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# **Bosnia and Herzegovina**

## **Implementation of the Priority Reconstruction Program**

*Status Report to the Donor Community*

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Prepared by the European Commission and the World Bank  
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## PREFACE

At the end of 1995, the international donor community endorsed a medium-term Priority Reconstruction and Recovery Program for Bosnia and Herzegovina. The implementation of this US\$5.1 billion program, which covers most sectors of the economy, is now in its second year and is broadly on track. With the exception of a few areas, like telecommunications and railways, where political disagreements among the parties have resulted in slow progress, the reconstruction program--fueled by exceptional donor support--has produced significant tangible results. Economic recovery in Bosnia and Herzegovina has been stronger than expected; economic growth exceeded 50 percent in 1996 and is likely to reach 35 percent this year. However, country-wide statistics conceal the fact that economic recovery in the Federation continues to be far more robust than in Republika Srpska.

During the past two years, donors have committed over US\$3 billion in support of the Priority Reconstruction and Recovery Program, and have disbursed more than half of these funds. This is a truly remarkable achievement. However, this year there has been some slow-down in new donor commitments and implementation of assistance programs due to delays in holding the Third Donors' Conference, and the political turmoil in Republika Srpska.

Donors want to be assured that there is sufficient cooperation among the parties to allow donor assistance to bring maximum benefit to the people of Bosnia and Herzegovina. Renewed commitment by all parties in Bosnia and Herzegovina to cooperate in the creation and functioning of common institutions is required in order to maintain continued strong donor support.

Providing all refugees and displaced persons opportunity for safe return is an essential element of the peace implementation process and the stabilization of the country. Reconstruction efforts pursued by the international community have refugee return as a key objective. This cannot be accomplished without a coordinated approach covering all sectors of physical as well as economic reconstruction.

This report summarizes progress in the implementation of the Priority Reconstruction and Recovery Program since early 1996, using data as of August 1997. The first section of the report provides an overview of donor activities. It reviews the evolution of donor pledges and commitments, the overall progress in implementation and disbursement of donor funds. The second section briefly describes program implementation by sector, highlighting some of the important physical achievements.

The European Commission and the World Bank would like to thank donors for their efforts in providing timely and accurate information on their assistance programs, as well as to those Sector Task Forces that have contributed to this report.

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**All information in this report was provided by donors.** This information is collected and monitored in the Bosnia and Herzegovina Reconstruction Program Donor Database, jointly maintained by the European Commission and the World Bank in partnership with the authorities of Bosnia and Herzegovina. While all attempts at accuracy have been made, *information gaps exist, and figures should be considered best estimates.*

## **Definitions and Database Methodology**

This report has been prepared using the same definitions as in previous reports. Implementation progress is measured primarily by *financial* benchmarks: (i) donor funding committed, and (ii) committed amounts under implementation. The report also uses disbursement of funds as one of the benchmarks of implementation. According to the commonly used definition of disbursement (see below), advances made to implementing agencies in Bosnia and Herzegovina for future payments to suppliers are also included in disbursement figures. In order to better capture the amounts actually spent on the ground (funds expended), donors were asked to provide an *estimate* of the unused portions of such advances. According to these estimates, on average, the total amount of such unused advances represented approximately 15 percent of disbursed funds. It should also be noted that disbursement figures, under this definition, do not include transfer of funds from donors to trust funds administered by international financial institutions or other international agencies. While these funds are considered disbursed from the donors' point of view, according to the definition, they would be accounted for at the time of actual withdrawal from the trust funds. Nevertheless, since these amounts do represent actual budgetary outlays for donors, Annex 1 indicates amounts transferred to those trust funds.

Differing procedures are used by donors to activate pledges so that they become available to be contracted and disbursed. For the purpose of consistency, the following definitions are used in the Database and this report:

A **pledge** is an expression of intent to mobilize funds for which an approximate sum is indicated.

A **firm commitment** is a pledge which has been: (i) approved by a national legislative body or multilateral Board; and (ii) allocated to a specific sectoral program or project.

An **indicative commitment** is a pledge which has either legislative approval but is not yet allocated to a specific sectoral program or project; or, a pledge which has been allocated in principle to a particular program or project, but is awaiting legislative approval.

**Uncommitted** funds have neither legislative approval nor project-specific allocation.

Amounts **under implementation** are those firmly committed funds for which contracts have been tendered, signed, or completed.

**Disbursed** funds are those transferred to an account in the name of a Bosnian agency, or a disbursement agency (foreign or local) in Bosnia, and include expenditures made against works, goods and service contracts, and for fiscal/balance of payments support. This category includes funds advanced to implementing agencies for the purpose of payment to contractors or suppliers, but not yet expended (see below). In-kind assistance is considered disbursed once provided.

**Funds expended** represent (i) actual expenditures made against works, goods and service contracts; (ii) the value of assistance delivered in kind; and (iii) fiscal/balance of payments support. The definition of funds expended does not include advances made to implementing agencies for future payments to suppliers.

- For each donor program, project or commitment, information provided by donors has been entered into the Bosnia and Herzegovina Donor Database by, *inter alia*: (i) sector and sub-sector; (ii) type (e.g., cash grant or loan); (iii) form (e.g., equipment or technical assistance); (iv) channel (e.g., direct or co-financing); and (v) commitment, tender issue, contract signature, completion and end-disbursement dates.
- While most donor support falls within one of the sectors of the Priority Reconstruction Program or peace implementation, certain donor programs -- such as "municipal rehabilitation" -- are multi-sectoral. Multi-sectoral programs have been disaggregated and designated to appropriate sectors according to guidance from donors.
- While amounts are maintained in the Database in the currency of origin, figures in this report have been converted to US dollars at the average exchange rate for January-August 1997. The donor information used in this report is as of end-August 1997.

**Bosnia and Herzegovina  
Implementation of the Priority Reconstruction Program**

**Status Report to the Donor Community**

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**Bosnia and Herzegovina  
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**A. OVERVIEW OF PROGRESS**

*International support for reconstruction remained broadly-based in 1997*

1. During the second year of peace in Bosnia and Herzegovina, some 30 donors, both countries and international organizations, pledged new financial contributions to support the reconstruction of Bosnia and Herzegovina, while several others were active in implementing assistance programs initiated in 1996. The Third Donors' Conference held in Brussels on July 23-24, 1997, demonstrated the international community's willingness to continue strong economic support, provided progress is made in implementing the Dayton Accords. Since the end of the war, three pledging conferences--co-hosted by the European Commission and the World Bank--have mobilized donor pledges of some US\$3.1 billion for reconstruction and peace implementation activities (Annex 1).

*US\$2.6 billion in donor funds was firmly committed*

2. Overall, good progress was made in committing promised donor funding: indicative and firm commitments together reached US\$3,084 million, leaving only US\$257 million, or only 8 percent of total pledges, uncommitted (Table 1). Firm commitments alone amounted to US\$2,636 million at end-August, with US\$1,914 million firmly committed in 1996, and US\$722 million during the first eight months of 1997. Indicative commitments reached some US\$448 million, reflecting, in part, reluctance by many donors to firmly commit their contributions prior to the pledging conference.

	US\$ Million	% of Total Pledges
<b>Total Pledges</b>	3,138	100%
<b>Total Commitments</b>	3,084	98%
of which 96	2,034	[66%]
of which 97	1,049	[34%]
<b>Total Firm Commitments</b>	2,636	84%
of which 96	1,914	[73%]
of which 97	722	[27%]
<b>Total Indicative Commitments</b>	448	14%
<b>Uncommitted <sup>1/</sup></b>	257	8%

<sup>1/</sup> The total of commitments plus uncommitted amounts is larger than total pledges since several donors have committed funds in excess of their total pledges.

*Donor assistance remained highly concessional*

3. Some 96 percent of donor assistance was provided on concessional terms, either as grants or concessional loans, and only some 4 percent of donor funding represented lending on market terms (Table 2). Reports from some donors, however, indicate a gradual shift from grant-based assistance towards concessional loans. Compared to other post-conflict countries, Bosnia and Herzegovina so far has been able to attract steady and large flows of concessional assistance. The high level of concessionality has been essential, given the lack of creditworthiness of the country and the need to avoid the build-up of large repayment obligations for the future.

	US\$ Million	% of Total Commitments
<b>Total Commitments</b>	3,084	100%
<b>1. Concessional</b>	2,965	96%
Grants	2,366	77%
Loans	599	19%
<b>2. Non-concessional</b>	119	4%

**Donor commitments for reconstruction activities exceeded US\$2.8 billion**

4. Of the US\$3,084 million in total commitments as of August 1997, some US\$2,851 million had been designated for reconstruction activities (Table 3). Most of these activities fit within the framework of the Priority Reconstruction Program. Some US\$245 million was committed to balance of payments support. Commitments for multilaterally-administered programs and projects (under the aegis of international financial institutions and including bilateral financing) accounted for an

	US\$ Million	% of Total Commitments
<b>Total Commitments</b>	<b>3,084</b>	<b>100%</b>
<b>1. Reconstruction Activities</b>	<b>2,851</b>	<b>92%</b>
a. Multilaterally-administered	1,602	[56%]
b. Bilaterally-administered	1,249	[44%]
<b>2. Peace Implementation</b>	<b>233</b>	<b>8%</b>

estimated US\$1,602 million, or 56 percent of reconstruction activities, while commitments for bilaterally-administered programs and projects (through national aid agencies, NGOs or others) represented the remaining US\$1,249 million (44%). An additional US\$233 million was earmarked for peace implementation activities, such as support for elections, media, the local police force, human rights and democratization.

**Over US\$1.5 billion of donor assistance had been disbursed by end-August**

5. US\$1,946 million of donor assistance for civil works, goods and services, as well as critical budgetary support was under implementation (including some US\$790 million in completed contracts). Another US\$690 million was firmly committed but not yet under implementation, awaiting tender. As of August 1997, donors had disbursed US\$1,550 million (50% of total commitments), and an estimated US\$1,316 million had been spent on the ground (Table 4). Implementation of donor programs in the first eight months of 1997 was somewhat slower than in 1996. However, with some US\$690 million in firm commitments awaiting implementation at end-August, it is expected that procurement activities and disbursements will substantially accelerate during the second part of the year.

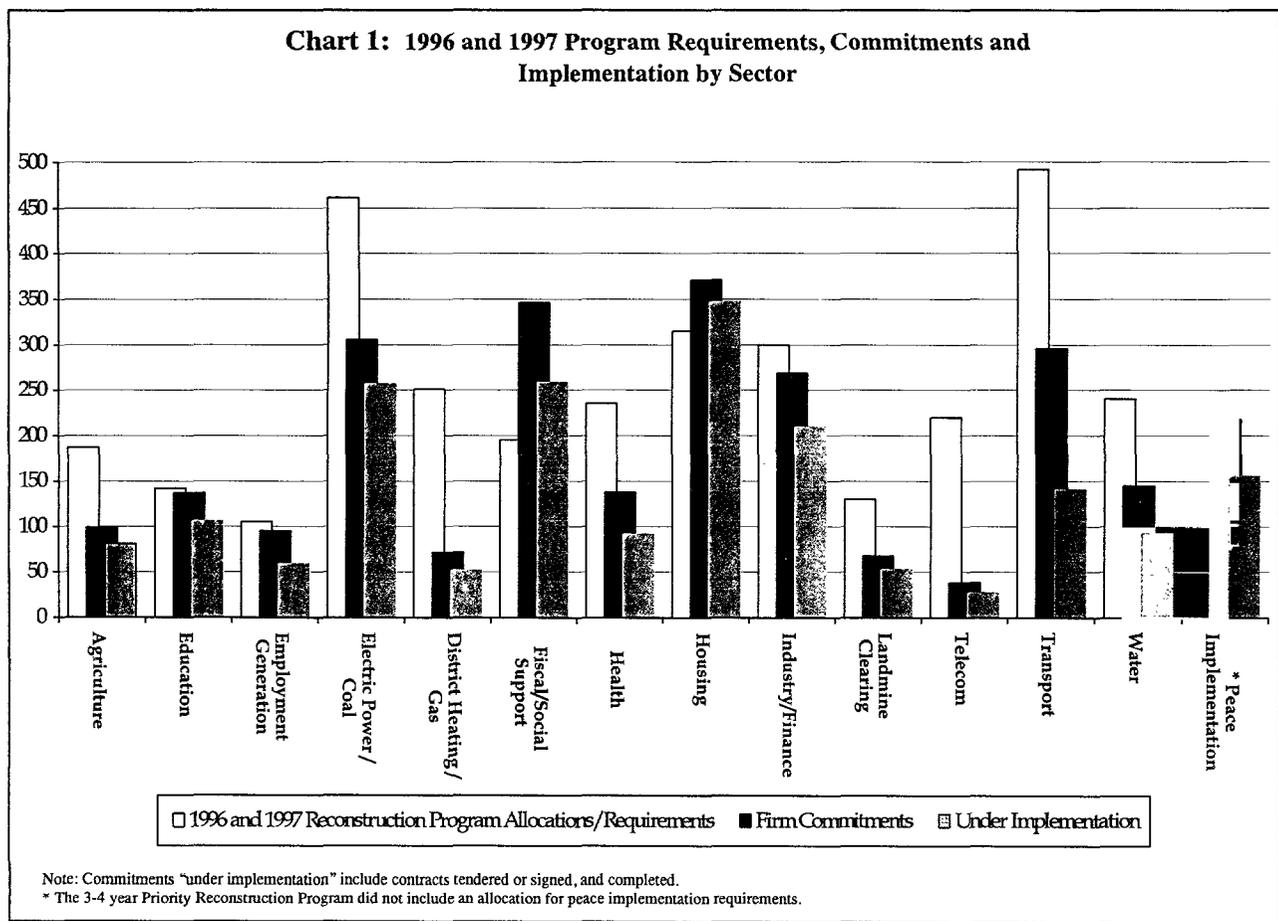
	US\$ Million	% of Total Commitments
<b>Total Commitments</b>	<b>3,084</b>	<b>100%</b>
<b>Under Implementation</b>	<b>1,946</b>	<b>63%</b>
Tender launched	114	4%
Contract signed	1,832	59%
of which completed	790	26%
<b>Disbursed</b>	<b>1,550</b>	<b>50%</b>
<b>Not Yet Under Implementation</b>	<b>1,138</b>	<b>37%</b>
Firm	690	22%
Indicative	448	15%

**B. IMPLEMENTATION BY SECTOR****Donor commitments and implementation continued to show significant sectoral variations**

6. After twenty months of reconstruction, firm donor commitments nearly reached or even exceeded the 1996/97 Priority Reconstruction Program requirements in several areas, including housing, fiscal and social support, industry/finance, employment generation and education (Chart 1). This reflects strong donor interest in: (i) alleviating the enormous housing shortage and supporting

refugee return; (ii) providing social support to the most vulnerable groups of the society in the absence of a domestically funded social safety net; (iii) revitalizing the economy and creating employment through lines of credit and employment generation schemes; and (iv) supporting the establishment and functioning of the post-Dayton government institutions. The high level of support for the rehabilitation of educational facilities indicates both education's high priority and its attractiveness for donors.

7. At the other end of the spectrum, a few sectors received relatively little donor support. Firm commitments for the rehabilitation of the telecommunications and natural gas systems fell far short of funding requirements. In telecommunications, the lack of agreement between the authorities on the structure and policy framework of the sector delayed reconstruction and discouraged potential donors. Rehabilitation of the natural gas system also suffered significant delays because of the absence of a long-term gas supply agreement and credible payment mechanism. Thus, donor support in this area was relatively modest.



8. As of August 1997, firm commitments had increased by 38 percent compared to December 1996. The largest relative increases were achieved in employment generation, industry/finance, transport, water and energy. Donors came to appreciate more the immediate gains both to the economy and the individuals stemming from employment creation and microcredit programs, benefiting disadvantaged groups, such as women, demobilized soldiers and other vulnerable groups of the society. The desire to facilitate refugee return also made these programs attractive to host donor countries. The

above-average increases in firm commitments to the infrastructure sectors confirm the absorptive capacity and the remaining large financing needs in those sectors.

9. In the first eight months of 1997, implementation of employment generation and social support programs, lines of credit, as well as reconstruction activities in the health and housing sectors continued at a steady pace, while implementation performance in some infrastructure sectors proceeded slowly due to political disagreements. The sections below provide a brief overview of implementation of the reconstruction program by sector, highlighting some of the main physical achievements as well as the challenges ahead.

## 1. AGRICULTURE

### *Donor support helped fast recovery of food crop production*

10. As of August 1997, US\$99 million had been firmly committed and US\$69 million had been disbursed in support of agriculture. Of this total, US\$13 million was disbursed between January and August 1997. Donors continued to focus on provision of livestock, farm equipment, seeds, and related technical assistance to small-scale farmers. New commitments concentrated on deepening the impact of emergency programs, with particular emphasis on increasing and sustaining the agricultural production capacity through mechanization, credit facilities for agribusinesses (meat and milk production) and technical assistance in veterinary services. Donor support for emergency seed multiplication type programs targeting subsistence farmers decreased as the sector recovered.

11. Since early 1996, donors committed and disbursed some US\$18 million for seed and farm input programs. According to the FAO, however, an estimated 150,000 households in rural areas still required emergency interventions. More than US\$7 million of support was provided to income generating activities related to the agro-processing industry, and another US\$9 million for rehabilitation of the forestry sector. Over US\$35 million was committed for farm mechanization, translating into over 4,200 tractors and other farm equipment distributed to farmers. Some US\$30 million was committed for livestock production and animal health services, rebuilding national herds through imports of about 7,500 head of livestock and equipping and rebuilding veterinary stations and institutes.

12. In 1997, production data and yield estimates tend to confirm a fast recovery of agricultural food crop production capacity which, at least for major staples, (wheat, maize and potatoes) has almost reached pre-war levels both in the Federation and Republika Srpska--faster in Republika Srpska partly due to less severe war destruction and better agro-ecological conditions. A July 1997 study conducted by the Agriculture Sector Task Force notes that if the rate of investment and recovery in agricultural production in 1996 and 1997 is replicated over the next two years, the sector would be able to reach yield and production levels above pre-war levels. Investments to the agriculture sector are often among the most direct means of creating employment for rural populations, through sale of dairy and other farm products.

13. Major challenges for the future are: (i) survey and demining of agricultural and pasture land; (ii) access to rural credit for small and medium scale farmers; (iii) provision of private sector-based farm extension and veterinary services; (iv) reforms in trade policies, commodity pricing and

marketing; (v) privatization of state farms and agroprocessing enterprises; and (vi) resolution of land property rights and establishment of a land market.

## 2. EDUCATION

*Donor assistance was critical in the rehabilitation of some 490 primary schools and 90 kindergartens*

14. As of August 1997, donors had firmly committed US\$137 million and disbursed US\$83 million in support of the education sector. Of this total, US\$26 million was disbursed between January and August 1997.

15. About US\$100 million of firmly committed and US\$60 million of disbursed donor assistance helped the rehabilitation of primary schools and kindergartens; some 490 primary schools and 90 kindergartens were rehabilitated in the Federation and Republika Srpska. The most recent Education Sector Task Force report confirms the trend indicated by decelerating disbursements that the rate of physical reconstruction both in the Federation and Republika Srpska slowed down in 1997. The Sector Task Force report also notes that this trend may be due to a decreasing number of primary schools and kindergartens that meet the criteria -- light damage and quickly repairable -- for priority school reconstruction.

16. Donors also firmly committed over US\$30 million for rehabilitation of secondary schools, major universities in Sarajevo, Mostar and Banja Luka, training of teachers and professors and scholarships for higher education.

17. Finally, donors--with commitments amounting to US\$7 million--also supported the rehabilitation of cultural landmarks and activities such as the rehabilitation of the Sarajevo Theater, the National Library, and museums, and provided funding for cultural activities.

18. Major challenges for the next two years include clarification of the roles of different levels of government in providing education services, and development of a plan for rationalizing the use of Bosnia and Herzegovina's various higher education facilities to avoid competing and entirely independent higher education systems in the Bosniac-, Croat- and Serb-majority areas of the country.

## 3. EMPLOYMENT GENERATION

*Employment generation remained a major concern for the government and donors*

19. Several donors invested in targeted interventions specifically designed to help generate employment, particularly among economically vulnerable groups. As of August 1997, donors had firmly committed a total of US\$95 million and disbursed US\$46 million in support of employment generating activities, including public works programs, skills training and job counseling programs, and micro-enterprise development. Of this total, US\$28 million was disbursed during the first eight

months of 1997. Program implementation has accelerated significantly during 1997 and attracted increased commitments.

20. Under the emergency public works program, the Employment and Training Foundations contracted over 160 public works projects in both the Federation and Republika Srpska, and completed about 130 of them. These projects include war ruins clean-up, rural road repairs, and repair to water, sewage and electricity systems. This resulted in the creation of 15,000 man months of employment benefiting about 5,000 people, the majority being demobilized soldiers. Of the US\$37 million committed to public works programs by various donors, over US\$20 million was disbursed. Public works projects were implemented in nearly all municipalities in the Federation and in about half of the municipalities in Republika Srpska. In 1997, priority was given to investing in areas of refugee return.

21. An additional US\$23 million was firmly committed and over US\$5 million was disbursed to support training, employment counseling programs and job-finding services, primarily targeting demobilized soldiers. These programs will have benefited over 15,000 demobilized soldiers by end-1997.

22. Of the US\$31 million firmly committed to micro-enterprise programs, US\$7 million was disbursed. This included financing for microcredit schemes and business services, including training for microentrepreneurs. Most programs were targeted towards the economically vulnerable, including displaced persons, female-headed households and unemployed demobilized soldiers. There were 20 microcredit programs operating in the Federation and 9 in Republika Srpska. In total, it is estimated that about 3,500 small loans were disbursed to low-income entrepreneurs, with an average loan size of about US\$2,500. These loans were used to finance small-scale trade, services, production and agriculture activities creating about 3,700 new jobs and sustaining 3,200 existing jobs. Displaced persons represented approximately 70 percent of the beneficiaries and returning refugees about 20 percent. Most programs were performing well, with repayment rates of 99-100 percent.

23. While donor support for specific employment creation schemes has played an important role, the reconstruction program itself has generated hundreds of thousands of months of temporary work, as well as tens of thousands of permanent jobs. While unemployment remains critically high, there has been a significant improvement in the employment situation since the end of the war. Unemployment rates decreased from the post-war high of 90 percent to an estimated 45 percent in the Federation and 60 percent in Republika Srpska. Economic growth and job creation in Republika Srpska have been far less significant than in the Federation, in part due to less donor investment. Within the Federation, employment creation has been greatest in Sarajevo, with unemployment estimated at 23 percent, and least in Gorazde, where unemployment is estimated at 60 percent.

24. The further significant reduction of unemployment in both Entities represents one of the most difficult challenges in the coming years. Appropriate government policies supporting privatization and private sector development are needed to generate long-term, sustainable employment opportunities. Donor-funded reconstruction activities and specific employment creation schemes will be needed to complement these policies in the short term.

## 4. ENERGY

### (a) Electric Power and Coal

#### *Reconstruction of the power sector enjoyed support from a large number of donors*

25. As of August 1997, US\$331 million had been firmly committed and US\$195 million had been disbursed by some 15 donors for rehabilitation of major power plants, transmission and distribution lines. Of the total US\$195 million, some US\$63 million was disbursed in 1997. Two main hydropower plants (in Salakovac and Grabovica) were recommissioned, and rehabilitation of a third (in Jablanica) was well underway. Rehabilitation of three major thermal power plants (Tuzla, Kakanj and Ugljevik) and associated coal mines made good progress: The Ugljevik power plant, two units of the Kakanj plant and a 200 MW unit at the Tuzla power plant were recommissioned. Rehabilitation of some 300 km of 110 kV and about 250 km of 220kV transmission lines was completed. An inter-Entity 220 kV transmission line (from Trebinje to Bihac) was also restored. Rehabilitation of distribution networks throughout the country also got well underway.

26. The challenges for the future will be to (i) improve exchange of electricity between the regions of the country in order to minimize generating and transmission costs; (ii) restore the 400kV connections and establish a joint dispatching center; (iii) improve the financial performance of the electric power companies through increased collection and improvements in tariff levels and structure; (iv) restructure the coal sector to concentrate production on the lowest-cost mines; and (v) restructure the power sector, including the establishment of a regulatory framework and initiation of private involvement.

### (b) District Heating

#### *Some 36,000 flats were reconnected to the district heating system in Sarajevo*

27. As of August 1997, donors had firmly committed over US\$43 million and disbursed US\$27 million for rehabilitation of the district heating systems, focusing mainly on Sarajevo. Last winter, some 32,000 flats were reconnected to the district heating system in Sarajevo, followed by another 4,000 flats in 1997, after extensive rehabilitation of building internal heating installations. Most of the boilers and substations were repaired to a level sufficient to operate throughout the winter, and further rehabilitation is planned during 1997/98. A new billing and collection system was put in place, although the collection rate remained low.

28. The reconstruction program in district heating should continue to give priority to those cities where the largest impact can be made by enabling apartment dwellers to switch back to district heating, instead of using wood and coal for their space heating needs. Furthermore, as the rehabilitation of district heating systems proceeds, collection rates will have to increase to ensure financial sustainability of the operation of district heating companies.

**(c) Natural Gas*****Lack of a gas supply agreement constrained progress in rehabilitation***

29. Progress in reconstruction of the natural gas system was constrained by the lack of a sound long-term gas supply agreement, including a credible payment mechanism. By end-August 1997, only US\$16 million had been firmly committed and US\$14 million disbursed by donors for financing gas system rehabilitation. In addition, various governments contributed US\$12 million towards payment of gas consumption by the Federation. In 1996, about one-fifth of the transmission system reconstruction and one-third of the distribution system repair was completed; approximately 200 km of network piping was installed, the latter mostly by citizen self-help. A computerized billing system was established and in operation from December 1996, with customers without meters being billed on the basis of average unmetered consumption. During 1997, the main emphasis was on installing new or repaired meter and regulator sets, approximately 22,000 of which were installed. Agreement was reached in late October on a long-term supply contract for the Federation, including a sound financing plan for future gas consumption. Based on this, gas system reconstruction activities are expected to accelerate. Republika Srpska is in the process of completing similar negotiations with the gas supplier and efforts are underway to help it find donor financing for its arrears to Gazexport.

**5. FISCAL AND SOCIAL SUPPORT*****Institution building and social support continued to play an important role in donor programs***

30. As of August 1997, over US\$346 million had been firmly committed and US\$259 million disbursed in support of government institutions, social programs and for general fiscal/balance of payments purposes. About US\$99 million in firm commitments financed repairs to major government buildings, office equipment and salary supplements, as well as training for government officials at the State and Entity levels. In addition, technical assistance was provided to the Central Bank as well as to a host of government agencies. Some US\$8 million was committed by various donors for strengthening local government structures and in support of community development programs.

31. About US\$62 million of firm commitments financed social programs for vulnerable groups such as the disabled, the elderly and children. These programs covered a wide variety of areas, and proved successful in providing emergency relief through cash benefits to the poorest households, pension payments to the elderly, support to foster parents and emergency repairs to institutions for children, as well as in improving living standards through health care assistance, professional training, and employment services for the disabled and the blind.

32. Finally, in addition to the specific institution building and social safety net programs, some US\$185 million was committed and US\$146 million was disbursed for balance of payments needs and fiscal expenditures.

33. Major challenges for the future include the strengthening of government institutions, in particular the functioning of the common institutions, and the creation of a viable public finance system. The latter would encompass: (i) sustainable assignment of expenditure and revenue

responsibilities at State, Entity and cantonal levels; (ii) the creation and functioning of an efficient external debt management mechanism; (iii) orderly preparation and execution of budgets at State, Entity and cantonal levels; (iv) reform and harmonization of tax policies and administration between Entities; and (v) the establishment of a fiscally sustainable and well-targeted social safety net.

## 6. HEALTH

### *Focus shifted from emergency interventions toward the creation of a sustainable health system*

34. As of August 1997, US\$138 million had been firmly committed and US\$82 million disbursed mainly in support of emergency health services and hospital rehabilitation, as well as rehabilitation of war victims. During the first year of the reconstruction program, efforts focused primarily on preventing further deterioration of the overall health situation by the provision of emergency assistance. Additional donor support helped to initiate the physical and functional rehabilitation of the health care delivery system and to rehabilitate war victims. The war victims rehabilitation program aimed at the establishment of community-based rehabilitation centers throughout the country, strengthening of orthopedic and reconstructive surgical units and development of the production of prostheses, and supply of drugs, medical supplies and equipment.

35. Donors firmly committed about US\$65 million and disbursed US\$46 million for basic health services and emergency public health activities. A majority of these services were delivered by NGOs. In addition, US\$44 million was firmly committed for hospital rehabilitation, of which US\$18 million was disbursed. The rehabilitation of hospitals covers eleven hospitals in the Federation and a similar number in Republika Srpska, and includes the provision of general service equipment and medical equipment, as well as civil works and continuing education for health care workers. Donors committed about US\$27 million and disbursed US\$9 million to support rehabilitation of war victims.

36. In the next two years, focus in the health sector will be on the completion of work already begun, with increased emphasis on the basic health system and a sustainable health finance regime. Challenges include the preparation and implementation of a family medicine system, effective public health interventions, a transparent and predictable health finance system, and a shift to local financing of recurrent expenditures.

## 7. HOUSING

### *Living conditions improved for 200,000 people but needs of returning refugees remained vast*

37. As of August 1997, donors had firmly committed US\$372 million and disbursed US\$252 million for emergency repairs, reconstruction of public and private housing and municipal rehabilitation which includes minor infrastructure works related to housing units. The July 1997 Housing Sector Task Force report indicates that, during the first half of 1997, there was an increase in the number of integrated projects which consist of housing repair and community infrastructure rehabilitation. The same report also notes that local and regional coordination among government authorities improved greatly, enabling better identification of needs for supporting refugee return.

38. About 60 percent of firm commitments were allocated by donors for reconstruction and 40 percent for financing emergency repairs. Of the total, US\$69 million was disbursed in the first eight months of 1997. The housing sector remained a main focus of donor support in Bosnia and Herzegovina, particularly in light of the needs of returning refugees. The Housing Sector Task Force estimates that the 1997 funding committed by donors will help to repair up to 30,000 dwellings in 1997/98, with priority given to the UNHCR-designated refugee return areas. Approximately 60 percent of committed funds have been directed to UNHCR priority refugee return areas.

39. After twenty months of reconstruction, some 50,000 private houses or public apartment units were either repaired or received repair assistance through donor financing. At an estimated average of 4 residents per unit, this benefited some 200,000 people in Bosnia and Herzegovina. A significant number of additional housing units were repaired through private initiative and financing by individual owners.

40. The major challenge for the next two years is increasing the usable public and private housing stock to levels sufficient to house returnees, and displaced and resident populations. Other priorities include: (i) the clarification of property rights; (ii) introduction of cost recovery on donor-financed housing investments, moving away from grant-based programs; (iii) development of a sustainable housing finance system through local banks; (iv) rationalization of rental charges, and organization of building maintenance and administration systems for public housing; and (v) privatization of housing stock.

## 8. INDUSTRY AND FINANCE

### *Donor-funded lines of credit created some 18,000 new jobs*

41. As of August 1997, donors had firmly committed US\$269 million and disbursed US\$122 million in support of lines of credit and business development services for small and medium-sized enterprises (SMEs), technical assistance in enterprise privatization and banking, and the creation of a political risk guarantee facility. Some US\$45 million was disbursed in 1997.

42. Donor support for lines of credit was a principal source of capital for the economy, providing US\$110 million in financing through 450 loans mostly in food processing, construction and textiles industries as well as in services. A July 1997 Industry Sector Task Force report estimated that the lines of credit programs created some 18,000 permanent new jobs in Bosnia and Herzegovina.

43. Additional funds of about US\$60 million were firmly committed for training programs and advisory services. For example, banking training programs have been introducing high and middle level banking staff of virtually all banks in the Federation to modern banking concepts and principles.

44. Donors also committed some US\$20 million to the creation of a political risk guarantee facility that provides coverage against non-commercial risks for foreign business partners of companies in Bosnia and Herzegovina. Under this new scheme, twelve guarantees have been issued.

45. Privatization of enterprises in a transparent and fair manner, and restructuring and privatization of banks, together with the creation of an appropriate regulatory and legal environment constitute the major challenges for the period ahead.

## 9. LANDMINE CLEARING

### *After a slow start, demining operations made good progress*

46. As of August 1997, donors had firmly committed US\$67 million and disbursed US\$33 million for landmine surveying, marking, clearing, local capacity building and mine awareness activities. In 1997, US\$9 million was disbursed to support these activities.

47. In the process of clearing important reconstruction sites and many residential areas, some 17,440 mines and unexploded objects were destroyed. Priority areas for demining included the rehabilitation sites of major roads and bridges, railway lines, power plants and power lines and water supply pipes.

48. During the first twenty months of the reconstruction program, in addition to surveying and clearance of sites to support infrastructure rehabilitation works, priority was also given to landmine clearance around schools, hospitals and residential areas to accelerate the transition to normal life, as well as to facilitate the return of refugees.

49. Major challenges for the future include continued efforts in clearing infrastructure rehabilitation sites, primary residential areas, and areas vital for return of refugees. Mine clearance activities will remain a pre-requisite for the implementation of reconstruction works especially in the transport, water, and energy sectors. Further efforts will also be required to strengthen local mine clearance capacity.

## 10. TELECOMMUNICATIONS

### *Reconstruction was delayed because of disagreement on structure and policy framework*

50. The international community provided only limited assistance for the rehabilitation of the telecommunications sector. As of August 1997, US\$38 million had been firmly committed and US\$16 million disbursed mainly for emergency repairs and some network reconstruction. Of this total, only US\$1 million was disbursed in 1997.

51. The first major step towards reconstruction at the network level (in contrast to localized emergency actions) was taken in 1997, with the reconstruction of the long-distance network in Republika Srpska and the provision of inter-entity links which restored connectivity for the network in Bosnia and Herzegovina. There was also some progress in re-establishing long distance capacity in the Federation using digital transmission.

52. The lack of agreement among the parties on the operation of the telecommunications system caused significant delays in the initiation of a major reconstruction program that would provide approximately 100,000 lines of local switching capacity and associated distribution networks, and would significantly increase access to telecommunications services for the population of both Entities.

53. Following agreement between the parties, restoration and expansion of local telephone service will constitute the major challenge for the period ahead.

## 11. TRANSPORT

### *Good progress was made in reconstruction but important railway issues remain unresolved*

54. As of August 1997, US\$307 million had been firmly committed and US\$116 million disbursed to finance the reconstruction of the transport sector in Bosnia and Herzegovina. Of this total, US\$25 million was disbursed between January and August 1997.

55. Rehabilitation of some 380 km of the main road network was completed. Twelve major bridges were reconstructed, and works were underway on the Orasje-Zupanja bridge and preparation activities started for the reconstruction of the Bosanski Samac bridge, two key links over the Sava river between Bosnia and Herzegovina and the rest of Europe. As for the railway sector, an estimated 95 percent of the entire rail network was ready for traffic, although on many sections at low speed. However, actual traffic was limited to a portion of the network, and in particular there was no inter-Entity traffic due to disagreements between the parties. In the civil aviation sector, the Sarajevo Airport was reopened to civilian traffic, and several airlines started to operate flights between Sarajevo and other European cities. Some 100 urban buses and mini-buses were delivered, as well as spare parts and workshop equipment. In addition, an estimated 100, mainly second-hand buses, were donated by European cities, and fifteen tram sets were delivered to Sarajevo.

56. In the months ahead, the following challenges will have to be faced: (i) getting trains running country-wide; (ii) speeding up the rehabilitation of the Sarajevo airport; (iii) strengthening the road institutions in both Entities; and (iv) mobilizing significant additional donor funding to reduce the large funding gap.

## 12. WATER AND WASTE MANAGEMENT

### *Rehabilitation works increased population's access to clean and regular water supply*

57. As of August 1997, donors had firmly committed US\$145 million and disbursed US\$93 million in support of rehabilitation of municipal water supply networks, and solid waste and sewerage systems. Of this total, US\$46 million was disbursed in 1997.

58. During the initial phase of the reconstruction program, a large number of bilateral donors implemented emergency repairs through NGOs or through their SFOR contingents. Over the last year or so, after comprehensive surveying of network conditions, more than 300 works projects began implementation in over 130 municipalities/cities both in the Federation (80) and Republika Srpska

(50). Of the 300 water supply, sewerage and solid waste projects, 27 were completed while the remaining were under implementation. Completion of water supply, sewerage and solid waste works secured clean and regular water supply as well as improved public health conditions in municipalities and villages with a total population of 1.3 million.

59. Major challenges for the next two years in the sector are to ensure sustainability of current projects through strengthened institutional capacity and to focus works on sewerage and solid waste.

### **13. PEACE IMPLEMENTATION ACTIVITIES**

#### ***Peace implementation activities continued to provide essential conditions for reconstruction and recovery***

60. Donors continued to attach great importance to activities that complement the post-war reconstruction and enhance the implementation of the political and civilian aspects of the Dayton Peace Agreement. As of August 1997, some US\$221 million had been firmly committed and US\$142 million disbursed in support of elections, media, local police force strengthening, human rights and democratization projects. Donors also provided support to the International War Crimes Tribunal, the Office of the High Representative and the Property Commission. Of the total disbursed, US\$24 million was spent in 1997, mainly in support of the municipal elections which took place in September 1997.

## ANNEX 1

**Priority Reconstruction Program in Bosnia and Herzegovina**  
**Pledges, Commitments, Amounts Under Implementation and Disbursed by Donor<sup>a</sup>**  
**in US\$ million**  
**As of August 30, 1997**

Donor	Total Pledges 1996	Total Pledges 1997	Total Pledges 1996 and 1997	Total Commitments 1996	Total Commitments 1997	Total Commitments <sup>b</sup> 1996 and 1997	Transferred to International Agency Trust Funds <sup>c</sup>	Under Implementation	Disbursed <sup>d</sup>	Funds Expended
Albania	0.02	--	0.02	0.02	--	0.02		0.02	0.02	0.02
Australia	1.13	--	1.13	1.13	--	1.13		1.13	1.13	1.13
Austria	11.50	8.40	19.90	23.07	5.45	28.52		29.43	23.13	23.19
Belgium	7.57	2.80	10.37	7.28	1.12	8.40		6.85	3.30	1.97
Brunei	2.00	--	2.00	18.70	--	18.70		18.70	16.70	16.70
Bulgaria	0.01	--	0.01	0.03	--	0.03		0.03	0.03	0.03
Canada	25.44	14.60	40.04	21.99	12.73	34.72	6.47	29.10	19.51	17.06
Croatia	0.50	10.60	11.10	14.29	10.61	24.90		22.83	14.29	14.10
Czech Republic	6.00	0.50	6.50	6.42	0.55	6.97		6.33	6.33	6.33
Denmark	5.10	10.60	15.70	9.63	8.94	18.57		14.04	12.94	11.62
Egypt	1.00	2.60	3.60	1.03	3.00	4.03		1.03	1.03	1.03
Estonia	0.07	--	0.07	0.07	--	0.07		0.07	0.07	0.07
F.R. Yugoslavia	10.00	10.00	20.00	11.70	10.00	21.70		11.70	11.70	11.70
Finland	5.00	5.50	10.50	8.94	5.62	14.56		9.36	9.36	9.26
France	9.29	10.14	19.43	13.19	3.81	17.00		11.81	11.28	11.28
FYR Macedonia	0.10	--	0.10	0.10	--	0.10		0.10	--	--
Germany	39.25	12.20	51.45	51.49	11.25	62.74		50.91	45.67	45.81
Greece	7.00	10.00	17.00	7.00	9.95	16.95		7.00	7.00	7.00
Hungary	1.00	--	1.00	1.00	--	1.00		1.00	1.00	1.00
Iceland	1.60	--	1.60	1.60	--	1.60	0.85	0.85	0.15	0.15
Indonesia	2.10	--	2.10	2.08	--	2.08		2.08	1.00	1.00
Ireland	6.00	2.00	8.00	6.20	2.11	8.31	1.36	7.48	7.42	6.17
Italy <sup>e</sup>	63.65	34.80	98.45	70.70	34.90	105.60	43.00	37.83	22.36	16.57
Japan	136.70	130.00	266.70	107.70	83.40	191.10	88.00	58.71	56.65	50.06
Jordan	1.37	--	1.37	--	1.37	1.37		--	--	--
Kuwait	35.00	12.70	47.70	21.15	26.40	47.55		1.15	--	--
Latvia	0.09	--	0.09	0.11	--	0.11		0.11	0.11	0.11
Lithuania	0.07	--	0.07	0.08	--	0.08		--	--	--
Luxembourg	3.23	2.80	6.03	2.87	2.84	5.71	0.52	2.78	2.78	2.78
Malaysia	12.00	12.30	24.30	12.00	0.25	12.25		11.88	1.00	1.00
Netherlands <sup>o</sup>	100.02	75.00	175.02	100.00	75.50	175.50	86.00	87.08	87.08	85.55
Norway <sup>e</sup>	40.76	27.00	67.76	42.40	38.43	80.83	3.85	65.72	65.60	60.87
Poland	2.90	--	2.90	3.00	--	3.00		2.85	--	--
Portugal	1.00	--	1.00	--	--	--		--	--	--
Qatar	5.00	--	5.00	5.00	--	5.00		2.24	2.24	2.24
Republic of Korea	1.00	0.80	1.80	1.00	0.80	1.80		1.02	1.00	1.02
Romania	0.21	--	0.21	0.21	--	0.21		0.21	--	--
Russia	50.00	--	50.00	--	--	--		--	--	--
San Marino	0.14	--	0.14	0.23	--	0.23		0.24	0.22	0.12
Saudi Arabia	50.00	25.00	75.00	50.00	--	50.00		23.34	23.34	23.33
Slovakia	1.50	1.50	3.00	1.50	--	1.50		1.50	1.50	1.50

## ANNEX 1

Donor	Total Pledges 1996	Total Pledges 1997	Total Pledges 1996 and 1997	Total Commitments 1996	Total Commitments 1997	Total Commitments <sup>b</sup> 1996 and 1997	Transferred to International Agency Trust Funds <sup>c</sup>	Under Implementation	Disbursed <sup>d</sup>	Funds Expended
Slovenia	2.89	3.00	5.89	3.19	1.80	4.99		3.59	3.39	3.54
Spain	17.50	21.20	38.70	14.40	21.64	36.04	2.05	6.79	6.59	6.08
Sweden	30.40	25.00	55.40	38.50	31.86	70.36	2.00	57.74	54.47	33.27
Switzerland <sup>e</sup>	33.50	35.30	68.80	31.87	34.90	66.77	9.51	58.43	29.72	28.99
Turkey	26.50	--	26.50	46.50	20.00	66.50		5.50	2.70	2.70
United Kingdom	39.70	27.50	67.20	57.75	26.69	84.44	3.12	80.96	65.46	65.46
United States	281.70	242.10	523.80	294.40	174.90	469.30		398.47	365.20	236.98
CE Soc. Dev. Fund	5.00	--	5.00	6.50	--	6.50		2.54	0.40	0.40
EBRD	80.21	--	80.21	89.31	8.75	98.06		13.95	2.01	0.90
European Commission	367.10	306.10	673.20	430.21	219.65	649.86		432.37	272.29	257.69
IsDB	15.00	--	15.00	19.00	--	19.00		9.50	7.73	7.73
ICRC <sup>f</sup>	1.50	--	1.50	1.50	--	1.50		1.50	1.50	
IFAD	7.30	--	7.30	7.32	--	7.32		7.32	6.43	6.72
OIC	3.00	--	3.00	3.00	--	3.00		3.00	3.00	3.00
Soros Foundation	5.00	--	5.00	5.96	--	5.96		0.26	0.26	0.26
UNDP <sup>f</sup>	2.00	--	2.00	0.64	--	0.64		0.64	0.64	0.64
WHO <sup>f</sup>	1.18	--	1.18	1.88	--	1.88		1.48	1.48	1.48
World Bank	330.00	160.00	490.00	357.60	160.00	517.60		334.76	269.78	228.55
<b>TOTALS<sup>g</sup></b>	<b>1,895.80</b>	<b>1,242.04</b>	<b>3,137.84</b>	<b>2,034.44</b>	<b>1,049.22</b>	<b>3,083.66</b>	<b>246.73</b>	<b>1,946.16</b>	<b>1,549.99</b>	<b>1,316.16</b>

a/ Information on commitments and status of implementation is not available for the following countries: Portugal, Russia, Malaysia, Jordan and Qatar.

b/ Include both indicative and firm commitments.

c/ Several donors have transferred part of their contributions to trust funds administered by international agencies, including international financial institutions. This column shows the amounts actually transferred by these donors. Donors who have placed grant funds to Bosnia and Herzegovina in a trust fund with the World Bank include: Canada US\$6.5 million; Iceland US\$0.9 million; Italy US\$43 million; Japan US\$41 million (as part of a US\$50 million contribution Japan transferred to a World Bank-administered trust fund for post-conflict countries); Luxembourg US\$0.5 million; the Netherlands US\$86 million; Norway US\$4 million; Sweden US\$2 million; and Switzerland US\$9.5 million. These funds are considered to be under implementation or disbursed once actual work contracts are underway or payments made.

d/ Includes an estimated total of US\$234 million in advances for future payments to suppliers; this amount has been subtracted to reach "funds expended".

e/ Donors who contributed to resolution of arrears with IBRD are as follows: Italy US\$15 million; The Netherlands US\$6.5 million; Norway US\$1.5 million; and Switzerland US\$2 million. These amounts are not included in the reconstruction pledges shown.

f/ ICRC, UNDP and WHO implement various programs on behalf of bilateral donors, in addition to carrying out programs funded by pledges made at Donors' Conferences.

g/ Uncommitted pledges totaling US\$257 million are not included. Total commitments plus uncommitted pledges add up to more than the pledged amount in 1996 and 1997, since several donors have committed funds over and above their 1996 and 1997 pledges in order to continue ongoing activities.

**Priority Reconstruction Program in Bosnia and Herzegovina**  
As of August 30, 1997

1996/97 Program Allocations/Requirements, Firm Commitments, Implementation and Disbursement by Sector (in US\$ millions)							
Sector	1996 and 1997 Program Allocations/ Requirements	1996 and 1997 Firm Commitments	Firm Commitments as % of 1996 and 1997 Requirements	Under Implementation	Implementation as % of Total Requirements	Disbursed <sup>1</sup>	Disbursed as % of Total Requirements
<b>1. Reconstruction</b>	<b>3,274</b>	<b>2,415</b>	<b>74%</b>	<b>1,787</b>	<b>55%</b>	<b>1,408</b>	<b>43%</b>
Agriculture	187	99	53%	81	43%	69	37%
Education	142	137	96%	108	76%	83	58%
Employment Generation	105	95	90%	62	59%	46	44%
Energy	713	402	56%	309	43%	237	33%
Electric Power & Coal	462	331	72%	257	56%	195	42%
District Heat and Gas	251	71	28%	52	21%	42	17%
Fiscal/Social Support <sup>2</sup>	195	346	177%	264	135%	259	133%
Health	235	138	59%	92	39%	82	35%
Housing	315	372	118%	347	110%	252	80%
Industry/Finance	300	269	90%	210	70%	122	41%
Landmine Clearing	130	67	52%	53	41%	33	25%
Telecom	220	38	17%	27	12%	16	7%
Transport	492	307	62%	141	29%	116	24%
Water and Sanitation	240	145	60%	93	39%	93	39%
<b>2. Peace Implementation</b>		<b>221</b>		<b>159</b>		<b>142</b>	
<b>TOTAL</b>	<b>3,274</b>	<b>2,636</b>	<b>80%</b>	<b>1,946</b>	<b>59%</b>	<b>1,550</b>	<b>47%</b>

<sup>1/</sup> Includes an estimated total of US\$234 million in advances for future payments to suppliers, for a total of US\$1,316 million expended. Funds expended as % of total requirements are 40%.

<sup>2/</sup> Includes US\$185 million in firm commitments and US\$146 million disbursed in balance of payments support.

**Priority Reconstruction Program in Bosnia and Herzegovina**  
As of August 30, 1997

1997 Program Requirements and Firm Commitments by Sector (in US\$ millions)			
Sector	1997 Program Allocations/ Requirements	Firm Commitments	Firm Commitments as % of 1997 Requirements
<b>1. Reconstruction</b>	<b>1,435</b>	<b>634</b>	<b>44%</b>
Agriculture	90	26	29%
Education	70	33	47%
Employment Generation	30	41	137%
Energy	310	118	38%
Electric Power & Coal	200	103	52%
District Heat and Gas	110	15	14%
Fiscal/Social Support	120	70	58%
Health	90	27	30%
Housing	150	63	42%
Industry/Finance	180	77	43%
Landmine Clearing	60	16	27%
Telecom	60	1	2%
Transport	175	115	66%
Water and Sanitation	100	47	47%
<b>2. Peace Implementation</b>		<b>88</b>	
<b>TOTAL</b>	<b>1,435</b>	<b>722</b>	<b>50%</b>