

## Bosnia and Herzegovina: From Post-Conflict Reconstruction to EU Integration

*Bosnia and Herzegovina has achieved an impressive post-conflict recovery. The challenge now is integration in Europe.*

**F**ourteen years after the war in Bosnia and Herzegovina (BH), infrastructure and basic services have been restored to prewar levels, while the country and its people have made substantial progress in their overall economic and social development and the country is in the process of integrating into the European Union (EU). The International Development Agency (IDA) played a very significant role in this successful post-conflict reconstruction and is still well positioned to continue to help BH to address the current challenges.

### **Challenge**

In spite of a very successful post-conflict recovery, BH remains a young democracy with the memories of the recent past still affecting the national policy dialogue and consequently hindering the country's reform agenda. The complex institutional and political environment which emerged after the conflict continues to slow the reform process and the development of an institutional infrastructure fully supportive of market economy and EU integration.

The global economic crisis spread quickly to BH from the end of 2008, reversing the effects of strong growth and putting at risk macroeconomic stability and important economic reforms. The crisis has also reversed the hard-won gains in poverty reduction of the 2004-2007 period. As elsewhere in the hardest hit areas of the Europe and Central Asia (ECA) region, the pace of recovery in BH

is expected to be slow. A protracted period of vulnerability in BH is concerning given its incomplete transition to market institutions, poorly-targeted safety nets and, especially, its still-fragile and volatile post-conflict political situation.

For these reasons, the key challenges for BH in the coming period will include: implementing a successful post-crisis recovery; completing the transition to a competitive market economy, while protecting the most vulnerable categories of the population; and strengthening the capacity of domestic institutions to implement structural reforms and accelerate the process of EU accession.

## Approach

**A leader in post-conflict reconstruction.** During the period of intensive post-conflict reconstruction (1996-2002), IDA supported 45 projects and committed over US\$ 1.02 billion to help the reconstruction and development of virtually every segment of the war-torn country, including support for first generation reforms. Overall, this represented one of the highest-ever allocations of IDA resources on a per capita basis. A review carried out by the Operations Evaluation Department (OED, an independent unit within the World Bank) in 2004 found the BH reconstruction program to be an example of “the Bank at its best.” Moreover, IDA often acted as a catalyst and as a skilled facilitator in bringing together different local parties behind joint projects and endeavors. In this way, IDA aimed not only to implement specific projects, but more generally to contribute to social reconciliation within the country. *“In Bosnia in 1995, there was no way the warring parties could discuss reconstruction; they could not even agree where the discussion should be located,”*

recounted author Sebastian Mallaby in his 2004 book *The World’s Banker*. *“It took the World Bank’s mediation to focus the Bosnians on practical problems: Should there be a central bank? How to reconcile conflicting tax and customs systems?”*

**A partner in EU accession.** With BH now set on joining the EU, supporting the integration process has become the overarching theme of IDA’s country partnership strategy, along with job creation and the improvement of public services, particularly services for the most vulnerable segments of the population. IDA has tailored its support to complement European institutions’ efforts to build the country’s capacity in the accession process. Recently, the World Bank quickly responded to the request of the BH authorities to adjust the lending program to mitigate the impact of the economic crisis and to contribute to the objectives of the fiscal framework BH agreed with the International Monetary Fund (IMF), through support for the reform of social safety nets and a line of credit for small- and medium-sized enterprises (SMEs).

## Results

**Banking sector.** An enterprise and bank privatization credit helped shore-up BH’s banking system during the period 1999-2002. Banks have seen their total assets increase by almost 100 percent over the four years preceding the global crisis, enjoy good level of confidence, and are weathering the global crisis better than in the rest of the region.

**Cultural heritage and reconciliation.** The old bridge in Mostar—one of the country’s national icons destroyed during the war—was fully reconstructed in 2004 with support of the Pilot Cultural Heritage Project, and this

contributed to reconciliation and economic growth in Mostar. Tourism has since picked up, boosting the local economy. While very few tourists visited the war-divided city in the years immediately after the conflict, some 300,000 tourist visits were registered in 2004, 450,000 in 2005, and 750,000 in 2006. In July 2005, Mostar's Old Bridge and surrounding Old Town were registered on UNESCO's list of historic monuments.

**Forestry.** Around 550 hectares of new trees were planted, 210 kilometers of existing forest roads were reconstructed, and new ones were built with the support of the Forestry Project (1998-2003). The Forest Development and Conversation Project, which is currently under implementation, supported completion of the National Forest Inventory. The inventory found that coverage and quality of forests in BH were better than expected, while wood and wood products commerce has been contributing to economic growth (at least 3 percent of GDP and above 4 percent of formal employment).

**Health.** During the reconstruction phase, the War Victims Rehabilitation Project (1996-1999) and Essential Hospital Services Project (1997-2002) achieved the following results: five clinical centers and 15 hospitals, damaged in fighting, were rehabilitated; 24 medical facilities equipped; and health care professionals were trained. Reform of primary health care has been pursued under the ongoing Health Sector Enhancement Project. With support of this project, about 2.8 million people will be registered with "family medicine" teams by the end of 2010, creating a sustainable primary health care for 75% of the country's population.

**Microfinance and employment.** Roughly 200,000 jobs were created or sustained under two microfinance projects implemented during the period 1997-2005. A labor redeployment project (2000-2004) set a model for the social integration of former combatants into civilian life by providing employment services to over 7,000 ex-professional soldiers. Recently, an Employment Support Project (2004-2009) facilitated employment of over 10,000 active job seekers (ages 45 and above) through a range of active labor market programs.

**Power.** The destruction of BH's power grid has not only left its citizens without power supply, but has also disconnected the South-eastern Europe power grid from the rest of Western Europe. Hundreds of kilometers of power lines, transmission stations, and thermo and hydro power plants were rehabilitated since 1996 through four subsequent power projects. Today, BH is one of the few countries in the region with excess generation and export potential.

**Transport.** In the post-conflict period, about 2,300 kilometers of roads, 41 bridges, three tunnels, the railroad network and Sarajevo's International Airport were rebuilt through three IDA transportation reconstruction projects. An ongoing Road Infrastructure and Safety project has already rehabilitated over 123 km of roads.

**Sanitation.** Six EU-compliant regional landfills and management companies are now operating in the largest urban centers, and 144 wild-dump sites have been cleaned. By the end of the second phase of solid waste management investment in 2014, it is expected that the landfills and inter-municipal management districts will cover the almost totality of BH.

**Safety-Nets.** IDA recently supported the legislative reforms of the unsustainable and highly regressive cash benefits system that has been in place since the war with US\$111 million Public Expenditure Development Policy Operation (2010). The implementation of the new legal framework should result in more affordable social programs that better target the most vulnerable in BH.

## **IDA Contribution**

IDA financed 45 projects and committed over US\$1.02 billion during the reconstruction phase (1996-2002) and IDA/International Bank for Reconstruction and Development (IBRD) approved 18 additional projects in the amount of US\$324.4 million during the period 2002-2010. As of August 2010, the World Bank Group's portfolio in BH consists of 16 active projects with total commitments of US\$440.4 million (financed with 11 IDA credits, three IBRD loans, and three grants from the Global Environment Facility). Active projects are implemented in various sectors including agriculture and rural development, roads, energy, health, social protection, water and sanitation, and environmental protection. In fiscal year 2010, in an effort to respond to the challenges posed by the global economic crisis, the World Bank approved US\$231 million in additional financial support, comprising US\$ 81million in IDA credits, and US\$150 million in IBRD loans.

## **Partners**

IDA, together with the EU, chaired five international donor conferences that eventually mobilized US\$5.1 billion for BH in the post-war period. This financial package was central to the quick and successful reconstruction of BH's basic infrastructure and services.

In addition to this over-arching donor coordination role, IDA often acted as a focal point for donor coordination in specific sectors. In the power sector, for example, through three finalized and one continuing project, IDA financing of about US\$130 million served to leverage a total of almost US\$880 million from other sources, including Austria, Belgium, the BH government, Canada, the Czech Republic, the European Bank for Reconstruction and Development, the European Commission (EC), the European Investment Bank, France, Germany, Ireland, Japan, the Netherlands, Norway, Spain, Switzerland, the United Kingdom, and the United States, for a coordinated program of investments and associated sector reforms.

With BH now set on joining the EU, supporting the integration process has become the overarching theme of IDA's country partnership strategy, along with job creation and the improvement of public services. The World Bank Group has tailored its support to complement EU efforts to build the country's capacity in this accession process.

## **Moving Forward**

BH is progressively graduating from IDA, and the current portfolio includes three IBRD loans totaling US\$175 million or 40 percent of the portfolio. Continued access to IDA resources, combined with IBRD lending will allow the Bank Group to support the inclusive and sustainable integration of BH's economy in Europe. In the short-term however, the Bank will focus on helping BH mitigate the impact of the global economic crisis, particularly on the most vulnerable BH citizens.

As poverty in BH is strongly correlated with formal employment, the Bank's focus will

be on poverty elimination through economic growth, improvement of the business environment and job creation. Finally, the Bank will continue to support improvements in targeting and management of social programs to help reduce poverty through increased efficiency of government spending, particularly when it is directed to the most vulnerable. In the future, it is expected that the Bank will likely be asked to help the country introduce better public wage and management policies, improved pension management systems, and social contributions and tax measures that support competitiveness. In addition, in the

context of regional cooperation, the Bank will support BH and its regional neighbors reclaim the river Sava for navigability, which will permit passage of vessels of 3,000 tons between Sisak (Croatia) and Belgrade (Serbia) for the first time since 1990 on this important European waterway. The proposed project is supported by the EC and the Regional Cooperation Council, and involves the four riparian countries under the auspices of the International Sava River Basin Commission.

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