This is a progress report which deserves the name: I am glad to say that the sense of major progress is widely shared in Bosnia and Herzegovina in those fields in which the Bretton-Woods institutions have prime responsibility. I will not repeat all the concrete instances of progress, which are brought out clearly in the report.

Their characteristics are:
- country-wide reconstruction;
- country-wide transition to a market-reform agenda;
- willingness of the Entities to collaborate where joint interests are at stake; there is more understanding between entities of an agreed distribution of World Bank loan proceeds (in aggregate as indicated in the CAS);
- continued first-class implementation of projects, indicating strong ownership;
- the gradually improving working of the institutions of the State.

The progress has been reflected in the achievement of the stand-by agreement with the IMF and the successful donor conference two months ago. This was preceded by the London Club agreement with private creditors and will presumably be succeeded by a Paris Club agreement. Already the negotiations there show awareness of the need for special treatment of Bosnia.

The main reasons for special treatment may bear repeating:
- there are legitimate doubts on the figures in use for per capita income, above those for Macedonia; the IMF has been asked to take another look;
- the sustainability of income generation is in some doubt, a significant portion being due to transitory foreign presence (50,000 people) and another part to income transfers from refugees;

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the capital stock is not only physically depleted but much of what remains is economically obsolescent;
the challenge of a far greater return of refugees than has taken place so far can only be met if there are jobs, housing and a future; quite apart from the necessary political conditions this requires upfront investment.

The Bosnian government accepts its own responsibility which is to create an environment for sustainable profitable investment. However, it is simply a fact that this will take longer, if the assessment of the country’s situation is too rosy. In this connection, the fact can not be ignored that the “neighbourhood” is still not conducive to a great deal of outside investor interest.

4. The Government supports the Bank’s intention to put increasing emphasis on policy advice, backed up by adjustment loans. It counts on a strong focus, also in the Bank’s investment operations, on job creation, as the unemployment rate in the country (40 percent) is still extremely high.

5. The Government, against this background, welcomes the stated intention of Bank Management to undertake a creditworthiness review in FY99. It believes that this review will confirm its concerns and provide a firm foundation for continued IDA funding at a generous level. I may recall that from the start my predecessor, Eveline Herfkens, expressed her doubts about the ability of Bosnia to bear its debt-service burden on the terms established for the consolidation loan. The Government is also grateful for the frank recognition (par. 2.3) that normal levels of IDA lending under strong performance of $30-40 mln. per year do not suffice for the Bank to play the role expected of it, also by donors.

6. IFC’s contribution to the revival of business activity is proving immensely valuable. The Government is grateful that Bosnia has been included in IFC’s Extended Reach. It believes that further opportunities will become available, as the privatization process takes hold, and in agribusiness. The State Umbrella Law for privatization is now effective and the governments of the Entities have already approved the necessary legislation at their level. Initial steps to prepare bank privatization have been taken.

7. My authorities have informed me of a useful discussion on the Pre-Export Guarantee Facility. They hope that the Bank will help to make this facility effective soon. The extremely low level of exports makes this a priority.

8. We welcome the Cultural Heritage Project. Better than anybody my authorities are aware of the history of the Old Bridge of Mostar and of the events that led to its destruction. They doubt whether it is correct to label this project as highly risky.

9. Finally, my authorities and we in the office have found the role of the Resident Mission in serving the Bank’s purposes immensely valuable. It has contributed to understanding, flexibility, rapidity of response, commitment of local staff and everything else encompassed in the quality of the Bank’s effort. This is obviously possible only with a high level of co-operation
between the RM and HQ. The lesson from decentralization and its success in Bosnia must remain at the forefront of our minds.