through its financing to two microfinance institutions. Financing to MFIs "EKI" contributed to disbursement of 84,000 new loans during 2009-2011, increased loan portfolio financing for women to US\$80.0 million by the end of 2011 from US\$47.0 million as of December 31, 2007, and is expected to reach an estimated 5,000 new micro-entrepreneurs during the life of the loan. IFC loan to MFI "MI-Bospo" will help reach an estimated 3,000 new micro-entrepreneurs.

20. Partially satisfactory outcomes were achieved in protecting the critical forests and mountain areas, while the objective of strengthening capacity to respond to avian influenza and other similar outbreaks was fully accomplished. Although the total area under formal protection increased from 0.55% in 2007 to 2.1% in 2010, delays in formation of Una national park affected overall progress against the target of 3% of protected areas by 2010. The perceived reduced risk of avian influenza outbreak has reduced demand to adhere to strict and safe poultry handling procedures. Nevertheless, it is estimated that 50% of the at-risk population practice safe handling procedures.

21. Privatization and corporate restructuring made only moderate headway. Only six strategic enterprises were privatized during the period of the CPS implementation (2 in the FBH and 4 in the RS). Commitment to privatization remains elusive, particularly in the FBH, as privatization goals did not feature prominently in the programs of political parties in the campaign for October 2010 general elections. The World Bank correctly decided to extend limited support in these "non-core" areas through the EC financed Trust Fund for corporate restructuring and through non-lending services such as the 2008 ICA. Companies which adopted recommendations provided under the EC Trust Fund improved their operations and profitability in 2010. After a successful Turkish company privatized a soda ash plant, one of the largest employers in Tuzla area, IFC supported its turnaround and increased competitiveness through economies of scale. Through its investment IFC contributed to help alleviate the adverse effects of the global financial crisis on BiH and sent an encouraging signal to other foreign investors in the region.

Pillar II: Improving the quality of public spending and the delivery of public services for the vulnerable

22. **All core program outcomes under Pillar II were achieved.** World Bank supported programs were successful in improving local infrastructure, enhancing primary health care, and extending support for small scale agriculture in less developed areas.

23. **Results were particularly noteworthy in improving local infrastructure and services.** The Urban Infrastructure and Services Delivery Project helped reduce water losses in all participating municipalities and extend 24h water supply to some 300,000 inhabitants for the first time. Under the Solid Waste Management Project the Bank supported six regional sanitary landfills that are now fully functional. The number of wild dumpsites was reduced by 15%. The Second Solid Waste Management Project, which is currently under implementation, will expand the number of regional landfills and improve their effectiveness.

24. **The Health Sector Enhancement Project was successful in promoting the family medicine model of primary health care.** Targets related to utilization of family medicine in primary health care were exceeded in the FBH, and fully achieved in the RS. Most importantly, the percentage of the population registered with family medicine teams increased from 5% before the project started, to about 58% of the population in early 2011. Additional financing in the amount of US\$10 million approved in Q3 FY11 will build on this successful implementation and further expand the coverage of the family medicine model of primary health care to 70% of the population.

25. **The IFC support for the BH Heart Center in Tuzla has increased access to essential cardiovascular services.** The Center was the first private hospital and thus has helped establish quality benchmarks for the delivery of private health services. Also, the project is an example of successful public-private partnership in demonstrating the viability of public financing of privately provided services. The Center is expected to reach 4,500 in-patients and 20,000 outpatients per year by 2012

26. **Reforms were initiated in the non-core program area of improving targeting of social benefits.** Continued policy dialogue underpinned by the Bank's analytic work (Social Transfers in BH: Moving Toward a More Sustainable and Better-Targeted Safety Net), laid the groundwork for the reform of the system of non-insurance based cash transfers. In late 2009 and early 2010, as a part of the reform agenda agreed under the DPO I, the entities adopted legislation that should substantially improve the targeting of non-insurance based cash benefits. In addition to this, the Social Safety Net and Employment Support Project was designed to provide technical support for implementation of reforms of the social protection system, and extend job-brokerage services to vulnerable active job seekers. However, legislation remains pending to introduce the principle of means testing for all non-insurance based cash-transfers except for war veterans with a disability of 60% and above. Newly elected governments are facing significant pressure by interest groups to maintain the current levels of spending with no improvements in targeting. At the same time, Entity governments need further budget support and a follow up DPO II will be considered in the new CPS. In this context, prior to embarking on a new set of reforms that would be supported under the DPO II, the World Bank and the Entity governments will ensure that there was no backtracking and that there continues to be satisfactory progress in implementing the DPO I reforms.

IV. WORLD BANK PERFORMANCE

27. **Overall, the World Bank performance in delivering and implementing the CPS program was satisfactory.** The Bank delivered the program that was aligned with the country priorities, realistically achievable, and which incorporated principles of flexibility, partnership and results orientation based on lessons learned from the earlier programs. The two pillars of the CPS were consistent with government priorities, and aimed to accelerate the country's progress toward the EU membership.

28. **The Bank made the right decision to attune its program to a "Platform for Action".** In the absence of a formal country development strategy, the Platform for Action represented the minimum common denominator of development priorities jointly pursued by all levels of government in BH. The fact that the new Country Development Strategy has still not been adopted by all levels of government suggests a shortcoming in commitment among different levels of government in BH to jointly address key development priorities. Tensions surrounding the constitutional reform process created an environment whereby development programs and even the process of EU integration were treated as less important by the key policy makers. In such an environment, the Bank acted pragmatically, aligning its program behind the single available platform that aimed at accelerating the implementation of urgent reforms to attract investment, accelerate job creation and improve overall living standards in the country.

29. **The Bank demonstrated responsiveness in allocating resources based on the strong demand and commitment, and flexibility to adjust the lending program in response to the economic crisis.** During the first phase of CPS implementation (FY08-FY09) the Bank approved projects in the "core" areas of transport, local infrastructure and environmental protection for which there was a strong demand and commitment for reforms by the authorities. During the second phase (FY10-FY11), the Bank and the BH authorities agreed that the rapidly changing economic environment required urgent reprogramming of certain planned investment operations and careful consideration of the DPOs. Consequently, the Bank's lending program for 2010 included support for the country's budgets under stress by the drop of revenues caused by the global economic slow-down, through the Public Expenditure DPO I (US\$111 million), and a line of credit to enhance access to finance for small and medium enterprises (US\$70 million). This also meant that the Sava River Navigability Project that was originally scheduled for this CPS period had to be postponed to the next CPS cycle.

30. **IFC maintained satisfactory performance** combining its investment operations with advisory services to improve access to finance and competitiveness of micro-entrepreneurs and SMEs, develop trade finance to help trade flows during the global financial crisis, and to explore opportunities for public private partnership (PPP) projects. IFC currently has 9 projects in its BH portfolio, with total commitment of US\$ 128.4 million. Projects in the financial sectors represent 35%, general manufacturing 61%, and health 4% of the IFC portfolio

31. **The delivered lending program was in line with maximum planned lending.** A total of nine operations, eight investment projects and one DPO, were delivered during the CPS period (see Table 1). Maximum planned lending was US\$317 million, and the total amount approved over the CPS period was US\$315.4 million of which IDA credits - US\$131, IBRD loans - US\$175 million, and GEF grants - US\$9.4 million. IFC committed over US\$76 million for six projects (3 in the financial sector, 1 in health, and 2 in chemicals).

32. **Over the last year there has been significant progress in accelerating project implementation and reducing effectiveness delays.** In the period 2006-2009 it took on average 10-12 months for projects to become effective upon Board approval. Consequently, many projects were affected in the initial stages of implementation, which led to suboptimal outcomes. In 2010, this processing time was reduced to 6.7 months on average. Further reducing the time required for project effectiveness to 6 months is the target agreed with counterparts from all project teams and the ministries of finance. It is expected that elimination of effectiveness delays will greatly accelerate implementation and achievement of development outcomes.

33. **Strong disbursement performance.** The disbursement ratio in FY10 was 25.9% which was the best result of all Southeast European Countries (ECCU4) and among the best in the ECA region. The current disbursement ratio (June 2011) of 24.5% means that strong disbursement performance was maintained in FY11 (see Figure 2 below). The main reasons behind the strong recent disbursement performance are a mix of internal and external factors including: i) the urge to accelerate implementation in response to the economic crisis and political cycle (general elections in 2010); ii) maturity of larger projects in the portfolio (for example: Road Infrastructure and Safety, ECSEE APL3, and Solid Waste Management I); and iii) the project design attuned to the domestic priorities and implementation capacity.

Figure 2: Trends in Disbursement Rates (% of undisbursed balances)

	FY07	FY08	FY09	FY10	FY11
Bosnia and Herzegovina	13	13	16	26	25
ECA	19	19	18	19	17.2
Bank	23	22	27	24	24

34. **As of June 2011, the active portfolio consisted of 14 projects, with total commitments of US\$ 332.3 million, of which about US\$200 million remains available for disbursement.** The current portfolio is healthy. The amount of commitment at risks, a measure of the likelihood that projects will not meet their stated development objectives on time, represents 6.3% of the portfolio which compared favorably with ECCU4 (8.7%) and ECA averages (12%). Only one project is currently considered to be at risk. Implementation progress for ARDP is rated as moderately unsatisfactory and the project restructuring is pursued to address identified weaknesses. Implementation progress of all other projects is rated moderately satisfactory to satisfactory (see Figure 2 below).

35. **Analytical and Advisory Activities provided strong input for the policy dialogue, and helped the authorities develop responses to the economic crisis.** The analytical work delivered during the period of the CPS implementation was aligned with the country demand and economic concerns. A Policy Note on Social Assistance Transfers in BH (FY09), and Poverty update (FY10) provided analytical underpinning for the reforms of the social protection system that were initiated in late 2009 and early 2010. An Investment Climate Assessment (FY08) responded to the need to analyze performance and structural constraints in the enterprise sector and provide recommendations on how to address identified challenges. A Transport Sector Review (FY10) provided a framework for future development planning in the transport sector. Finally, a series of policy notes on competitiveness, which jointly present the Country Economic Memorandum for BH, informed the policy dialogue about the relevant aspects of competitiveness. These Policy Notes and the policy dialogue generated during and after their presentation contributed to the design of the new CPS.

Figure 3: Portfolio Indicators - June 2011

Project name	Board	Effective	Closing	Age in years	Orig. commitment \$	% disbursed	% Disb. ratio in FY10	% Disb. ratio in FY11	Latest IP	Latest DO
HEALTH SECTOR	3/31/2005	4/3/2006	6/30/2011	6.2	27.00	91.1%	52.8%	53.7%	S	MS
SOCIAL SAFETY & EMPL	2/25/2010	10/7/2010	10/31/2014	1.3	15.00	4.9%	0.0%	9.3%	MS	S
AGR & RURAL DEVT	6/19/2007	2/26/2008	6/30/2012	3.9	21.00	24.9%	6.9%	16.2%	MU	MS
AVIAN INFLUENZA	6/20/2007	3/28/2008	6/30/2011	4.0	5.00	63.3%	38.2%	84.2%	S	S
ECSEE APL3	6/16/2006	4/13/2007	6/30/2012	5.0	36.00	48.8%	16.9%	47.3%	S	S
FOREST&MOUNT AREAS	5/29/2008	4/17/2009	4/30/2013	3.0	3.40	28.5%	9.0%	8.4%	MS	MS
LAND REGISTRATION	4/27/2006	4/16/2007	3/31/2012	5.1	15.00	58.2%	29.0%	40.9%	S	S
NERETVA & TREBISNJICA	5/29/2008	3/6/2009	12/31/2013	3.0	6.00	28.7%	16.6%	25.5%	S	S
ROAD INFR & SAFETY	12/13/2007	9/19/2008	12/31/2011	3.5	25.00	77.9%	51.2%	70.1%	MS	S
WATER QUALITY PROTECT	6/7/2005	11/18/2005	2/28/2011	6.0	8.90	56.5%	24.8%	37.2%	MS	S
URB INFRA & SER	7/8/2004	2/23/2005	6/30/2011	6.9	25.00	68.2%	13.5%	46.1%	MS	MS
SOLID WASTE II	11/25/2008	10/23/2009	2/28/2014	2.5	40.00	4.5%	4.0%	2.4%	MS	S
SARAJEVO WASTE WATER	12/22/2009	7/15/2010	11/30/2015	1.4	35.00	3.2%	0.0%	3.2%	S	S
ENHANCING SME ACCESS	12/15/2009	8/16/2010	7/31/2014	1.5	70.00	6.8%	0.0%	23.27%	S	S
14 active projects				3.8	332.3	38%	25.9%	24.5%		

36. **IFC advisory services in BH focused on four business lines:** i) **sustainable business advisory**-with programs on corporate governance, renewable energy, integrated solid waste management and international standards and technical regulations and Balkan hotel market access; ii) **investment climate**-with programs on alternative dispute resolution, and sub-national competitiveness (investment generation as a part of sub-national competitiveness); iii) **access to finance**-with programs on micro-finance; and iv) **infrastructure**-promoting private sector participation (PSP) in all infrastructure sub-sectors.

Highlights of the results achieved through IFC advisory services include:

- BH's first initial public offering of a private company with the listing of Fratello Trade at the Banja Luka Stock Exchange.
- Corporate governance codes and corresponding scorecards for the Sarajevo and Banja Luka Stock Exchanges.
- Working with the University in Sarajevo IFC helped to set up the first Masters program in Corporate Governance in the region with 127 postgraduate students being graduated so far.
- Advisory services to 6 local SMEs helped them to get US\$ 13 million in financing from the local banks and other investors, and US\$2 million from IFC.
- IFC supported 6 local companies in construction materials and food processing sectors to implement international standards needed for export to international markets. Companies received US\$2.4 million in financing and increased their exports by US\$15.6 million.
- Integrated solid waste management advisory services contributed to the finalization of a €7.5 million PPP investment into a biomass district heating plant in Gracanica.
- Sub-national competitiveness project contributed to direct and indirect savings for businesses of more than US\$54 million. Out of about 1,400 administrative procedures more than 820 were improved, 90 procedures were changed, more than 1,700 businesses went through the reformed procedures, and about 900 people were trained.

- IFC's advisory services helped MFI "MI-Bospo" to transform into a microfinance company.
- IFC advisory services, with the introduction of the Balkan Hotel Market Access Program assisted to ongoing efforts to attract international tourists to the BH by developing three on-line booking web portals.

V. LESSONS AND SUGGESTIONS FOR THE NEW CPS

37. **The World Bank can support structural reforms in BH's politically complex environment, but a long-term commitment is needed.** Bank support to structural reforms—e.g, business environment reform through the Business Enabling Environment Structural Adjustment Credit—suggests structural reforms in BH take time to implement, and desired outcomes may be achieved only in stages and over the medium term. Thus, a longer-term commitment and a combination of financial and advisory services are needed to achieve long lasting results.

38. **Policy dialogue in key areas should be maintained even in the absence of lending, as it provides valuable input and forms a basis for future policy making.** Despite failure to push forward much needed structural reforms in the area of social and veteran benefits, and cancellation of US\$51 million for the Second Social Sector Structural Adjustment Credit (SOSAC II) in 2006, the Bank continued policy dialogue in this sector. The dialogue culminated with the presentation of findings of 2009 study on social benefits in BH which revealed that the system was inequitable, inefficient, and fiscally unsustainable. Continued policy dialogue and the Bank's analytic work provided basis for the initiation of reforms that were supported under the DPO I. These reforms will have a greater chance of success since the BH authorities had access to the right mix of financial (DPO and SSNESP) and advisory services from the Bank. It is still preferable in BH to continue to pursue a degree of reform though investment lending, and to rely on not overly complex or ambitious DPOs opportunistically, in line with domestic capacity, and in areas where there is clear commitment for reforms. At the same time, policy dialogue should be maintained in selected key areas where the Bank's analytic work may serve as a basis for the future reforms.

39. **Build consensus about institutional arrangements to be pursued under the project during the project preparation.** Institutional reforms envisaged under several projects designed during the previous CAS did not enjoy political support and implementation was consequently delayed. For example, under the ARDP, the activities related to establishing an EU compatible payment system are behind schedule due to the lack of agreement as to the role and authority distribution between the various levels of government. Furthermore, several projects have experienced delays at the beginning of the implementation since implementation arrangements are not firmly agreed (for example SSNESP in the RS did not start 4 months after effectiveness). In a politically complex environment such as BH, it is necessary to reach firm agreement about all aspects of institutional and implementation arrangements during the project preparation.

40. **Maintain flexibility in allocation of resources.** The Bank demonstrated much needed responsiveness and flexibility in adjusting its lending program in response to the impact of the global economic and financial crisis. Although flexibility may involve postponement of some operations, it should be maintained in the next CPS cycle as it allows the Bank to respond to emerging economic concerns by the Government.

41. **The Bank's decision to divide the CPS program into "core" and "non-core" program areas has proven successful.** Such an approach allowed much needed flexibility to the Bank to simultaneously pursue investment lending in "core" areas while maintaining policy dialogue and opportunity for engagement in the "non-core" areas. For example, when the opportunity emerged, the Bank played a lead role in helping the Governments achieve the objective of reviewing and streamlining social spending schemes with a view to improving their effectiveness.

42. **Results are possible even in the politically difficult environment when interventions are aligned with investment priorities of the government.** The Bank applied lessons learned from the previous CAS period (FY05-08) and fully aligned its portfolio to the investments priorities of the Entity governments. Whereas in the previous CAS, the portfolio included structural adjustment credits and associated TA projects for which there was little commitment, the structure of the portfolio during this CPS period mainly included investment operations for which there was high level of commitment and readiness to implementation. This principle should be maintained in the next CPS cycle. Furthermore, limited World Bank resources should be allocated more strategically. While some streamlining of the portfolio has been achieved, from 16 active projects worth US\$300 million at the time of CPS approval to 12 projects worth US\$302.3 million at the end of the CPS cycle (June 30, 2011), greater selectivity will be needed in the new CPS, focusing on the fewer larger operations. Small stand-alone operations should be avoided. Additional financing and project restructuring should be considered in sectors where there is need to scale up operations or where new circumstances require a different approach. This will involve making some tough strategic choices and even exiting some sectors.

43. **The Bank should continue to strengthen partnerships with other development partners, International Financial Institutions (IMF, EBRD, EIB, CoEDB), and the European Commission (EC) in particular.** During implementation of the CPS program the Bank's activities were harmonized with activities of other development partners. The IMF has been the key partner in supporting reforms in the social sector as these reforms complemented the IMF's stabilization program. Successful partnership was maintained with EBRD and EIB in the transport sector and energy sector, and with CoEDB in the health sector. Informal coordination among IFIs (EBRD, EIB, IMF, IFC, CoEDB, KfW) was initiated by the Bank. Cross cutting portfolio issues were examined and it was agreed that IFIs will make a joint presentation about the key issues affecting implementation of investment projects to the new State level government. SIDA remains an important development partner in activities related to business climate, agriculture and local infrastructure. Finally, given that support for the process of BH's EU accession is likely to remain the key cross cutting theme in the new CPS, strategic partnership with the EC will be the key in maximizing the development outcomes. In 2010, a new form of partnership was introduced between the EC and the Bank in BH with the EU approving EUR 22.6 million of IPA funds as co-financing for five Bank financed investment operations in two sectors: transport, and environment (water management). Implementation of this co-financing arrangement will be an important guide for any future partnership with the EC.

44. **Synergy between the IBRD/IDA and the IFC should be further improved.** The CPS period was marked by satisfactory cooperation within the World Bank Group. However, BH counterparts will benefit from a more fully integrated approach by the World Bank Group in pursuing country development goals. In this regard, the Result Matrix of the new CPS should reflect outcome indicators that will be achieved by all agencies of the World Bank Group (IDA/IBRD/IFC) and its main development partners.

Table 1: CPS Program FY08 - FY11 - Summary of Self-evaluation

Country Strategic Goals	CPS Outcomes Supporting Country Goals	Status and Evaluation Summary	Lending and Non-lending activities that contributed to the outcome	Lessons for the new CPS
Pillar I – Improve the environment for private sector led growth and convergence to Europe				
<p>Create the conditions for sustainable and balanced economic growth and EU integration process</p> <p>Key reform priorities in the Platform for Action supporting this goal:</p> <ul style="list-style-type: none"> - Create a better business environment - Promote reforms that ensure sustainable economic development 	<p>CORE PROGRAM GOALS</p> <p><i>Reduction in the duration and number of procedures required to register a business.</i></p> <p>Baseline: June 2007: New Business Registration System (BRS) launched – Average registration time 54 days (DB) Target: 30 days in the FBH, 23 days in the RS (2008)</p> <p><i>Development of transparent land markets through registration of real estate</i></p> <p>Baseline: 2006: 150,000 registry folders completed in the automated database, 80,000 backlog cases, several months to complete real estate transactions Target: 2 million folders completed, full reconciliation, no backlogs (2011)</p>	<p>PARTIALLY ACHIEVED: Court registration improved but start up process is still slow. In 2010, all 16 courts used the new business registration system; average court registration takes 6 days in the RS and 10.4 days in the FBH. Overall start up process takes 55 days in the FBH and 22 days in the RS.</p> <p>ACHIEVED: As of June 2011, 1.45 million folders were completed. Backlog has been reduced to 18,305 and 80% of cases is now resolved in 5 working days in 16 Land Registration Offices (10 in FBH and 6 in the RS). Current progress in implementation of the Land Registration Project provides assurance that the program goal will be fully achieved as planned by the end of 2011.</p>	<p>Business Environment Structural Adjustment Credit (P071001 - BAC) - the credit was closed on December 15, 2007 after meeting the outcome based conditions related to business registration.</p> <p>Land Registration Project (P096200) - project closing on March 31, 2012. The project document was clear and realistic about what could be achieved during the project implementation as well as what would be needed in the subsequent five year period. Thus, there was the big picture and specific achievable outcomes for a project. These estimates have turned out to be accurate and during the last year of the project the counterparts have been preparing the follow-up program for the next five years.</p>	<p>Structural reforms take time in BH, and desired outcomes may be achieved only in stages and over the medium term (BAC implementation lasted 5 years, very unusual for a SAC). The main lesson from this and other attempts at structural reforms in BH, is that the country and its fragmented governance structure present unique challenges to building commitment for the reform agenda. DPOs may be successfully used to pursue reforms in areas (currently not many) where the commitment to reform – and a certain level of consensus about the path to follow - is evident in both Entities and at the State level. Or where the external environment, be it a global economic crisis or the EU accession agenda, is creating the opportunity to build commitment where it was previously lacking. Thus it is preferable in BH to continue to pursue a degree of reform though investment lending, and to rely on not overly complex or ambitious DPOs opportunistically, in line with domestic capacity, in areas where there is commitment for reforms.</p>

Country Strategic Goals	CPS Outcomes Supporting Country Goals	Status and Evaluation Summary	Lending and Non-lending activities that contributed to the outcome	Lessons for the new CPS
	<p><i>Support harmonization with the EU's Common Agricultural Policy by supporting establishment of agricultural information systems, and EU-compatible payment systems for subsidies.</i></p> <p>Target: EU-compatible payment system designed (2010). Initiating EU-compatible Rural Development Grants (2011)</p> <p><i>Stakeholder driven extension services operational</i></p> <p>Baseline: Limited in the RS, none in the FBH (2007) Target: Stakeholder managed, contracted public-private extension services reaching 20% of commercial farmers (2012)</p>	<p>PARTIALLY ACHIEVED: Rule books on farm and client registry and livestock registry completed. In 2010, about 50% of agriculture subsidies in RS and 30% in FBH were structural (investment grants) approximating IPARD requirements. Overall, establishment of registries at state and entity level for effective Agricultural Information System (AIS) required to administer IPARD payments is progressing. However, development of an agreed program, structure, and authority for a state level payment system remains outstanding.</p> <p>PARTIALLY ACHIEVED: Extension agencies established. Draft extension strategies have been developed in both entities. However, the Bank assessed that drafts lack strategic vision to develop sustainable systems. The strategies are currently under revision based on comments from the Bank team.</p>	<p>Agriculture and Rural Development Project (P101213). Activities related to building the institutional capacity and agricultural information systems are progressing well. Activities related to establishing a EU compatible payment system remain behind schedule due to the lack of agreement as to the role and authority distribution between the various levels of government. Project restructuring underway.</p> <p>Agriculture and Rural Development Project (P101213). AAA: Policy Note Series on Trade and Integration: Agriculture Sector Policy Note.</p> <p>Currently in discussion with UK funded EPIC program to support finalizing extension strategy in both entities. Government considering using project funding to extend EPIC team support to help with this task.</p>	<p>The ARDP was prepared at a time of optimism for BH moving towards building functional state systems including a State-level Ministry of Agriculture. However, resistances to centralized state structures were well apparent. Consequently, project preparation conservatively foresaw initial entity-level structures but with the ultimate aim of linking entity systems to an emerging functional State level system. However, during implementation, the main external stakeholders, incl. EC and SIDA, developed a position favoring a single Paying Agency at the state level. At mid-term, the emerging lessons from this are:</p> <ul style="list-style-type: none"> - the exclusive insistence on the establishment of a unified, state-level Paying Agency prevented progress towards the target of an EU-compatible payment system, which could also have been achieved through state-level coordination of entity-level program and payment structures; - the target of a EU-compliant payment structure was overly ambitious. A target of an EU-type payment structure would have offered more implementation choices towards an identical target.

Country Strategic Goals	CPS Outcomes Supporting Country Goals	Status and Evaluation Summary	Lending and Non-lending activities that contributed to the outcome	Lessons for the new CPS
	<p><i>Road network better maintained and safer</i></p> <p>Baseline: 2006: road user costs US\$0.25 per km per vehicle</p> <p>Target: Reduction in road user costs of at least 10 percent on rehabilitated roads (2011).</p> <p><i>Road safety strategy.</i></p> <p>Baseline: No integrated road safety strategy at the State and Entity level</p> <p>Target: Integrated road safety strategy at the State and Entity level is implemented (2011)</p> <p><i>To facilitate BH's participation in the SEE energy market and integration into the EU; BH electricity system operated as a single control area.</i></p> <p>Baseline: no ISO (2006)</p> <p>Target: ISO-administered "Balancing Market Mechanism" for the entire BH</p>	<p>PARTIALLY ACHIEVED: 70% of planned road sections rehabilitated to date and it is expected that the rehabilitation target will be met by the project closure, but the entity road directorates have not yet provided updated road user costs for rehabilitated road sections.</p> <p>PARTIALLY ACHIEVED: Both entities adopted mutually harmonized road safety strategies in 2008. The Law on Traffic Safety on Roads in the RS has been prepared and is awaiting parliamentary approval. In the FBH, an Action Plan for implementing the Road Transport Safety Strategy has been developed and implementation is underway. It is expected that this goal will be fully achieved by the end of 2011 as originally planned.</p> <p>PARTIALLY ACHIEVED: ISO was created 2008 and is now functional and is operating the power system in the country. However, the dispute between the Entities on the issue of Transco (and related institutional</p>	<p>Road Infrastructure and Safety Project (P100792). The project closing on December 31, 2011.</p> <p>Road Infrastructure and Safety Project (P100792).</p> <p>AAA: Transport Sector Review</p> <p>ECSEE APL 3 (P090666).</p>	<p>The Bank investments played a catalytic role in supporting road rehabilitation, improvements of road safety including adoption of road safety strategies. The Bank's work also facilitated involvement of EBRD and EIB whose volumes of lending far outweigh the Bank's lending in this sector. These IFIs are expected to maintain or increase investments in road and railway infrastructure. Therefore, the Bank should consider focusing on other segments of the transport network to facilitate regional trade and cooperation (for example: Sava river navigability).</p> <p>Technical assistance for creation and institutional development of the Independent System Operator (ISO) was provided by USAID and investment financing by EIB. Though it was not funded by the Bank, monitoring of this component was included in the Project outcomes since it is an essential</p>

Country Strategic Goals	CPS Outcomes Supporting Country Goals	Status and Evaluation Summary	Lending and Non-lending activities that contributed to the outcome	Lessons for the new CPS
	<p>electricity system is fully operational (2011)</p> <p>BH electricity generation and exports sustained or increased at corresponding hydrological conditions Baseline: Power generation 12,800 Gwh (2006) Target: Equal or greater generation and exchange import/export transactions between EPs in BH and other regional power utilities.</p> <p>Improved commercial use of the Sava river corridor Baseline: 2007: sections of the river are not navigable Target: Priority sections of the River Sava returned to navigability</p> <p>Critical forests, water and mountain ecosystems protected and used in a sustainable way Baseline: Area under formal protection is 0.55% (2007) Target: protected area 3% (2010)</p>	<p>arrangement for ISO) has deepened preventing the proper functioning of Transco, and particularly its investment decisions.</p> <p>ACHIEVED: Generation and export of power in 2009 has reached record levels and the EPRS and EPBiH have earned record profits inspite of lower prices in the regional electricity market.</p> <p>NOT ACHIEVED: Sava River Navigability Project has been postponed due to the need to adjust the CPS lending program in response to the crisis.</p> <p>PARTIALLY ACHIEVED: Area under formal protection increased to 2.4% or 123,000 ha.</p>	<p>ECSEE APL 3 (P090666).</p> <p>Sava River Navigability Project - under preparation.</p> <p>GEF Forest and Mountain Protected Areas (P087094).</p>	<p>component of sector restructuring and market development. Because of political disagreements between the two Entities, this component could achieve the targeted outcome only partially. State level policy and sector structure issues that require political resolution and close collaboration among the State and the Entities should not be included in investment projects but should be supported through technical assistance with the involvement of key donors.</p> <p>Flexibility was one of the three key operating principles of the CPS (other two being results, and partnerships). The Bank demonstrated flexibility in 2009 to adjust its lending program in response to the impact of the economic and financial crisis. Although this meant postponement of some operations (such as Sava River), flexibility principle should be maintained in the next CPS cycle.</p>

Country Strategic Goals	CPS Outcomes Supporting Country Goals	Status and Evaluation Summary	Lending and Non-lending activities that contributed to the outcome	Lessons for the new CPS
	<p><i>Enhanced capacity for an effective response to avian influenza infection</i></p> <p>Baseline: 2007: weak and inconsistent safe poultry handling procedures</p> <p>Target: 50 % of at risk population practicing safe handling procedures in respect to poultry meat</p> <p>NON-CORE PROGRAM GOALS:</p> <p><i>Privatization and corporate restructuring advanced</i></p> <p>Baseline: FBH - 14 SOEs scheduled for privatization in 2008. RS - privatization about 2/3 completed, 80 enterprises to be privatized in 2008. 500 SOEs would benefit from privatization and restructuring; about 200 VPEs are viable candidates for restructuring.</p> <p>Target: FBH privatization policy adopted and implemented. RS – policy adjustment to reflect lower quality of remaining assets to be privatized. Complete restructuring of 12 enterprises to</p>	<p>ACHIEVED: Surveys and communications strategy completed. It is estimated that 45 - 50% of at risk population practices safe handling procedures.</p> <p>PARTIALLY ACHIEVED: 17 enterprises privatized in FBH (only two strategic ones: Hepok – Mostar, and Tobacco factory Mostar). FBH Privatization plan was not adopted. In the RS - 21 enterprises were privatized over the period 2008-2010 (of which 4 were strategic enterprises). 13 enterprises (6 in RS and 7 in FBiH) implemented financial and operational restructuring in varying degree, depending mostly on the commitment of management and owners. Where the implementation of recommendations was completed, these companies improved their operations and operated profitably in 2010.</p> <p>Overall, restructuring proved</p>	<p>Avian Influenza Preparedness Project (P100415).</p> <p>Accelerating Enterprise Restructuring (EC funded, Bank administered)</p> <p>AAA: Investment Climate Assessment</p>	<p>This project was designed in response to the threat of avian flu pandemic. Although the project has achieved its development objectives and has build institutional capacity to respond to pandemics, this relatively small operation (US\$ 5 million) was overly complex in terms of implementation arrangements. In future, such small stand-alone operations should be avoided. Instead, additional financing for successful projects and proactive restructuring of less than satisfactory projects should be promptly pursued.</p> <p>Bank’s decision to divide the CPS program into “core” and “non-core” program areas was the right one. Prior to engagement in non-core program areas the Bank required strong signals of commitment for reforms by the authorities. Privatization was identified as important but still non-core area as government commitment was indefinable. Indeed, ambitious original plans in both entities were not followed by concrete actions (particularly in the FBH). Thus, the Bank’s engagement was limited and in the form of EC funded grant for enterprise restructuring. Given the lack of commitment by the authorities, stronger involvement by the</p>

Country Strategic Goals	CPS Outcomes Supporting Country Goals	Status and Evaluation Summary	Lending and Non-lending activities that contributed to the outcome	Lessons for the new CPS
	demonstrate possible methods and benefits of active approach - 2009.	difficult for various interests in management and owners to accept and implement.		Bank would unlikely have any impact.
Pillar II – Improve the quality of public spending and the delivery of public services for the vulnerable				
<p>Reduction of Poverty</p> <p>Key reform priorities in the Platform for Action supporting this goal:</p> <p><i>Improving stability and fiscal coordination by, inter alia, reviewing and streamlining social spending schemes with a view to improve their effectiveness</i></p>	<p><i>Improved delivery of water supply, sanitation and urban services</i></p> <p>Baseline: Water supply in five participating municipalities (92%, 0%, 100%, 90%, 94%) (2004)</p> <p>Target: 100% in 4 large municipalities</p> <p><i>Administration of solid waste at municipal level improved</i></p> <p>Baseline: 2003: 1 regional (not sanitary) landfill operational, numerous wild dumpsites</p> <p>Target: Six regional sanitary landfills established and operational (2009); 20% reduction in wild dumpsites</p>	<p>ACHIEVED: Current values for water supply in four target large municipalities are: Banja Luka - 100%; Posusje - 100%; Cazin - 100%; and Pale - 96%. By the end of the project (June 30,2011) the target will be fully achieved.</p> <p>ACHIEVED: Six regional sanitary landfills have been established and are now fully operational. The recent assessment suggests that 15% reduction in the number of wild dumpsites was achieved. This result is somewhat below projected 20% due to lack of counterpart financing for this activity. However, the achieved result is seen as satisfactory given the actual very high number of wild dumpsites.</p>	<p>Urban Infrastructure and Services Delivery Project (P083353)</p> <p>Solid Waste Management Project (P057950) - closed on December 31, 2009.</p>	<p>Basic infrastructure and services remain important particularly for the local governments. The Bank has been the lead investor in local development in BH and continued involvement may still have major positive development impact.</p> <p>The World Bank is seen as the lead development partner for improvements of solid waste management in BH. Following the successful implementation of the first project, the Second Solid Waste Management Project was approved to scale up and reinforce the network of regional sanitary landfills. Such an approach of scaling up successful operations should also be taken into consideration in other sectors. Furthermore, the project mobilized significant additional financing from the</p>

Country Strategic Goals	CPS Outcomes Supporting Country Goals	Status and Evaluation Summary	Lending and Non-lending activities that contributed to the outcome	Lessons for the new CPS
	<p><i>Sustainable mechanisms for municipal capital investments</i></p> <p>Baseline: Weak citizen participation in decision making at local level (2007) Target: Improved participatory budgeting in 30 poor municipalities (2009)</p> <p><i>Significant increase in utilization of family medicine in primary health care</i></p> <p>Baseline: No. of first examinations by FM doctors (FBH: 582,716; RS: 572,876 - 2005) Target: increase by 55% in FBH; by 15% in RS (2010)</p> <p><i>Significant reduction in utilization of secondary and tertiary health services</i></p> <p>Baseline: No. of referrals to specialists in locations where FM model was introduced</p>	<p>ACHIEVED: In 2009, 44 less developed municipalities (14 in FBH, and 30 in RS) use participatory budgeting practices (PBP) systematically.</p> <p>ACHIEVED: 75% increase in the FBH with 1,020,014 first examinations by FM doctors. In the RS 4,238,848 first and control examinations were made. 15% increase is believed to have been achieved although the health MIS does not differentiate between first and control visits. Importantly, the percentage of the population registered with upgraded FM teams increased from about 5% to about 58% of the population</p> <p>ACHIEVED: Over 10% decrease in the number of referrals was achieved in the FBH in locations where FM model was introduced (1,204,566 referrals in 2009). The RS has measured the number of referrals and referral rate in the</p>	<p>Community Development Project (P070995) - closed on August 31, 2009.</p> <p>AAA: From Stability to Performance: Local Governance and Service Delivery in Bosnia and Herzegovina</p> <p>Health Sector Enhancement Project (088663) - closing on June 30, 2011. Additional financing of US\$ 10 million was approved in FY11.</p> <p>Health Sector Enhancement Project (P088663)</p>	<p>EC - EUR 5.5 million (out of EUR 22.6 million approved for five Bank financed operations under IPA 2010). Overall, interventions supporting the EU agenda in close partnership with the EC will be the strategic priority in the new CPS.</p> <p>Additional financing approach is the right way to scale-up effective practices, in this case to scale up the family medicine model.</p> <p>Primary health care reform is well grounded focusing on education and human resources. However, investments in human resources will not lead to optimal outcomes if not matched with appropriate health care financing arrangements. Future HSEP</p>

Country Strategic Goals	CPS Outcomes Supporting Country Goals	Status and Evaluation Summary	Lending and Non-lending activities that contributed to the outcome	Lessons for the new CPS
	<p>FBH: 1,513,241 (2005) RS: tbd*</p> <p>Target: FBH: decrease by 10% (2010); RS: tbd*</p> <p>* This indicator was dropped. The information systems do not distinguish between first and control visits. The team is currently finalizing the new result framework as a part of HSEP additional financing package. New key indicators will monitor the expansion of FM through population registered by FM teams, and enhancement of the FM model through improved quality of service delivery. New key indicator will be incorporated in the result matrix of the new CPS.</p> <p><i>Increase in marketable horticultural produce in poor southern BH areas</i></p> <p>Baseline: 5% of farm production is marketed (2003) Target: 30 % of farm production marketed (2011)</p> <p><i>Small-scale market integrated commercial agriculture further developed. Improve access to credit for agribusiness/ agri-processing and small farmers -</i></p>	<p>fully operational FM health center of Laktasi. The number of referrals has increased to 47,673 (2009) but so has the population registered with the Health Center. Laktasi Health Center has maintained good referral rate of 7.1% upon first examination and 20.3% including follow-up visits to specialists.</p> <p>ACHIEVED: In southern parts of BH, marketable surplus of milk has doubled, area under vineyards has doubled, and area under horticulture has increased by 25%. Combined livestock figures grew by 30%.</p> <p>ACHIEVED: US\$4.4 million in long-term loans was disbursed to agri-businesses in the target area. US\$ 11.5 million was disbursed by partner microcredit organizations to small farmers. While portfolio at</p>	<p>Small Scale Commercial Agriculture Development Project (P055434) - closed on March 31,2010.</p> <p>Small Scale Commercial Agriculture Development Project (P055434)</p>	<p>implementation (additional financing credit) will thus focus on performance based contracts in the FBH and on intensive policy dialogue with the Health Insurance Fund to ensure that adequate financing arrangements are developed to support the FM model.</p> <p>Small pilot projects with limited regional impact could be important to demonstrate successful approaches that can be scaled-up nationally. However, limited financing available in the new CPS should be used strategically and small stand-alone projects should be avoided.</p>

Country Strategic Goals	CPS Outcomes Supporting Country Goals	Status and Evaluation Summary	Lending and Non-lending activities that contributed to the outcome	Lessons for the new CPS
	<p><i>in less developed southern parts of the country.</i></p> <p>Baseline: 2006: US\$2.15 million for agribusiness; US\$1.5 million for microcredit</p> <p>Target: - US\$4.5 million long-term loans by 2010 for agribusiness/agri-processing, US\$7.5 million disbursed as microcredit to small farmers and rural families with 99.5% repayment rates</p> <p>NON -CORE PROGRAM GOALS:</p> <p><i>Increased targeting of social benefits</i></p> <p>Baseline: targeting accuracy of social benefits – below 20% (2008). Social benefits reach only 18% among the poorest quintile. Right-based approach.</p> <p>Target: targeting accuracy of social benefits at least 40% Social benefits reach 70% among the poorest quintile (2012). Needs based approach.</p>	<p>risk remained low at 1.5%, overall quality of portfolio and repayment rates suffered in 2009 as a result of the global financial crisis.</p> <p>PARTIALLY ACHIEVED: Important progress was made in terms of revising the legal framework for non-insurance cash transfers in both entities. Income testing was introduced for cash transfers to veteran categories to ensure sustainability of the system and adequate support to the most vulnerable. Although need based approach has now been legislated, the first results will be measurable from 2011 onwards.</p>	<p>Development Policy Operation (P116951) - disbursed in Oct 2010.</p> <p>Social Safety Net and Employment Support Project (P116774) - effective as of October 7, 2010.</p> <p>AAA: Social Assistance Transfers in BH: Moving Toward a More Sustainable and Better Targeted Safety Net</p> <p>Protecting the Poor During the Global Crisis: 2009 BH Poverty Update.</p> <p>-</p>	<p>The Bank adopted flexible approach in BH and remained open for partnership in addressing structural problems (high risk - high reward areas) in “non-core” program areas. Non-core program areas are those where political commitment needs testing prior to engagement or where a ceiling on resources prevents implementation in the early years of the CPS. Continued policy dialogue about the reform of non-insurance cash transfers, the Bank’s analytic work, and effective communication to explain the benefits of reforms, greatly contributed to the launch of reforms in this politically sensitive area. When the</p>

Country Strategic Goals	CPS Outcomes Supporting Country Goals	Status and Evaluation Summary	Lending and Non-lending activities that contributed to the outcome	Lessons for the new CPS
	<p><i>Reduce the burden of Government on the economy and strengthen fiscal coordination</i></p> <p>Baseline: National Fiscal Council not established, and fiscal targets not well coordinated between different levels of government. Current expenditures equal to 41% of GDP (2007). Target: Fiscal Council established and functional. Sound fiscal framework maintained. The share of current expenditures in GDP lower by 2pp (2011).</p> <p><i>Increase formal employment</i></p> <p>Baseline: 687,445 employees (2007) Mid-term: 5% growth (2008) Target: 10.2% growth (2010)</p>	<p>PARTIALLY ACHIEVED: The state-level Fiscal Council Law was adopted in 2008 and the Fiscal Council (FC) was established. The FC agreed on the overall fiscal envelope for the state and the two entities for 2009 and 2010. These were an integral part of the Stand-by Agreement with the IMF and have largely been observed. However, given the October 2010 General Elections, the FC failed to adopt the overall fiscal envelope for 2011 as this decision was postponed for the incoming governments.</p> <p>NOT ACHIEVED: Formal employment growth was positive up to 2008 was positive, but this trend was subsequently reversed in 2009 and 2010 as a result of impact of the global economic crisis on BH economy. 2008: 706,088 (2.7% growth compared to 2007) 2009: 686,044 (-0.2% growth compared to 2007) 2010: 681,332 (-0.9% growth compared to 2007)</p>		<p>global economic crisis made policy decisions to reform more urgent - commitment to reform was more evident. A DPO with realistic targets was designed in parallel with a capacity building operation (SSNESP) to support the reform efforts over the medium term. The main lesson is that important steps forward in reforms can be achieved also in a complex institutional environment such as the one in BH. However the Bank needs to be already engaged with analytical work and country dialogue to be effective. Also, reforms efforts in BH need to be supported over the medium term to build capacity and avoid policy reversals.</p>

Table 2: CPS Program FY08 - FY11 - Planned Lending Program and Actual Deliveries

MAXIMUM PLANNED LENDING					ACTUAL LENDING				
FY	Project	Amounts (US\$mil.)			Project	Amounts (US\$mil.)			
		IDA	IBRD	GEF		IDA	IBRD	GEF	
FY08	Road Infrastructure and Safety	25			Road Infrastructure and Safety	25			
	Solid Waste II		25		Solid Waste II - forwarded to FY09				
	GEF Neretva and Trebisnjica Management			8	GEF Neretva and Trebisnjica Management			6	
	GEF Forest and Prot. Areas (i)			4	GEF Forest and Mountain Protected Areas)			3.4	
	<i>Subtotal</i>	25	25	12	<i>Subtotal</i>	25		9.4	
FY09	Municipal Development	15	10		Municipal Development - forwarded to FY10 as Sarajevo Wastewater Management Project Sava River Navigability - forwarded to FY12				
	Sava River Navigability	10	15						
	<i>Subtotal</i>	25	25			<i>Subtotal</i>	15	25	
FY10	Pillar 1				Sarajevo Wastewater Management Project SME Competitiveness and Access to Credit Social Safety Net and Employment Support Public Expenditure Development Policy Operation				
	Investment Climate						35		
	PSD						70		
	Land registration II						15		
	Regional Transport Corridor (Vc)	79	126				66	45	
Pillar 2				<i>Subtotal</i>	81	150			
	Public sector Admin. Reform								
FY11	Social Sectors				Health Sector Enhancement - Add. Financing				
	Readiness for IPA Accession Financing					10			
	Rural/Agriculture								
	<i>Subtotal</i>	79	126		<i>Subtotal</i>	10			
	TOTAL	129	176	12	TOTAL	131	175	9.4	

Table 3. CPS Program FY08 - FY11 - Planned Non-lending Program and Actual Deliveries

Planned non-lending products²⁹	Planned delivery (year)	Actual delivery (year)
Energy Sector Study	2007	2007
Strengthening Local Governance Study	2007	2009
Transport Sector Review	2008	2010
Investment Climate Assessment	2008	2008
Country Economic Memorandum	2008	2009
Poverty Update	2008	2009
Regional climate change/disaster mitigation	not defined	2009
PPP training follow up	dropped	
IFC and WBI advisory services	IFC advisory services delivered continuously during the period of CPS implementation	
Study of primary health care reform	dropped	
Social Assistance Transfers in BH	not defined	2009
Annual Fiscal Updates	not defined	2009 - 2011

²⁹ The list includes all planned AAA products as outlined in Table 5, page 31 of the original CPS document.

Annex 3 :Active and Planned Trust Funds in Bosnia and Herzegovina

ACTIVE TRUST FUNDS					
TF NUMBER	TRUST FUND	DONOR	CLOSING FY	US\$ 000	BE/RE*
TF090773	Agriculture & Rural Development	SIDA	FY12	6,036	RE
TF095054	Integrated Water-Energy Development Study	Ministry of Foreign Affairs of Norway	FY12	416	BE
TF096591	Vrbas Integrated Water - Energy Study	MDTF	FY12	95	BE
TF055265	GEF Water Quality Protection	MDTF	FY13	8,900	RE
TF091919	GEF Forest and Mountain Protected Areas	MDTF	FY13	3,400	RE
TF097617	Microfinance Bosnia and Herzegovina (IFC)	SECO	FY13	800	BE
TF099516	Strengthening Consumer Protection in Banking and Microfinance Sectors	MTDF	FY13	239.95	BE
PLANNED TRUST FUNDS					
TRUST FUND		DONOR	FY APPROVAL	US\$ 000	
Sava River Navigability (demining, and feasibility study and design)		EU IPA	FY12	7,800.00	
Solid Waste Management II (Landfills in Banja Luka, and Mostar)		EU IPA	Signed with EC	7,700.00	
GEF Water Quality Protection (Wastewater treatment - Zivinice)		EU IPA	FY12	2,100.00	
GEF Water Quality Protection (Wastewater treatment - Mostar) - TF099534		SIDA	FY12	3,500.00	
Sarajevo Wastewater Project		EU IPA	FY12	11,200.00	
GEF Neretva and Trebisnjica (sewage system - Ljubuski)		EU IPA	FY12	2,800.00	
Business Environment		SIDA	FY12	5,000.00	
State and Peace Building Fund Grant on Reforming Veteran Benefits		MDTF	FY12	TBD	
Sarajevo Wastewater Project		EU IPA	2011-2013	TBD	
Solid Waste Management Project		EU IPA	2011-2013	TBD	
Water Treatment and Management		EU IPA	2011-2013	TBD	

*BE: Bank Group Executed; RE: Recipient Executed

Annex 4: Gender Assessment

Comparisons of selected indicators for which data are available for BiH, the Western Balkans and the ECA region as a whole suggest that economic empowerment and political representation are two major areas where women achievements lag behind regional comparators (Table 1). In terms of labour market indicators, women's performance partly reflects structural problems of the country (high unemployment and low activity rates for both men and women). The gap in labour market participation between women and men in Bosnia, however, is more marked than in ECA as a whole even if not as pronounced as for other countries in the Western Balkans. Other indicators such as the gender gap in life expectancy suggest that women are at least on par with the region in terms of this summary indicator of life opportunity. In addition, fertility rates and the adolescent fertility rates suggest that women have significantly more control of their reproductive decisions than elsewhere in the region.

In terms of political representation in Parliament, in 2007 (the year for which comparative data was available) it was lower than both the Western Balkans and ECA averages (14.3 percent) and declined even further in 2008 when women constituted 10.5 percent of the delegates in the Parliament of BiH (9.5 percent of representatives in the House of Representatives of BiH and 13.3 percent in the House of Peoples of BiH). A decline was also seen between 2004 and 2008 in the participation of women in the Council of Ministers in BiH – from 10 percent to zero in 2008 at the ministerial level. Representation at the level of deputy ministers stayed constant over the period (20 percent).³⁰

Table 1. Selected gender Indicators: BiH vs. Western Balkans vs. Europe & Central Asia (2007)

	BiH	Western Balkans	ECA
<i>Gender achievements</i>			
Adolescent fertility rate (births per 1,000 women ages 15-19)	16.4	17.8	22.4
Fertility rate, total (births per woman)	1.2	1.4	1.4
Proportion of seats held by women in national parliaments (%)	14.3	15.6	16.4
Labor force participation rate, female (% of female population ages 15+)	54.9	47	50.7
Unemployment, female (% of female labor force)	33	28.5	10.4
Unemployment, youth female (% of female labor force ages 15-24)	66.3	53	20.9
<i>Gender gaps</i>			
Life expectancy advantage (female-male)	5.3	-0.1	5.3
Ratio of female to male secondary enrolment	101.9	1.05	96.1
Labor force participation (female to male ratio)	80	71	97

Source: Hartgen, K., & Klasen, S (2010) based on World Development indicators (2008)

Focusing on national data provides an opportunity to look more closely at other differences between women and men. Poverty data do not capture significant differences across genders given that these indicators are constructed on a household basis. Restricting the focus on female versus male headed

³⁰ Agency for Statistics of BiH. (2009). *Women and Men in Bosnia and Herzegovina*, Thematic Bulletin No. 03. Sarajevo.

households shows that, as it is often the case, female headed households are not poorer than male headed ones.

Looking at different access to factors of production shows however a more interesting story. As far as labour market performance is concerned, the LFS 2010 shows that the relative equality between men and women in terms of labour market participation is really the result of a low participation rates for both sexes (57 percent for men and 33 percent for women).³¹ Disaggregating by age cohort shows that the age profile of the employment rate for women and men is quite similar so that, with the exception of workers 65+ and older, women's employment rate is always around 55-60 percent of men's. Further, while unemployment rates of different age groups are quite similar across gender, for young workers (15-24) they are significantly higher for women than for men (68 percent vs. 59 percent). In line with these findings recent work by Hartgen and Klasen (2010) contrasting the levels of the unemployment rate as well as the ratio of the unemployment rate between men and women disaggregating by welfare group, area of residence and gender of the household head using MICS data concluded that "the critical gender issue in Bosnia appears to be linked to low labor force participation and high unemployment for women, particularly poorer women".

The quality of jobs held by women and men is also another important dimension of the gender disadvantage in Bosnia. Certainly there is a perception that "women suffer discrimination in the workplace - receiving lower salaries than men for the same type of work and earning promotions far less frequently"³². But also in terms of type of jobs that women can access in the first place there are differences between women and men. While roughly $\frac{3}{4}$ of women and men workers are employees, men are more likely to be in self-employment than women and almost none of them (against 11 percent of women) works in unpaid employment. Looking more closely at segments of the labour markets which are typically sources of good jobs, such as the civil service and large firms, shows however that there is a lot of heterogeneity across women. In the civil service women's representation appears to be almost equal to men's (48 percent in 2008).³³ Similarly, evidence from the Business Enterprise Surveys (BEEPS), shows that Bosnia does not lag behind the ECA average according to indicators typically used to assess the extent of female participation in large firms (firms with female participation in ownership, percentage of full time female workers), though it scores below average in terms of firms with female top manager. Gaps in education are important determinants of women's performance in the labour market, as well as of the heterogeneity between different groups of women workers. While 59% of men of working age have completed secondary education, only 40 percent of women are in a similar position. For tertiary education the gaps are much more contained (9 versus 7.4 percent). Note however that while the unemployment rate of those with primary education exhibits a less than 1 percentage point gap, for secondary education it is much higher for women than for men (36 versus 29 percent).

If differences in the labour market performance for men and women can be well documented, there is at least some evidence on differences in access to other factors of production. Analysis from the BEEPS 2009 suggests significant differences in the perceived access to credit in firms depending on the gender of the owner and top management. The Bosnian data show a large gender gap in the percentage of firms which consider access to credit a serious obstacle (45 percent for firms where the top manager and the

³¹ Note that these data result in a lower ratio of women to men participation rates than those reported in the WDI. the two are not directly comparable as the WDI indicators have been standardized for international comparisons, unlike the LFS 2010 ones.

³² Bosnia background study for Assessing Land Administration Project's Gender Impacts in the Western Balkans

³³ Women and men in Bosnia, BHAS, 2009

owner are female versus 22 percent for male owned/managed firms) – this is the largest gap recorded for the Western Balkans (data available for all countries but Kosovo).

Access to land is reported as a severe problem by fewer female managed and owned than male (5 percent report it as a severe problem, against 13 percent for male owned and managed firms). This is likely to reflect more the specific nature of the business women's engage in and their land needs than an easier access land. Indeed the evidence suggests that while women's property rights are legally protected, tradition frequently favors male inheritance of property, and men tend to play the lead role. Ownership of property is traditionally registered to male family members and it is customary for sisters to waive the right to their share of property inherited from parents for the benefit of their brothers. Women are little aware of their rights and even though a recent Family Law provides the legal framework to encourage married women to register themselves as co-owners of the property acquired through marriage, they do not appear to avail themselves of these rights often. Further, while Gender Centers were instituted at the entity level to promote awareness of women's rights, they are understaffed and not actively involved in the land registration process.

Annex 5: Progress Towards MDGs

Goal/Target/Indicator		Baseline 2000/ 2001	2007		2009 or latest available data	2015 Targets MDGs	Progress towards 2015 Targets
			Targets as in PRSP	Data Achieved			
MDG 1: To eradicate extreme poverty and hunger							
1.1. Percentage of population living below absolute poverty line		19.1	16	14	14.0 (2007)	9	Likely
1.8. Unemployment rate in %	ILO definition	22.9	22	29	24.1 (2009); 29.9 (2010)	22	Unlikely
	Registered	43.4	30	44.1	42.7	30	Unlikely
1.12. Unemployment rate of the 15-24 age group -%		34.8 (Age group 19-24)	30	58.4	47.5	12	Unlikely
MDG 2: To achieve universal primary education							
2.1. Primary school net enrolment rate in %		b1) 97 b2) 95 b3) 92.8 b4) 98.9	95	98.4 (2005/6) 98.3 (m) 98.6 (f)	96	100	Potentially /Likely
2.4. Secondary school enrolment rate %		b1) 56.8 b2) 72.6 b3) 68.3	75	79.3 (2005/06) 77.9 (m) 81.1 (f)	77	85	Potentially
2.5. Higher education enrolment rate		b1) 19.8 b2) 24.2 b3) 23.0	25	d1) 25 (2004) d2) 33.5 (2007)	e1) 34 (2008) e2) 50 (2009)	35	Likely
MDG 3: To promote gender equality and empower women							
3.3. Share of women in wage employment in the non-agricultural sector %		39.2	40	33.8	34.9	45	Unlikely
3.4. Percentage of women representatives in Parliament of BiH		14.3	16	10.5 (2008)	10.5 (2008)	25	Potentially
MDG 4: To reduce child mortality							
4.1. Under-five mortality rate, per 1000 live births		b1) 17 b2) 10.3 b3) 11.2	9.3	d1) 14 d2) 7.9	15 (2008)	7	Potentially
4.2. Infant mortality (under one year of age) per 1000 live births		b1) 14 b2) 8.5 b3) 7.6	7	d1) 13 d2) 6.6	e1) 12,7 e2) 6.9 (2008)	5	Likely
MDG 5: To improve maternal health							
5.1. Maternal deaths (per 100,000 live births)		5.05 b1) 99 b2) 99.6 49 (2001)	4.0 100 55	3(2006) 1(2007) 99.5 35.7 (2006)	1(2007) 99.9 35.7 (2006)	2.5 100.0 65	Achieved Achieved Potentially
5.2. Percentage of assisted child births (%)							
5.3. Contraception prevalence rate							

Goal/Target/Indicator	Baseline 2000/ 2001	2007		2009 or latest available data	2015 Targets MDGs	Progress towards 2015 Targets
		Targets as in PRSP	Data Achieved			
MDG 6: To combat HIV/AIDS and tuberculosis						
6.1. Adults with AIDS, number of new AIDS cases /no. of deaths	51/3	n/a	33/4	43	50	Likely
6.3. Tuberculosis prevalence and mortality rate /100,000	50.4	30.0	55.8	30 <6	20.2	Likely
MDG 7: To ensure environmental sustainability						
7.1. Percentage of forest area (% of land area)	b1) 44.6 b2) 55.6	52	42.7	53	60	Potentially Achieved
7.5. Percentage of population having access to water supply systems	53	58	65 (2008)	65 (2008)	67	Likely
7.5. Percentage of population having access to water sewage system	33	36	36 (2008)	36 (2008)	40	Likely
MDG 8: To develop a global partnership for development						
8.4. Official assistance for development (ODA) - as a percentage of GDP -%	11.1	n/a	2.97	2.6	1	Likely
8.7 Personal computers per 100 population	3.9 (2000)	4	6.4	6.4 (2008)	12	Potentially
8.8 Phone lines per 100 population	22.6	15	28.2	27 (2008)	26	Achieved

Annex A2: Bosnia and Herzegovina at a Glance

Key Development Indicators	Bosnia and Herzegovina	Europe & Central Asia	Upper middle income	
(2009)				
Population, mid-year (millions)	3.8	403	993	
Surface area (thousand sq. km)	51	23,549	48,659	
Population growth (%)	-0.2	0.3	0.9	
Urban population (% of total population)	48	64	75	
GNI (Atlas method, US\$ billions)	17.7	2,772	7,363	
GNI per capita (Atlas method, US\$)	4,700	6,880	7,415	
GNI per capita (PPP, international \$)	8,680	13,297	12,800	
GDP growth (%)	-2.9	4.0	4.1	
GDP per capita growth (%)	-2.7	3.6	3.2	
(most recent estimate, 2003–2008)				
Poverty headcount ratio at \$1.25 a day (PPP, %)	<2	4	..	
Poverty headcount ratio at \$2.00 a day (PPP, %)	<2	9	..	
Life expectancy at birth (years)	75	69	71	
Infant mortality (per 1,000 live births)	13	20	20	
Child malnutrition (% of children under 5)	2	..	..
Adult literacy, male (% of ages 15 and older)	99	99	95	
Adult literacy, female (% of ages 15 and older)	96	97	92	
Gross primary enrollment, male (% of age group)	109	100	111	
Gross primary enrollment, female (% of age group)	110	98	110	
Access to an improved water source (% of population)	99	95	95	
Access to improved sanitation facilities (% of population)	95	89	84	
Net Aid Flows				
	1980	1990	2000	2009^a
<i>(US\$ millions)</i>				
Net ODA and official aid	..	10	737	482
<i>Top 3 donors (in 2007):</i>				
European Commission	..	0	196	105
Germany	..	0	92	47
Spain	..	0	35	42
Aid (% of GNI)	..	..	12.1	2.5
Aid per capita (US\$)	..	2	199	128
Long-Term Economic Trends				
Consumer prices (annual % change)	..	..	5.0	0.0
GDP implicit deflator (annual % change)	..	..	28.8	0.0
Exchange rate (annual average, local per US\$)	..	..	2.1	1.4
Terms of trade index (2000 = 100)	..	..	..	..
Population, mid-year (millions)	3.9	4.3	3.7	3.8
GDP (US\$ millions)	..	..	5,506	17,042
<i>(% of GDP)</i>				
Agriculture	..	..	10.6	8.0
Industry	..	..	23.0	28.1
Manufacturing	..	..	10.1	12.9
Services	..	..	66.4	63.9
Household final consumption expenditure	..	..	103.5	79.6
General gov't final consumption expenditure	..	..	24.5	22.9
Gross capital formation	..	..	20.6	22.1
Exports of goods and services	..	..	28.7	33.4
Imports of goods and services	..	..	75.5	58.0
Gross savings	..	..	13.4	17.1

Age distribution, 2009

Male (left), Female (right). X-axis: percent of total population (0-6). Y-axis: age groups (0-4, 15-19, 30-34, 45-49, 60-64, 75-79).

Under-5 mortality rate (per 1,000)

Legend: Bosnia and Herzegovina (light blue), Europe & Central Asia (dark blue).

Growth of GDP and GDP per capita (%)

Legend: GDP (green line with circles), GDP per capita (purple line with diamonds).

	1980–90	1990–2000	2000–09
<i>(average annual growth %)</i>			
Population	10	-15	0.2
GDP	..	28.5	5.0
Agriculture	..	5.1	4.9
Industry	..	22.8	6.8
Manufacturing	..	9.0	7.6
Services	..	34.1	4.4
Household final consumption expenditure
General gov't final consumption expenditure
Gross capital formation	..	21.7	5.3
Exports of goods and services	..	41.8	9.0
Imports of goods and services	..	21.5	2.6

Note: Figures in italics are for years other than those specified. 2009 data are preliminary. .. indicates data are not available.
a. Aid data are for 2008.

Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade **2000** **2009**

(US\$ millions)

Total merchandise exports (fob)	1,130	4,254
Total merchandise imports (cif)	4,166	9,862
Net trade in goods and services	-2,577	-4,028

Current account balance as a % of GDP	-3.96	-1.346
	-7.2	-7.9

Workers' remittances and compensation of employees (receipts)	1,607	2,081
Reserves, including gold	486	6,269

Central Government Finance

(% of GDP)

Current revenue (including grants)	39.0	42.7
Tax revenue	21.1	37.0
Current expenditure	42.8	43.6

Overall surplus/deficit	-5.8	-6.6
-------------------------	------	------

Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	10

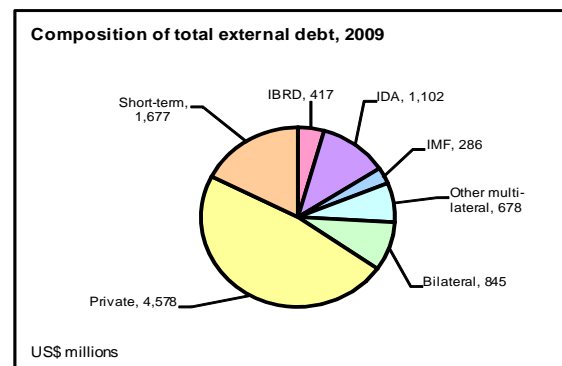
External Debt and Resource Flows

(US\$ millions)

Total debt outstanding and disbursed	2,773	9,583
Total debt service	318	646
Debt relief (HIPC, MDR)	-	-

Total debt (% of GDP)	50.4	56.2
Total debt service (% of exports)	9.9	6.9

Foreign direct investment (net inflows)	146	235
Portfolio equity (net inflows)	0	0

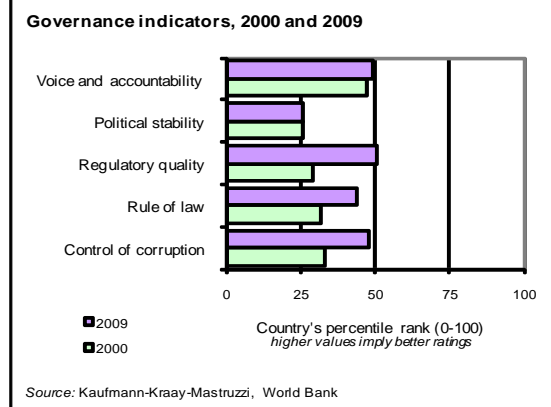


Private Sector Development **2000** **2009**

Time required to start a business (days)	-	60
Cost to start a business (% of GNI per capita)	-	15.8
Time required to register property (days)	-	84

Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2009
Access to/cost of financing	..	34.9
Economic and regulatory policy uncertainty	..	33.3

Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	20.1	13.1



Technology and Infrastructure **2000** **2008**

Paved roads (% of total)	52.3	52.3
Fixed line and mobile phone subscribers (per 100 people)	24	112
High technology exports (% of manufactured exports)	..	3.9

Environment

Agricultural land (% of land area)	42	42
Forest area (% of land area)	42.7	42.7
Terrestrial protected areas (% of surface area)	..	0.8
Freshwater resources per capita (cu. meters)	9,401	9,409
Freshwater withdrawal (billion cubic meters)	..	..
CO2 emissions per capita (mt)	6.1	7.7
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	4.3	4.8
Energy use per capita (kg of oil equivalent)	1,180	1,483

World Bank Group portfolio **2000** **2009**

(US\$ millions)

IBRD		
Total debt outstanding and disbursed	562	417
Disbursements	0	0
Principal repayments	0	25
Interest payments	33	17

IDA		
Total debt outstanding and disbursed	398	1,102
Disbursements	44	33
Total debt service	3	23

IFC (fiscal year)		
Total disbursed and outstanding portfolio of which IFC own account	30	139
Disbursements for IFC own account	5	35
Portfolio sales, prepayments and repayments for IFC own account	1	15

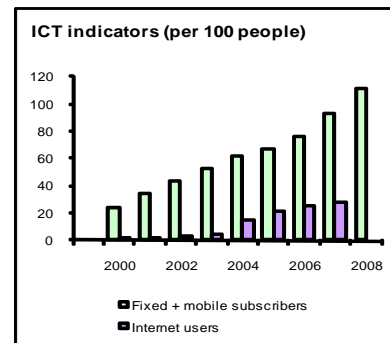
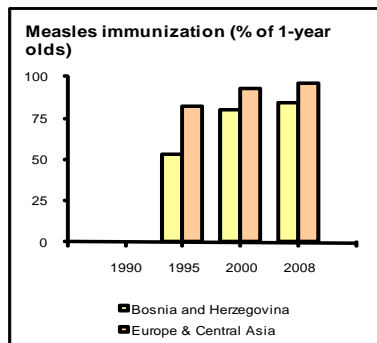
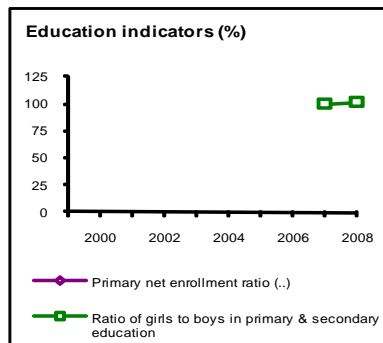
MIGA		
Gross exposure	21	127
New guarantees	21	26

Note: Figures in italics are for years other than those specified. 2009 data are preliminary. .. indicates data are not available. - indicates observation is not applicable.

Millennium Development Goals

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Bosnia and Herzegovina			
	1990	1995	2000	2008
Goal 1: halve the rates for extreme poverty and malnutrition				
Poverty headcount ratio at \$ 1.25 a day (PPP, % of population)	..	..	<2	<2
Poverty headcount ratio at national poverty line (% of population)	..	..	19.5	..
Share of income or consumption to the poorest quintile (%)	..	..	9.1	6.7
Prevalence of malnutrition (% of children under 5)	..	..	4.2	16
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	..	..	..	..
Primary completion rate (% of relevant age group)	..	..	..	..
Secondary school enrollment (gross, %)	..	..	..	90
Youth literacy rate (% of people ages 15-24)	..	..	100	99
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	..	..	..	102
Women employed in the nonagricultural sector (% of nonagricultural employment)	..	..	..	35
Proportion of seats held by women in national parliament (%)	..	..	29	12
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	23	21	17	15
Infant mortality rate (per 1,000 live births)	21	19	14	13
Measles immunization (proportion of one-year olds immunized, %)	52	53	80	84
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	18	15	11	9
Births attended by skilled health staff (% of total)	97	..	100	100
Contraceptive prevalence (% of women ages 15-49)	..	..	48	36
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	0.1
Incidence of tuberculosis (per 100,000 people)	94	84	63	51
Tuberculosis case detection rate (% all forms)	100	76	110	90
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	..	97	97	99
Access to improved sanitation facilities (% of population)	..	95	95	95
Forest area (% of total land area)	43.1	42.9	42.7	42.7
Terrestrial protected areas (% of surface area)	..	..	..	0.8
CO2 emissions (metric tons per capita)	16	13	6.1	7.7
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	..	3.6	4.3	4.8
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	15.3	7.1	21.1	27.3
Mobile phone subscribers (per 100 people)	0.0	0.0	2.5	84.3
Internet users (per 100 people)	0.0	0.0	1.1	34.7
Personal computers (per 100 people)	..	..	3.8	6.4



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

2/25/11

Annex B2: Selected Indicators of Bank Portfolio Performance and Management

(as of June 30, 2011)

Indicator	2008	2009	2010	2011
Portfolio Assessment				
Number of Projects Under Implementation ^a	14	13	15	12
Average Implementation Period (years) ^b	3.4	4.2	3.0	3.9
Percent of Problem Projects by Number ^{a, c}	7.1	7.7	13.3	7.7
Percent of Problem Projects by Amount ^{a, c}	4.1	13.8	6.9	6.4
Percent of Projects at Risk by Number ^{a, d}	7.1	7.7	13.3	7.7
Percent of Projects at Risk by Amount ^{a, d}	4.1	13.8	6.9	6.4
Disbursement Ratio (%) ^e	13.0	16.0	26.0	25.0
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	50	10
Proj Eval by OED by Amt (US\$ millions)	952.5	183.0
% of OED Projects Rated U or HU by Number	12.5	33.3
% of OED Projects Rated U or HU by Amt	12.9	13.9

a. As shown in the Annual Report on Portfolio Performance (except for current FY). Includes GEF and regional projects

b. Average age of projects in the Bank's country portfolio.

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex B3: IFC and MIGA Program

	2008	2009	2010	2011*
Original Commitments (US\$m)				
IFC and Participants	40.92	14.58	1.70	19.64
IFC's Own Accounts only	40.92	14.58	1.70	19.64
Original Commitments by Sector (%)- IFC Accounts only				
FINANCE & INSURANCE		100	100	0.69
HEALTH CARE	15.71			
INDUSTRIAL & CONSUMER PRODUCTS	84.29			
NONMETALLIC MINERAL PRODUCT MANUFACTURING				99.31
Total	100	100	100	100
Original Commitments by Investment Instrument (%)- IFC Accounts only				
Guarantee			100	0.69
Loan	15.71	100		99.31
Quasi loan	84.29			
Total	100	100	100	100

* Data as of June 01,2011

Annex B3: Indicative IBRD/IDA/GEF Lending Program by FY

(as of June 30, 2011)

<i>Fiscal year</i>	<i>Proj ID</i>	<i>US\$(M)</i>	<i>Strategic Rewards b (H/M/L)</i>	<i>Implementation b Risks (H/M/L)</i>
2012	Bosnia DPO2	100.0	H	M
	Irrigation Development Project	40.0	H	L
	Disaster Management CRIF	5.0	H	L
	Result	145.0		
2013	Bosnia DPO 3*	100.0	H	H
	Land Registration II	30.0	H	L
	Sava Waterway Rehabilitation Project	31.0	H	L
	Result	161.0		
2014-2015	Sector Investment Operations**	42.0		
	Regional Flood Control GEF**			
	Result	42.0		
Overall Result		348.0		

The 3rd DPO is presented here as the last in the programmatic series, but will depend on the availability of IBRD financing, along with sustained sound macroeconomic framework.

The Number and volume of investment operations in FY14 and FY15 will be revisited in CPS Progress Report and will depend on the progress in consolidating the portfolio as well as IBRD financing capacity.

Annex B4: Summary of Non-Lending Services

<i>Product</i>	<i>Completion FY</i>	<i>Audience^a</i>	<i>Objective^b</i>
Recent completions			
Annual Fiscal Updates	FY11	G,B	KG, PS
Policy Roundtables	FY11	G,B	KG, PS
Transport Sector Review	FY11	G,B	KG, PS
Underway			
Vrbas Integrated Water Sector Study	FY11	K,D,B	KG,PS
Western Balkans REPARIS	FY11-14	G,B	KG, PS
Western Balkans Programmatic Financial Sector Dev	FY11-14	G,D,B	KG, PS
WB Public Financial Management	FY11-14	G,D,B	KG, PS
Pension TA	FY12	G,B	KG, PS
Public Expenditure Review	FY12	G,B,PD	KG,PD,PS
Planned			
PEFA	FY12-13	G,B,PD	KG,PD,PS
Education	FY13	G,B	KG, PS
WB Programmatic Gender Monitoring	FY13-15	G,B	KG, PS
WB Programmatic Poverty Assessment	FY13-15	G,B	KG, PS
Energy Strategy	FY14	G,B	KG, PS
<i>On demand</i>	<i>FY13-15</i>	<i>TBD</i>	<i>TBD</i>

a. Government, donor, Bank, public dissemination.

b. Knowledge generation, public debate, problem-solving.

Annex B5: Poverty and Social Sector Indicators

	Latest single year			Same region/income group	
	1980-85	1990-95	2003-09	Europe & Central Asia	Upper-middle-income
POPULATION					
Total population, mid-year (millions)	4.1	3.3	3.8	404.2	1,001.7
Growth rate (% annual average for period)	1.0	-5.1	-0.1	0.2	0.9
Urban population (% of population)	37.6	41.1	48.0	64.0	74.9
Total fertility rate (births per woman)	2.0	1.5	1.2	1.8	2.0
POVERTY					
<i>(% of population)</i>					
National headcount index	..	..	14.0	..	..
Urban headcount index	..	..	8.2	..	..
Rural headcount index	..	..	17.8	..	..
INCOME					
GNI per capita (US\$)	..	..	4,700	6,793	7,502
Consumer price index (2000=100)	..	..	115	141	127
Food price index (2000=100)	..	..	..	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	36.2	..	..
Low est quintile (% of income or consumption)	..	..	6.7	..	..
Highest quintile (% of income or consumption)	..	..	43.2	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	5.0	6.7	3.9	3.8
Education (% of GDP)	..	..	..	4.1	4.3
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	..	..	87	92	93
Male	..	..	86	93	93
Female	..	..	88	92	92
Access to an improved water source					
<i>(% of population)</i>					
Total	..	97	99	95	95
Urban	..	99	100	98	98
Rural	..	96	98	89	86
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	..	53	93	96	93
DPT	..	55	90	95	93
Child malnutrition (% under 5 years)	..	..	2	..	..
Life expectancy at birth					
<i>(years)</i>					
Total	72	68	75	70	72
Male	70	62	73	66	69
Female	74	74	78	75	75
Mortality					
Infant (per 1,000 live births)	23	19	13	19	19
Under 5 (per 1,000)	25	21	14	21	22
Adult (15-59)					
Male (per 1,000 population)	181	186	132	286	201
Female (per 1,000 population)	108	109	61	123	122
Maternal (modeled, per 100,000 live births)	..	15	9	32	82
Births attended by skilled health staff (%)	..	97	100	97	96

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.

World Development Indicators database, World Bank - 15 April 2011.

Annex B6: Bosnia and Herzegovina - Key Economic Indicators

Indicator	Actual			Estimate			Projected		
	2005	2006	2007	2008	2009	2010	2011	2012	2013
National accounts (as % of GDP)									
Gross domestic product ^a	100	100	100	100	100	100	100	100	100
Agriculture	11	10	10	9	8	9	9	8	8
Industry	25	25	27	29	28	27	26	25	24
Services	64	65	63	62	64	64	65	67	68
Total Consumption	119	106	103	101	102	102	102	101	100
Gross domestic fixed investment	22	25	30	28	20	20	21	21	21
Government investment	7	6	4	6	6	7	7	7	7
Private investment	15	19	25	22	13	13	13	14	14
Exports (GNFS) ^b	33	37	39	37	33	38	42	42	41
Imports (GNFS)	74	67	73	69	58	59	64	63	62
Gross domestic savings	-19	-6	-3	-1	-2	-2	-2	-1	0
Gross national savings ^c	3	13	18	17	15	14	15	15	16
<i>Memorandum items</i>									
Gross domestic product (US\$ million at current prices)	10764	12254	15227	18501	17042	16560	17773	18681	20055
GNI per capita (US\$, Atlas method)	3000	3330	3790	4530	4730	4780	4860	5080	5470
Real annual growth rates (% , calculated from 96 prices)									
Gross domestic product at market prices	5.0	6.2	6.8	5.4	-3.1	0.8	2.2	4.0	4.3
Gross Domestic Income	3.8	5.0	6.2	3.8	-1.1	-1.9	0.4	6.0	4.4
Real annual per capita growth rates (% , calculated from 96 prices)									
Gross domestic product at market prices	5.0	6.2	6.9	5.6	-2.9	1.0	2.4	4.2	4.5
Total consumption	0.8	..	..	..	..	..	..	..	..
Private consumption	0.4	..	..	..	..	..	..	..	..
Balance of Payments (US\$ millions)									
Exports (GNFS) ^b	3550	4485	5918	6801	5699	6224	7472	7796	8194
Merchandise FOB	2596	3371	4504	5154	4254	4938	6006	6261	6556
Imports (GNFS) ^b	8040	8149	11154	12848	9881	9832	11457	11783	12383
Merchandise FOB	7578	7644	10539	12206	9217	9239	10837	11120	11684
Resource balance	-4490	-3663	-5236	-6046	-4181	-3608	-3986	-3987	-4190
Net current transfers	1902	1892	2700	2698	2456	2164	2395	2433	2549
Current account balance	-2135	-1309	-2041	-2750	-1346	-923	-1084	-1084	-1143
Net private foreign direct investment	522	424	2143	1009	521	17	208	319	369
Long-term loans (net)	112	85	345	662	568	318	590	558	724
Official	99	62	65	81	219	143	429	234	274
Private	13	23	280	581	349	175	161	324	450
Other capital (net, incl. errors & omissions)	1971	1573	481	777	196	483	216	269	277
Change in reserves ^d	-470	-773	-929	301	61	105	69	-62	-227
<i>Memorandum items</i>									
Resource balance (% of GDP)	-41.7	-29.9	-34.4	-32.7	-24.5	-21.8	-22.4	-21.3	-20.9
Real annual growth rates (YR96 prices)									
Merchandise exports (FOB)	..	..	..	..	..	..	..	..	..
Primary	..	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..	..
Merchandise imports (CIF)	..	..	..	..	..	..	..	..	..

(Continued)

**Bosnia and Herzegovina - Key Economic Indicators
(Continued)**

Indicator	Actual				Estimate		Projected		
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Public finance (as % of GDP at market prices)^e									
Current revenues	46.6	44.7	44.6	43.6	42.7	44.9	45.6	45.5	45.6
Current expenditures	40.4	38.3	40.5	43.8	43.6	43.7	41.9	41.2	40.6
Current account surplus (+) or deficit (-)	6.2	6.4	4.1	-0.2	-0.9	1.2	3.7	4.3	5.0
Capital expenditure	9.1	5.9	4.5	5.7	6.3	6.3	7.2	6.8	6.7
Foreign financing	4.8	3.1	1.5	2.6	1.1	4.3	3.5	1.8	1.9
Monetary indicators									
M2/GDP	47.7	52.7	56.3	51.4	54.2	58.3	58.8	62.5	66.7
Growth of M2 (%)	18.2	24.7	21.6	3.7	2.4	9.6	5.6	13.9	14.5
Private sector credit growth / total credit growth (%)	106.8	120.1	188.8	82.1	307.2	61.5	80.6	90.0	91.8
Price indices(YR96 =100)									
Merchandise export price index	..	..	..	..	..	..	..	..	..
Merchandise import price index	..	..	..	..	..	..	..	..	..
Merchandise terms of trade index	..	..	..	..	..	..	..	..	..
Real exchange rate (US\$/LCU) ^f	..	..	..	..	..	..	..	..	..
Real interest rates									
Consumer price index (% change)	4.5	4.6	4.9	3.8	-0.4	2.1	4.1	2.5	2.5
GDP deflator (% change)	2.1	6.3	6.6	7.7	0.2	1.1	2.4	3.1	2.9

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

Annex B7: Key Exposure Indicators

Indicator	Actual			Estimated			Projected		
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total debt outstanding and disbursed (TDO) (US\$m) ^a	6222	7242	8823	8303	9448	9772	10081	10639	11363
Net disbursements (US\$m) ^a	112	284	345	662	568	526	675	524	519
Total debt service (TDS) (US\$m) ^a	457	434	545	715	729	532	685	770	1147
Debt and debt service indicators (%)									
TDO/XGS ^b	110.2	107.9	101.3	84.0	113.3	110.0	105.3	107.5	109.2
TDO/GDP	57.8	59.1	57.9	44.9	55.4	59.0	56.7	57.0	56.7
TDS/XGS	8.1	6.5	6.3	7.2	8.7	6.0	7.1	7.8	11.0
Concessional/TDO	25.3	23.9	21.5	23.0	21.1	20.4	19.9	18.7	17.3
IBRD exposure indicators (%)									
IBRD DS/public DS	27.2	26.9	29.8	29.0	23.8	14.2	15.7	13.6	9.0
Preferred creditor DS/public DS (%) ^c	81.2	83.0	77.7	73.7	72.9	56.5	66.1	70.1	80.1
IBRD DS/XGS	0.7	0.7	0.6	0.5	0.5	0.5	0.4	0.4	0.4
IBRD TDO (US\$m) ^d	481	466	453	443	417	399	429	530	539
Of which present value of guarantees (US\$m)									
Share of IBRD portfolio (%)	0	0	0	0	0	0	0	1	1
IDA TDO (US\$m) ^d	921	983	1068	1077	1102	1109	1103	1100	1103
IFC (US\$m)									
Loans									
Equity and quasi-equity /c									
MIGA									
MIGA guarantees (US\$m)									

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

Annex B8: Operations Portfolio (IBRD/IDA)
(as of June 30, 2011)

Closed Projects 57

IBRD/IDA *	
Total Disbursed (Active)	121.75
of w hich has been repaid	0.00
Total Disbursed (Closed)	465.23
of w hich has been repaid	52.89
Total Disbursed (Active + Closed)	586.99
of w hich has been repaid	52.89
Total Undisbursed (Active)	197.36
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	197.36

Active Projects

Project ID	Project Name	<u>Last PSR</u>		Fiscal Year	<u>Original Amount in US\$ Millions</u>		
		Supervision Rating			IBRD	IDA	GRANT
		<u>Development Objectives</u>	<u>Implementation Progress</u>				
P101213	AG & RURAL DEVT	MS	MU	2007		21	
P090666	ECSEE APL3-BiH	S	S	2006		36	
P087094	FOREST & MTN PROT AREA (GEF)	MS	MS	2008			3.4
P088663	HLT SEC ENHANC	MS	S	2005		27	
P096200	LAND REGISTRATION	S	S	2006		15	
P085112	QUALITY PROTECT (GEF)	S	MS	2005			8.9
P100792	ROAD INFRA & SAFETY	S	MS	2008		25	
P111780	SME ACCESS TO FINANCE	S	S	2010	70		
P116774	SOCIAL SAFETY NETS & EMPL	S	MS	2010		15	
P107998	SOLID WASTE MGT 2	S	MS	2009	25	15	
P090675	SARAJEVO WASTEWATER	S	S	2010	35		5
P084608	NERETVA & TREBISNJICA*	S	S	2009			
Overall Result					130	154	17.3

*Regional GEF Operation

Annex B9: Operations Portfolio (IFC)
(as of June 30, 2011)

<u>FY Approval</u>	<u>Company</u>	<u>Committed</u>					<u>Disbursed Outstanding</u>				
		<u>Loan</u>	<u>Equity</u>	<u>**Quasi Equity</u>	<u>*GT/RM</u>	<u>Partici pant</u>	<u>Loan</u>	<u>Equity</u>	<u>**Quasi Equity</u>	<u>*GT/RM</u>	<u>Partici pant</u>
1999	Bosnalijek.	0	1.27	0	0	0	0	1.27	0	0	0
2008	Cimos bosnia	0	0	31.69	0	0	0	0	31.69	0	0
2008	Heart center bh	5.91	0	0	0	0	3.74	0	0	0	0
2006	Nova banka	5.24	1.58	0	0	0	5.24	1.58	0	0	0
0/05	Raiffeisen-bos	24.48	0	0	0	0	24.48	0	0	0	0
2007/11	Sisecam bosnia	45.53	0	0	0	0	45.53	0	0	0	0
0	Unicredit bosnia	4.23	8.43	0	0	0	4.23	8.43	0	0	0
Total Portfolio:		85.39	11.28	31.69	0	0	83.22	11.28	31.69	0	0

* Denotes Guarantee and Risk Management Products.

** Quasi Equity includes both loan and equity types.

