Statement by Carole Brookins  
Date of Meeting: October 18, 2001

Bosnia and Herzegovina: Country Assistance Strategy Progress Report

We thank staff for this candid and thorough report for Bosnia and Herzegovina (BH).

Lending Plans

We share staff’s disappointment that the pace of reform has been slower than hoped. Given the delays in reform, we support the Bank’s lending plans to stay at the “low range of the base case” and to have one of the adjustment operations slip into the next CAS programming period. Key structural reforms and a more pro-active commitment to creating a single economic space are necessary to move to a higher level of lending.

Building Private Sector Capacity

We also fully agree that the over-riding priority must be to help develop a vibrant private sector that ultimately can generate sufficient resources to ensure fiscal and external sustainability. To this end, we look forward to the proposed BAC (Business Adjustment Credit) and urge the authorities to move forward with implementing the reforms identified in the FIAS study to create a more transparent and predictable business climate to attract and retain private investment.

We also welcome efforts by the Bank and other donors to build institutional capacity in the tax administration so that domestically generated tax revenues can build the kind of self-reliance that can ultimately replace aid-reliance. *We would appreciate staff comments on this work and look to further discussion of this issue in the next CAS.*

IDA/IBRD

Accelerating the structural reforms that can spur the private sector is particularly critical at this juncture, given the limits on IDA resources and the need for BH to build its creditworthiness to borrow from IBRD and elsewhere. We affirm IDA’s role as a transitional instrument of development assistance and encourage Bank staff to actively explore ways to reduce BH’s reliance on IDA’s concessional funds. This could include positive consideration of hardening IDA terms for BH, along the lines to be explored by IDA Deputies next week and consistent with BH’s high per capita income relative to other IDA borrowers. *We ask that the*
next CAS represent a transition for BH, whereby IDA assistance will be phased out so that limited IDA resources can be allocated to the very poorest borrowers.

Diagnostics

We are pleased to learn that the PEIR, CFAA, and CPAR are all nearing completion, as they will provide critical inputs to the next CAS, particularly to the extent they illustrate the trade-offs in public expenditures which Bosnia faces. We also welcome the launch of the Living Standards Measurement Survey and the Poverty Assessment, scheduled for FY’03, as they will be crucial to inform the Bank’s efforts to address poverty, which the document characterizes as “pervasive and widespread.” Can staff clarify, however, the purpose of the Country Economic Memorandum? While we recognize the potential benefit of an integrative piece, we wonder if such integration couldn't be done in the next CAS, rather than through another potentially costly document.

Next CAS

Donor coordination will be key to making the most of limited concessional resources and to avoid duplication of efforts. While we welcome the comments on donor coordination in Box 9, we look forward to next year’s CAS providing a fuller discussion of this important topic, including each institution is applying its comparative advantage.

Looking forward, we fully agree on the importance of a participatory process to help build consensus across different communities in BH for a comprehensive economic development strategy. We will look forward to seeing specifics on such participation both for the upcoming CAS and the PRSP.