



Statement by Pieter Stek, Executive Director
Date of Meeting: October 18, 2001

Bosnia and Herzegovina - Country Assistance Strategy Progress Report

1. The CAS Progress Report gives a thorough analysis of the complex situation in Bosnia and Herzegovina (BH) and addresses all critical points. It acknowledges the progress achieved, but also reminds us that the challenge of structural reforms remains. It brings out the full appreciation by staff of BH's difficulties and its deep understanding of the factors governing the political economy. I would like to commend staff for this candid assessment of progress in implementing the current CAS for BH, highlighting both the achievements and the lack of them during the CAS period. On behalf of my Bosnian authorities, I would also like to thank the Resident Mission, the Staff and Management for their efforts and dedicated work, as without them BH would certainly not be where it stands now.

2. More than a year ago, this Board endorsed the second CAS for BH covering the period FY 2000-02, seeking to accelerate the transition from an aid-dependent to a self-sustained economy. My Bosnian authorities welcomed the general approach towards strengthening the functioning of public institutions, fostering private sector-led growth and building social sustainability, as fitted in well with their own medium-term development strategy. And I am pleased that I can say today that the combined Government – Bank efforts to start building the fundamentals of a market-based economy in a country with a high degree of complexity, have started to pay off.

3. The newly elected government in BH is eager to use the political opportunity that arose after the elections last November. The government commitment to reform is clearly demonstrated in all three areas identified as priorities by the CAS:

i/ Strengthening institutions and governance

There is significant progress in the implementation of pension and health reforms, the strengthening of border and customs services, the harmonization of taxes, the establishment of a treasury system and improving budgeting and audit capacities (para 7 box 1, ch IV-A). The authorities have recognized that a capable, reliable and professional government is essential for a functioning economy and state. They appreciate the role of the Public Finance Adjustment Credit in improving the government structure and accountability and transparency. Particularly welcome is the decision of the authorities to tackle corruption, based on the findings of the Anti-corruption Diagnostic Study carried out with the Bank's assistance.

ii/ Fostering private sector-led growth

The need for the government to replace the structures that do not belong to a market economy and improve the business environment, is widely recognized. SME privatization targets have been met and bank privatization and restructuring have recently accelerated, as well as labor-market reforms (para 7 box 1, ch IV-B). The Bosnian authorities appreciate the IFC role in the banking sector privatization and restructuring and the promotion of SME development. The recently prepared FIAS study and the multi-donor sponsored SEED program, together with the forthcoming Business Environment Adjustment Credit (BAC) are regarded as key ingredients in the reform agenda for enhancing the entrepreneurial environment and developing a competitive and business-friendly society.

iii/ Building social sustainability

Health, education and social reform programs have been launched along with new projects to promote social cohesion (para 7, para 31-35). These reforms were supported by SOSAC I, PFSAC II and the Education Development Project, as well as the recently approved Local Initiatives II. The authorities are eager to develop a modern, financially self-sustainable social-protection system, which will be supported by the SOSAC II operation in FY02.

In addition, the preparation of the Interim PRSP aiming to describe the poverty profile of the country and propose measures for strengthening economic management and help the most vulnerable social groups, is almost completed. Given the close relationship between unemployment and poverty, the authorities look forward to the results of Living Standards Measurement Survey, the ongoing labor market study and the Poverty Assessment, all being carried out with Bank support.

Summing up, the new governments have directed much of their effort towards building the necessary political consensus to implement the ambitious economic reform program. As stated in para 2 and 3 of the document, the reform agenda is advancing and prospects for building a viable economy have improved.

4. All this is not to deny that the economic and political situation in BH is vulnerable, with both the internal and the external risks identified in para 47-50 still valid. There were significant delays in reforms forming a counterpoint to progress. The Bank has legitimate concerns about the pace of reforms and the dwindling time for disbursement of available IDA resources.

5. The new government is faced with a significant unfinished reform agenda against the setting of a slower economy, declining aid flows and a sensitive political environment. Mixed signals of improvement (the political situation in FRY and Croatia) and deterioration of the external environment (slowdown of economic activity in EU, political tensions in Macedonia), only add to the vulnerability of the political and economic outlook of BH with respect to external shocks. Domestic risk factors also weigh heavily. The state institutions are still experiencing many challenges in striving to strengthen their authority. And they know that the main challenge is not to create institutions, but to make them operational.

The Bosnian authorities are fully aware that time is short and public support can easily dissolve if the

momentum for fundamental reform is lost and if the government is not resolute in tackling reform issues. They have expressed their commitment to make up for previous delays during the remaining period of FY02.

6. However, consensus building in a country with such a specific political and economic structure, is time-consuming and requires sustained efforts by all parties involved. This is essential not only for creating a single economic space across both entities in BH, but also for the positioning of the country vis-à-vis the EU.

Therefore, stronger than standard coordination of the efforts of all institutions involved is needed for the realization of the heavy economic agenda that remains for BH in the next few years. The Bank and the international community can stimulate progress in the reform process by helping the authorities to select the priorities, providing an appropriate level of donor assistance and not losing their patience, when it is most needed. It is well known and yet bears repeating that recent history and the government structure created in the aftermath, are not favorable to rapid progress.

The risk of slow supply-side response to the macro reforms can be mitigated by a bolder IFC role in catalyzing foreign investment and providing post-privatization support.

7. Over the last few years, the relationship between the Bank and BH has evolved to one based on mutual trust and confidence. My Bosnian Authorities have expressed their wish to continue this fruitful cooperation with the WBG and their commitment to finalization of the ongoing projects and implementation of the new operations included in the CAS agenda.