

# Bosnia and Herzegovina

## **Public Expenditure and Institutional Review**

*Addressing Fiscal Challenges and Enhancing  
Growth Prospects*

*The Transport Sector*

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# The main messages

- The assets in the sector remain inadequate despite considerable support since the end of the war;
- Current distribution of expenditure is unbalanced, contributing to a significant fiscal risk;
- The institutional structure is complex, costly and in need of further improvement; and
- The realization of ambitious spending plans will require greater involvement from the private sector.

# Approach/Topics/Outline

1. Why worry about expenditures in the sector?
2. What is the condition of the network?
3. Why are sector outcomes so poor?
4. What are the financing 'needs' of the sector?
5. Conclusions and Key Policy Recommendations

1. Why worry about expenditures in the transport sector?

# Why worry about transport spending?

1. The transport sector accounts for a significant part of total public investment and expenditure;
2. the share of foreign funds in transport sector financing has declined sharply → a greater reliance on domestic resources;
3. There is no sector policy and strategy to ensure that expenditure choices are the right ones in the sector, or across the sectors; and
4. The current institutional framework is complex, costly and inhibits efficient utilization of expenditures; and
5. There is currently limited use of formal processes of project appraisal in project identification and prioritization in the sector.

2. What is the current condition of the transport networks?

# Current conditions in the Road Sector:

## Coverage of Road Infrastructure 1/

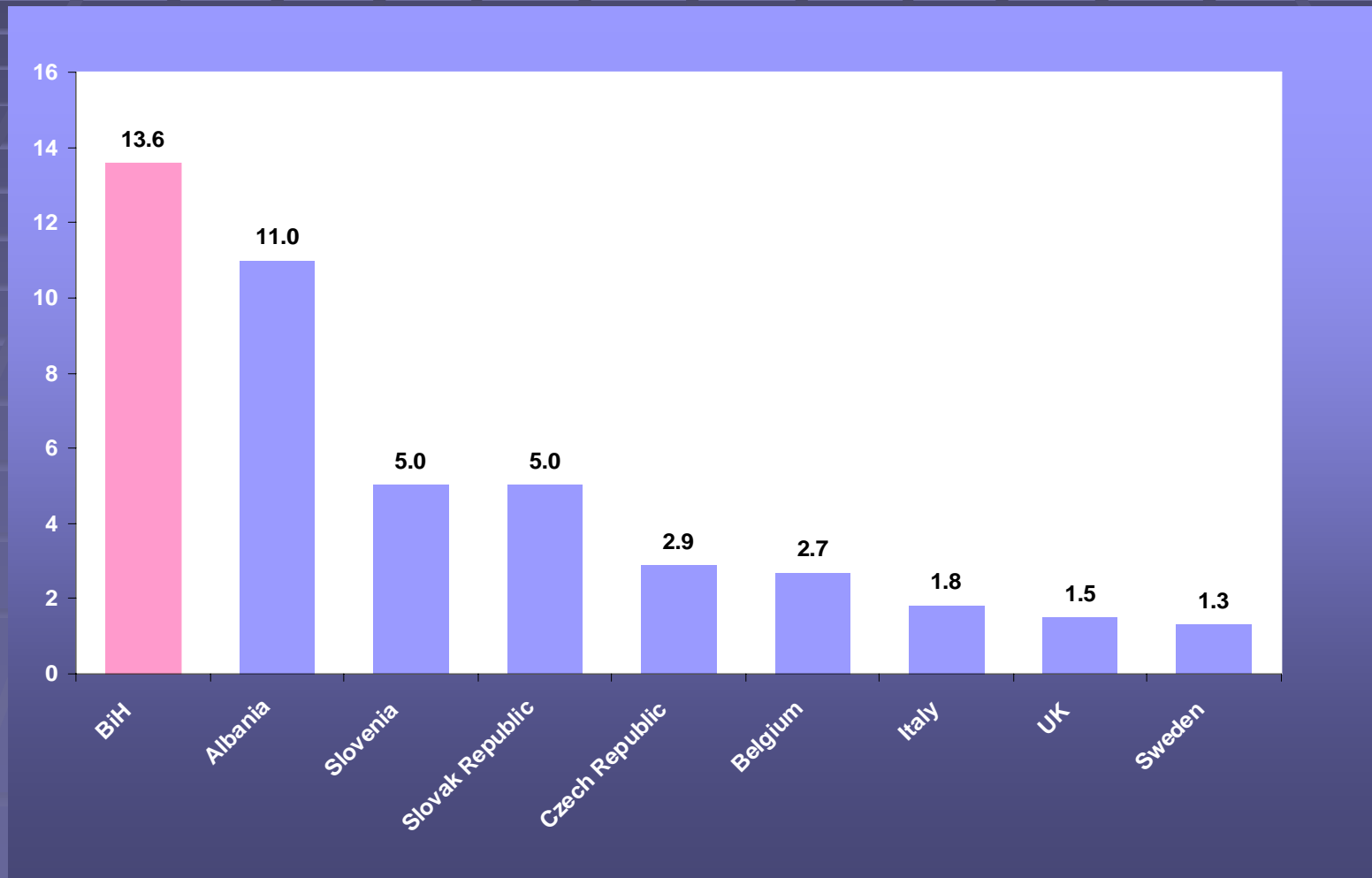
	Road Density		
	(Km/1000 sq km)	(Km/1000 People)	
<ul style="list-style-type: none"> <li>In terms of scale - BiH compares well against countries in the region on some measures of density...</li> </ul>	BH	427	5.6
	Albania	657	3.5
	Czech Republic	1646	12.5
	Croatia	506	6.4
	Estonia	1320	41.2
	Hungary	1733	15.7
	FYR Macedonia	341	4.3
	SaM	494	4.8
	Slovenia	1006	10.2
	<ul style="list-style-type: none"> <li>...But not on others...</li> </ul>	ECA	580
Upper middle income		1076	9.2
OECD		1340	17.3

## Current conditions in the Road Sector:

- In terms of condition – BiH compares poorly with other countries in the region:
  - 65% in fair or good condition (78% HR)
  - 35% in poor condition (22% in HR).
- The condition of local roads is even worse; and

# Current conditions in the Road Sector:

- In terms of road safety - economic and social costs associated with road traffic crashes is high - one of the worst in the region.



# Current conditions in the Railway Sector:

1. Current condition of the track overall is poor, with many TSR on the network;

2. Decline in traffic since transition, and limited retrenchment, → low productivity:

Railways	Traffic Units per track-km	Traffic Units per '000 Employees
Kosovo	0.2	...
Albania	0.3	60.6
ZRS	0.5	57.1
FYR Macedonia	0.5	116.1
Montenegro	0.6	...
ZFBH	0.8	59.4
Croatia	1.0	262.4
Serbia	1.1	123.8
Sweden	1.2	...
Finland	1.5	973.7
Denmark	2.3	893.7
Germany	2.3	615.4

Sources: National authorities, ZFBH and ZRS.

# Current conditions in the Railway Sector:

1. User perception of quality is very poor – rated 1.5 in recent survey (98 out of 104 countries); and
2. Financial performance also poor – with operating expenses exceeding revenues, even after subsidies, and x-subsidy common.

Ratings of Infrastructure Quality, Selected Countries

	Railway	Air
Austria	5.3	6.1
BH	1.5	1.9
Croatia	2.2	3.7
Czech Republic	4.6	5.1
Hungary	3.4	3.9
FYR Macedonia	2.3	3.4
Romania	3.5	4.1
SaM	1.9	3.3
Slovenia	3.7	4.4

Source: World Competitiveness Survey, 2003/2004.  
1/ On a scale from 1=the lowest to 7=the highest.

# Current conditions in the Civil Aviation Sector

1. Investments in the civil aviation sector have been substantial (KM100 mill pa 1996-2004);
2. Some significant improvements – Sarajevo airport;
3. But outlays have been spread thinly, given current and projected traffic, precluding the opportunity to focus on one key international airport;
4. Result – users perceive the quality to be poor, with BiH airports ranked 93<sup>rd</sup> out of 104 countries in recent survey.

3. Why are sector outcomes so poor?

# Institutional Framework is inadequate

- Lack of process for the development and revision of overall policy and strategy for sector;
- Poor budgetary planning and execution;
- Limited use of formal techniques for economic appraisal in project identification and prioritization;
- Lack of professional asset management in some sub-sectors; and
- Complex institutional structure hindering decision making and increasing costs.

# Earlier spending has been inadequate

- **Limited investment from the private sector;**
- **Levels of spending have been inadequate to recover and maintain the assets;**
- **Imbalance between maintenance and capital expenditure;**
- **Result is accelerated deterioration, increased costs for road users, and increased backlog maintenance.**

4. What are the expenditure needs of the sector?

# What are the three types of expenditure in the road sector?

1. Necessary spending to keep assets at the current level (Routine, Winter and Periodic);
2. Necessary spending to return assets to the desired level (Periodic/Backlog); and
3. The 'necessary' expenditures to keep pace with growing demands (Investment).

# Future Spending Needs on Maintenance in the Road Sector

## Estimated Maintenance Expenditure Needs, 2006-2010 (Mill KM)

Category	2006	2007	2008	2009	2010
			Main Roads		
Periodic maintenance	60	60	60	60	60
Routine maintenance	22	22	22	22	22
Winter maintenance	14	14	14	14	14
			Regional Roads		
Periodic maintenance	15	15	15	15	15
Routine maintenance	16	16	16	16	16
Winter maintenance	10	10	10	10	10
			Local Roads		
All maintenance	24	24	24	24	24
Total Annual Outlays	161	161	161	161	161

# Future Spending Needs in the Rail Sector

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Category	2006	2007	2008	2009	2010
<b>Maintenance Expenditure</b>					
<b>FBH Railway</b>	64	62	60	64	66
<b>RS Railway</b>	22	24	25	27	29
<b>Capital Expenditures – Track 1/</b>					
<b>FBH Railway</b>	3	11	18	70	75
<b>RS Railway</b>	2	7	11	44	44
<b>Capital Expenditures – Rolling Stock</b>					
<b>FBH Railway 2/</b>	31				
<b>RS Railway</b>					
<b>Total Planned Expenditures</b>	122	104	114	205	214

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# But these needs and planned investments create a significant financing gap

	2006	2007	2008	2009	2010
<b>Roads</b>					
<b>Projected Revenues</b>	<b>158</b>	<b>164</b>	<b>171</b>	<b>177</b>	<b>184</b>
<b>FBH Cantons (Regional Roads)</b>	<b>34</b>	<b>35</b>	<b>37</b>	<b>38</b>	<b>40</b>
<b>FBH Municipalities (Local Roads)</b>	<b>24</b>	<b>25</b>	<b>26</b>	<b>27</b>	<b>28</b>
<b>FBH Cantons (Trunk Roads)</b>	<b>38</b>	<b>40</b>	<b>41</b>	<b>43</b>	<b>44</b>
<b>RS Road Directorate (All roads)</b>	<b>50</b>	<b>52</b>	<b>54</b>	<b>56</b>	<b>58</b>
<b>RS Local Authorities (Local Roads)</b>	<b>12</b>	<b>12</b>	<b>13</b>	<b>13</b>	<b>14</b>
<b>Projected Expenditures</b>	<b>255</b>	<b>261</b>	<b>261</b>	<b>261</b>	<b>261</b>
<b>Estimated Financing Gap</b>	<b>97</b>	<b>97</b>	<b>90</b>	<b>84</b>	<b>77</b>
<b>Railroads</b>					
<b>Projected Expenditures</b>	<b>159</b>	<b>166</b>	<b>165</b>	<b>171</b>	<b>175</b>
<b>Estimated Financing Gap</b>	<b>159</b>	<b>166</b>	<b>165</b>	<b>171</b>	<b>175</b>
<b>Estimated Total Sector Financing Gap</b>	<b>256</b>	<b>263</b>	<b>255</b>	<b>255</b>	<b>252</b>
<b>(In percent of GDP)</b>	<b>1.7</b>	<b>1.6</b>	<b>1.5</b>	<b>1.4</b>	<b>1.3</b>

# How can this gap be closed?

- Financing gap amounts to KM 250 million per year 2006-2010;
- Financing gap suggests that additional resources will be necessary unless maintenance will suffer again;
- Private sector investment appears essential to realize these development plans; and

# The Main Conclusions - Policy Recommendations

- Need to prepare a comprehensive policy and strategy for the whole transport sector to identify priorities and provide an indication of appropriate implementation schedules;
- Need for more emphasis on improving the current transport network, preserving prior expenditures, and removing backlog maintenance;
- New investments should be carefully appraised against other priorities in the sector;
- As a priority, strengthen the institutional framework for PPP;
- Work toward consolidation in policy making and operational responsibilities in the sector at all levels;

# The Main Conclusions – Key Policy Recommendations

- Consider revising the existing provision in the FBH law on roads to shift resources to the main road networks carrying the most traffic;
- Mortality and morbidity resulting from road traffic accidents are serious social and public health issues in BH;
- Finalize the reorganization of the aviation structure (one directorate and one provider) in accordance with the set plan;
- Implement the Law on Railways, with a rational and functional organization structure, in order to reduce the existing institutional inefficiencies, and enhance operational efficiency; and
- Accelerate the adoption of the Law on Roads and the Law on Inland Waterways, which will facilitate improved institutional structure and operation.

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*The Transport Sector*

THANK YOU