Statement by Girmai Abraham  
Date of Meeting: October 18, 2001

**Bosnia and Herzegovina: CAS Progress Report**

We welcome the discussion of the CAS Progress Report of Bosnia and Herzegovina (BH). We are pleased that BH have made some progress in privatization, financial restructuring, labor market reforms and governance. These areas are important for economic growth and poverty reduction. In terms of macroeconomic performance, we have noted that the currency board system has helped in keeping inflation under control. However, the slow pace of reforms, and the decline of economic growth and gross domestic savings are a source of concern.

Having said that, I would like to make comments on the following specific areas:

1. **Impact on Poverty**

   The lack of comprehensive poverty data makes it difficult to identify the poor, pinpoint the causes of poverty, and measure the impact of assistance and policies on poverty reduction. We hope the results of the Living Standards Measurement Survey will soon be available, as planned, and then used in the preparation of the IPRSP. We also hope there will be periodic updates of poverty data to enable policy makers to measure progress in poverty reduction, and assess progress towards the achievement of the poverty-related international development goals.

2. **Business Environment**

   Although the significance of a favorable business environment for private sector development seems to be well-recognized, we are concerned about the slow progress in removing the obstacles that are hindering investment. Stronger commitment will be needed to overcome the dangers that “vested interests” pose, and greater effort should be made to complete the preparation of the Business Environment Adjustment Credit. Substantial amounts of IDA resources are still available, since only about half of the available funds have been committed.

3. **Capacity**

   We have noted that lack of local capacity has been one factor for the delay in the formulation and
implementation of policies. However, it is not clear how such a constraint will be removed. We wonder if there are specific programs for developing such capacity.

In a related issue, we are pleased that the Education Development Project has supported the establishment of a standards and assessment agency, and encouraged innovation at elementary schools.

4. Banking

We are pleased to note that most banks at the Federation level have been privatized, and that reputable foreign banks have entered the banking industry in BH. We believe the entry of foreign banks will be helpful to the economy of BH because it is likely to be accompanied by inflow of skills, capital and technology. In addition, they are likely to contribute to greater competition in banking. The development of competitive, and sound private banks will be in a better position to support private sector development, and development of small and medium enterprises.

In this connection, we commend IFC for its role in supporting privatization, and finding foreign investors for local banks.

We would also like to add that there should be adequate bank supervisory and regulatory standards as well as well-trained supervisory personnel in place to maintain the soundness and safety of the banking system. Furthermore, the deposit insurance scheme under consideration would also be an added safety feature for the banking system.

5. Trade

We agree, with Staff, that there is a need to create a single economic space in BH to promote private sector development. It is our hope that concrete steps will continue to be undertaken to accelerate the association with the European Union. Obviously, we welcome the harmonization of tax and customs regimes, and the signing of trade agreements with neighboring countries. Although it is not clear what actions have specifically been taken, we do hope there will be reductions in tariff levels and tariff categories.

In our opinion, the key factor to export growth will be a favorable business environment with adequate and efficient infrastructure and well-trained labor force. A favorable business environment is likely to produce firms that can compete effectively in international markets. In addition, easier access to international markets would also help.

Finally, we commend the Staff for a well prepared document.