



1. Project Data :	
OEDID:	TG021
Project ID:	P044389
Project Name:	Emergency Recovery Project (ERP)
Country:	Bosnia-Herzegovina
Sector:	Other Non-sector Specific
L/C Number:	TG021
Partners involved :	Governments of Netherlands, Japan, Italy, Switzerland, Canada; German GTZ (TA) and the British Know-How Fund (TA)
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2. Project Objectives, Financing, Costs and Components :
Objectives : The ERP was designed to restore and rehabilitate Bosnia and Herzegovina's (BH's) severely damaged productive capacity and infrastructure, to initiate productive activities in a war -devastated economy (including encouraging private initiatives), to provide the basic institutional and governance framework required to implement the reconstruction program, and to address hardship faced by the most vulnerable groups in the immediate post -war transition period. **Components :** To achieve these objectives, the project envisaged four components : (i) the provision of critical inputs in the agriculture, power, and transport sectors to restart agricultural production, (ii) two lines of credit (LOC) for small and medium-sized enterprises (SMEs) to catalyze private economic activity, (iii) support for key governmental institutions including infrastructure repair, office supplies, and TA, and (iv) support for an Emergency Social Fund to provide minimum levels of assistance to the most vulnerable . **Costs:** Originally costed at \$160 million, the ERP canceled \$30 million intended for the cash benefit program . Of actual project costs (\$130 million), \$111 million was disbursed through the Project Coordination Unit, and \$ 19 million through direct donors channels. **Financing :** IDA's contributions comprised \$30 million from the Trust Fund for BH (TFBH) and \$15 million in the form of grant, both of which were approved by the Board on February 29, 1996, made effective by March 19, 1996, and closed on June 30, 1998, six months after the original closing date . The remaining \$65 million, administered by IDA, was provided by co-financing: the Netherlands Trust Fund (\$35.7 million), the Government of Japan (\$9.0 million), the Government of Switzerland ((\$6.14 million), the Government of Italy (\$8.55 million), the Government of Canada (\$3.6 million), as well as the Governments of Iceland and Luxembourg . The co-financing closed on December 31, 1998.

3. Achievement of Relevant Objectives :
The operation achieved most of its objectives, with the exception of the provision of targeted cash benefits under the ESF. Under the critical imports component, equipment for power and transport sectors was successfully procured on a competitive basis. It also helped establish much-needed procurement discipline in budgetary institutions and public enterprises. The LOCs, through commercial banks, on-lent \$27.9 million (1.5 times the allocation of \$24.3 million) to private SMEs. In addition to achieving a high loan recovery rate and revealing the high demand for credit in BH, it generated over 4850 jobs at a cost of \$8000 per job. The third component financed the provision of office supplies, rehabilitation of buildings, and technical assistance in order to re-establish a minimum-level of capacity in government institutions such as the Federati on's tax and customs administrations and the Bank Supervision Agency . It is worth noting that this component financed the preparation of future pilots and projects planned under the Four-Year Reconstruction Program. Despite cancellation of \$30 million originally allocated for the cash-benefits program, the fourth component financed the rehabilitation, retraining, and employment disabled persons; it also facilitated placement of orphans in foster care and the rehabilitation of facilities for needy children .

4. Significant Achievements :
The Bank made a series of process innovations /improvements while choosing to focus reconstruction efforts on areas in which the ERP could generate positive spill-over effects. There were three process-related achievements that contributed to the Bank's responsiveness in this challenging environment . First and foremost, the Bank moved very rapidly through project identification , preparation, and effectiveness since time was of the essence in this

context. Second, the Bank took a strong leadership role in coordinating and administering assistance from a broad range of co-financiers through the life of the project. Third, in order to effectively manage the project risks associated with post-war transition, the Bank empowered its Resident Mission to backstop project execution, and invested heavily in continuous monitoring and evaluation. In its substantive focus, the ERP prioritized private sector development and human development, all of which created important demonstration effects in BH's immediate post-war context. The LOC, for instance, revealed the potential for financial sector and private sector development as well as job creation. In addition, high wage incentives for qualified professionals into government as well as support for social assistance to the vulnerable prioritized the restoration of social and human capital in different strata of BH society.

5. Significant Shortcomings :

One shortcoming was the Bank's lack of knowledge of institutional capability in BH. This led to an overly optimistic view of how rapidly BH's institutional endowment would grow. As a consequence, the Bank overestimated the Federation's capacity to undertake various governmental functions, such as shifting from categorical to income-based targeting of cash benefits. It also misjudged demand for cash benefits relative to health care, pensions, and veterans benefits. In its design, the operation also overlooked the potential impact of the ESF component on disparities in access to services across cantons of the Federation. A rapid institutional assessment early on in the implementation of the project may have limited such problems. A second shortcoming was related to the enabling environment in which the ERP injected supply-driven inputs of technology, equipment, and TA. Even though it was an emergency operation, the ERP could have placed greater emphasis on the institutions that are needed to make capacity building inputs sustainable. For instance, support for salary supplements could have been accompanied by support for a coherent pay /grading system in order to lock-in favorable wage levels.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Satisfactory	
Institutional Dev .:	Substantial	Substantial	
Sustainability :	Likely	Likely	
Bank Performance :	Highly Satisfactory	Highly Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Exemplary	

7. Lessons of Broad Applicability :

Four lessons from the ERP are worth noting for other reconstruction operations. First, in emergency operations, intensive efforts at aid coordination are absolutely crucial if development finance is to be disbursed rapidly and effectively. When it is involved early in peace negotiations (as it was in Dayton), the Bank is better positioned to exercise leadership in this regard. Second, when knowledge of the environment is limited (as it often is in post-conflict settings), projects should be designed with enough flexibility to be adapted to the changing needs of the client. Third, an early focus on social sectors is critical to focus attention on restoring social and human capital in war-torn areas. Finally, implementing agencies in post-conflict situations should be managed by a credible, highly professional authority and backstopped by a strong RM.

8. Audit Recommended? Yes No

9. Comments on Quality of ICR :

The ICR was exemplary in many respects. It was supported by detailed and meaningful evidence of project performance, including evaluations of the individual components of the project. The piece was candid and balanced in its judgements, especially with regards to the project's shortcomings. Finally, the ICR included written feedback from a variety of authorities in BH -- a useful approach in post-conflict setting where perceptions of the Bank's fairness and impartiality are especially important.