

**Document of
The World Bank**

FOR OFFICIAL USE ONLY

Report No. 48229 - BA

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

COUNTRY PARTNERSHIP STRATEGY PROGRESS REPORT

FOR

BOSNIA AND HERZEGOVINA

FOR THE PERIOD FY08–FY11

April 15, 2009

**South East Europe Country Unit
Europe and Central Asia**

**International Finance Corporation, IFC
Southern Europe and Central Asia**

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

Date of Last Country Partnership Strategy: November 12, 2007

CURRENCY EQUIVALENTS
(Exchange Rate Effective April 15, 2009)

Currency Unit = Convertible Mark (BAM)

BAM 1.00 = US\$ 0.67352

US\$ 1.00 = BAM 1.484726

GOVERNMENT'S FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Services	ICT	Information and Communication Technologies
APL	Adaptable Program Lending	IDA	International Development Association
BAM	Bosnia and Herzegovina Convertible Mark	IFAD	International Fund for Agricultural Development
BH	Bosnia and Herzegovina	IFC	International Finance Corporation
CAB	Current Account Balance	IMF	International Monetary Fund
CAD	Current Account Deficit	IP	Implementation Progress
CAS	Country Assistance Strategy	IPA	Instrument for Pre-Accession
CEM	Country Economic Memorandum	JPPR	Joint Portfolio Performance Review
CFAA	Country Financial Accountability Assessment	KfW	German Reconstruction Credit Institute
CoM	Council of Ministers	KM	Bosnia and Herzegovina Convertible Mark
CPAR	Country Procurement Assessment Report	MCDS	Medium-term Country Development Strategy
CPS	Country Partnership Strategy	MDGs	Millennium Development Goals
DFID	UK Department for International Development	MDP	Municipal Development Project
DPL	Development Policy Lending	MIGA	Multilateral Investment Guarantee Agency
EBRD	European Bank for Reconstruction and Development	NGOs	Non-governmental Organizations
EC	European Commission	NMS	New Member States
ECA	Europe and Central Asia	OHR	Office of the High Representative
ECSEE	Energy Community of Southeast Europe	PA	Protected Area
EIB	European Investment Bank	PDO	Project Development Objective
ESW	Economic and Sector Work	PEIR	Public Expenditure and Institutional Review
EU	European Union	PPIAF	Public Private Infrastructure Advisory Facility
FBH	Federation of Bosnia and Herzegovina	PPP	Public Private Partnership
FC	Fiscal Council	PSP	Private Sector Participation
FDI	Foreign Direct Investment	REPARIS	Road to Europe – Program of Accounting Reform and Institutional Strengthening
FIRST	Financial Sector Reform and Strengthening Initiative	RS	Republika Srpska
GDP	Gross Domestic Product	SAA	Stabilization and Association Agreement
GEF	Global Environment Facility	SEE	Southeast Europe
GTZ	German Technical Cooperation	SIDA	Swedish International Development Cooperation Agency
HBS	Household Budget Survey		
IBRD	International Bank for Reconstruction and Development		
IC	International Community		

FOR OFFICIAL USE ONLY

SME	Small and Medium Enterprise	USAID	United States Agency for International Development
SOE	State-Owned Enterprise	WB	World Bank
TA	Technical Assistance	WBG	World Bank Group
UK	United Kingdom	WBI	World Bank Institute
UNDP	United Nations Development Programme	WHO	World Health Organization
UNICEF	United Nations Children's Fund	FY	Fiscal Year
US	United States		
USD	United States Dollar		

	World Bank	IFC
Vice President:	Shigeo Katsu	Jyrki I. Koskelo
Country Director:	Jane Armitage	Shahbaz Mavaddat
Task Team Leaders:	Marco Mantovanelli/Anthony Gaeta	George Konda

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not be otherwise disclosed without World Bank authorization.

**BOSNIA AND HERZEGOVINA
COUNTRY PARTNERSHIP STRATEGY FY08–11 PROGRESS REPORT**

TABLE OF CONTENTS

I. Country Context.....	1
A. Political Developments	1
B. Economic Developments.....	2
C. Country Priorities and CPS Relevance.....	5
II. Implementation progress.....	6
A. Progress towards CPS Outcomes	6
B. CPS Program Implementation.....	9
C. Lessons Learned and Guiding Principles Going Forward.....	10
III. CPS Program Going Forward	10
A. Lending program	10
B. Analytical and Advisory Services	13
C. Managing Risks.....	13

Tables

Table 1: Key Economic Indicators.....	3
Table 2: FY2008-2011 Lending Program.....	12

Figures:

Figure 1: CPS Implementation Progress.....	6
--	---

Boxes:

Box 1: WBI in Bosnia and Herzegovina.....	8
---	---

Annexes:

Annex 1: Updated CPS Results Matrix.....	15
Annex 2: IFC Advisory Services.....	23
Annex 3: Key Economic Indicators.....	24
Annex 4: Country At-a-Glance.....	26
Annex 5: Social Indicators.....	29
Annex 6: AAA and ESW Program FY2007-2010.....	30
Annex 7: IFC Investment Operations/IFC Portfolio.....	31
Annex 8: Selected Indicators of Bank Performance.....	33
Annex 9: Operations Portfolio (IBRD/IDA and Grants).....	34
Annex 10: Key Exposure Indicators.....	35

Map of Bosnia and Herzegovina

BOSNIA AND HERZEGOVINA COUNTRY PARTNERSHIP STRATEGY FY08–11 PROGRESS REPORT

This Country Partnership Strategy Progress Report (CPSPR) assesses progress in implementing the FY08–FY11 Country Partnership Strategy (CPS) for Bosnia and Herzegovina, discussed by the Board in November 2007 (Report Number 41-330 - BA). The CPSPR confirms the overall direction of the World Bank Group program while introducing adjustments for the remainder of the CPS period that reflect the country's unique governance structure and challenges from the external economic environment.

I. COUNTRY CONTEXT

A. POLITICAL DEVELOPMENTS

1. Bosnia and Herzegovina (BH) reached an important milestone in June 2008 with the signing of a Stabilization and Association Agreement (SAA) with the European Union (EU). A last minute agreement on state-level police legislation allowed BH to sign the SAA, and to avoid becoming the only country of the former Yugoslavia without a formal accession contract with the EU.

2. However, the institutional and political environment continues to slow the development of institutional infrastructure supportive of a market economy and EU integration. The Dayton Peace Agreement in 1995 was praised for ending the worst conflict on European soil since World War II, but it left the country with a complicated institutional structure which has been exploited to increase political obstruction and gridlock; this was particularly evident during a period of high nationalist rhetoric before the October 2008 local elections.¹

3. The lure of EU integration in BH is not yet as compelling as it was in the New EU Member States (NMS). Though most BH citizens continue to support integration with the EU,² the complex constitutional structure under Dayton allows the representatives of the three major ethnic groups to continue to pursue ethno-nationalist goals. Among Eastern European states that joined the EU in 2004, the European accession process was the central pillar of foreign policy and drove internal reforms. In BH, however, EU membership risks taking a back seat to ethno-nationalist imperatives. In fact, during the months leading to the October 2008 local elections, political tension rose to the point that some observers warned about a possible break-up of the country.

4. Unlocking the constitutional reform process is vital to a more efficient state, economic growth and social cohesion. Repeated attempts to introduce a new constitutional framework failed because of persistent and opposing views on the role of the State and the degree of autonomy of the Entities. Catalyzing constitutional reform will require strong vision and leadership and willingness to compromise among the three main ethnic groups. The capacity of the International Community (IC) to generate traction for the European integration process will also be critical.

5. Tripartite discussions on the reform process are on hold. The 2008 local elections strengthened the position of the three main political parties representing Bosniaks, Bosnian Croats and Bosnian Serbs. The leaders of these parties consulted after the elections and announced their support for constitutional reform and measures that would facilitate EU integration. This announcement was welcomed as a chance to dissolve political gridlock. However, the tripartite process came to a sudden halt in February 2009, following contested allegations of corruption filed by the State Investigation and Protection Agency

¹ The Dayton Peace Agreement, signed in 1995, created a complex governance structure comprising a limited State-level Government and two largely autonomous Entities: the Federation of Bosnia and Herzegovina (the Federation) and Republika Srpska (RS). An autonomous Brcko District was added to the existing structure in 1999.

² The UNDP "Early Warning System" poll, which is conducted every quarter, indicates that public support for the EU integration process in BH is about 76 percent.

against high ranking officials of Republika Srpska (RS). At this stage it is unclear whether the dialogue on key issues such as the state property and constitutional reform will continue through tripartite discussions or through other means.

6. The IC is committed to sustained involvement in BH, but the transition towards a different form of engagement may cloud the political climate. The European Commission's 2008 Annual Progress Report on BH³ noted little progress on SAA implementation since its signing, while emphasizing the importance of continued international engagement to challenge the status quo. Nonetheless, the EU expects to increase its involvement in BH to help the authorities harness the SAA as a "driver for reform."⁴ The IC has not specified a date to close the Office of High Representative (OHR), which was established to supervise the implementation of civilian aspects of the Dayton Peace Agreement.⁵ However, the IC has linked the OHR's closure to the signing of the SAA, full compliance with the Dayton Peace Agreement, and achievement of major state objectives.⁶ The closure of the OHR and withdrawal of the EU peacekeeping force, which are widely supported by the Bosnian Serb leadership but viewed with concern by Bosniak authorities, may dim the political climate over the next months.

7. Difficult political relations may be further tested by the social impact of the global economic slowdown. The perspectives of political interest groups may change as jobs are lost, specific industries suffer, and certain social benefits have to be cut under tightening public revenues. New tensions may arise over expenditure cuts that may be inevitable at all levels of government. On the other hand, the economic crisis may help create political momentum needed to accelerate the stalled reform process.

B. ECONOMIC DEVELOPMENTS

8. As expected in a small open economy, the global economic crisis spread quickly in BH over recent months, reversing some of the effects of strong growth and putting at risk macroeconomic stability and important economic reforms. Though there was no serious crisis in the financial sector, the real sector and private consumption slowed substantially since the end of October 2008. These two factors and lower commodity prices have taken a toll on indirect taxes (the main source of public revenue), which dropped 5 percent in January 2009 and 17 percent in February compared to the same months in 2008. During the first two months of 2009, year-on-year exports and imports also dropped 22 percent and 23 percent, respectively. External financing requirements are moderating, as the Current Account Deficit (CAD) is expected to fall by around 4 percentage points to about 10 percent in 2009. However, financing the CAD is becoming more challenging, and a reduction in foreign exchange reserves held by the Central Bank is expected in 2009. Furthermore, if central and local governments fail to enact

³ Commission Staff Working Document, Bosnia and Herzegovina 2008 Progress Report accompanying the Communication from the Commission to the European Parliament and the Council, Enlargement Strategy and Main Challenges 2008-2009, {COM(2008)674}, November 5, 2008

⁴ Under the joint report entitled "EU's policy in Bosnia and Herzegovina: the way ahead" (Brussels, 10 November 2008) by Javier Solana, EU High Representative for the Common Foreign and Security Policy, and Olli Rehn, EU Commissioner for Enlargement, the Commission recognized that BH is a potential candidate country with its own unique challenges. A tailor-made strategy and strong international engagement, including active and comprehensive use of all EU tools and mechanisms, will be necessary to move steadily towards EU membership. The report outlines a comprehensive strategy for reinforced European engagement. It also presents ideas on transitioning from the OHR to increased local ownership supported by a strengthened EU presence, such as through the office of an EU Special Representative.

⁵ Following the unexpected resignation of the sixth High Representative to BH, who left to assume the role of minister of foreign affairs in Slovakia, Valentin Inzko, an Austrian diplomat, was designated High Representative and appointed EUSR in March 2009.

⁶ These objectives include: resolution of state and defense property issues and the status of Brcko district; adoption of legislation to strengthen the rule of law; and adoption of key measures such as the creation of a Fiscal Council to strengthen fiscal sustainability. After the recent agreement on the constitutional status of Brcko district, the outstanding objective remains to the allocation of state (and defense immovable) property among the different government levels.

plans to cut expenditures, the aggregate fiscal deficit could rise to 3 to 5 percent of Gross Domestic Product (GDP), which would be unsustainable in the medium term under the currency board. Before further discussing the effects of the crisis, it is worth reviewing economic developments over the last two years.

9. Significant progress has been made on key economic reforms, but important challenges remain. Several important measures were agreed under the 2007 Platform for Action. The signing of the SAA further liberalized trade with the EU, paved the way for more EU funds and provided a clear road map for reform. Authorities established the long-awaited Fiscal Council, which set fiscal targets for 2009, and State and Entity budgets were adopted in line with these targets. Corporate and personal income taxes were lowered and harmonized across Entities. Entity governments took concrete steps to settle domestic claims to improve fiscal sustainability. The revenue allocation formula for indirect taxes was agreed, though it has not yet been fully implemented. Banking supervision has not yet been unified into a single agency, but the Central Bank has been coordinating the two Entity banking agencies, which proved adequate to address the financial challenges commencing in October 2008. Key future challenges include improving the structure of public expenditures, boosting the efficiency of government programs, strengthening the business environment, and finalizing privatization processes, particularly in the Federation. Increasing domestic savings will also be important amid reduced prospects for external capital inflows. The economic crisis is, however, rendering these urgent reforms more difficult because of falling revenues and fewer prospects for major privatization.

10. Economic growth was strong and exceeded World Bank (WB) projections. In 2007, real GDP grew 6.8 percent, surpassing the projected 6.0 percent rate in the CPS. Official 2008 estimates are not yet available, but growth is expected to be around 6 percent. Growth was relatively balanced across sectors, and economic gains were driven by strong private investment (around 26% of GDP), increases in remittances, and high metal prices. In 2007, growth was strongest in the financial sector (19%), but also robust in manufacturing (14%) and retail trade (10%). Nominal export growth was 15 percent in 2007 and 13 percent in 2008. The structure of exports improved, shifting from base metals and wood towards higher value-added products in metal processing (mostly car parts), furniture, and other industries. Performance in service exports was also strong. However, all major export industries are now suffering from falling demand and prices.

Table 1: Bosnia and Herzegovina – Key Economic Indicators

	2006	2007	2008 Projected	2009 Projected
National Accounts				
Real GDP growth (percent)	6.2	6.8	6.0	0.3
Investment (percent of GDP)	20.9	26.4	26.1	22.0
Unemployment rate (percent), LFS	n/a	29	23	23
Fiscal Accounts (percent of GDP)				
Revenues, including grants	47.0	45.8	46.4	45.9
Expenditures	44.2	46.2	47.4	46.4
Balance, including grants	2.8	-0.4	-1.1	-0.5
External Accounts (percent of GDP)				
Current Account balance, including transfers	-8.4	-13.0	-14.5	-10.8
Foreign Direct Investment (FDI)	5.8	13.6	5.7	5.0
External Debt	52.1	50.5	46.5	47.1
Gross Reserves (months of imports)	5.1	5.2	4.0	4.0
Inflation				
Consumer Prices (period average)	6.1	1.5	7.4	2.0

Sources: WB/Staff Estimates

11. GDP growth was accompanied by modest poverty reduction. Data from the Household Budget Surveys (HBS) indicate that headcount poverty fell from 18 percent in 2004 to 14 percent in 2007.⁷ Rural poverty, despite falling more rapidly, remained almost twice as high as urban poverty. Educational attainment and labor market status were major correlates of poverty. Inequality remained low and stable.

12. The CAD and inflation rose mainly from higher commodity prices, but both have eased as international prices have dropped. The CAD has been a concern for many years despite sufficient coverage in capital inflows, which boosted reserves to more than five months of imports in 2008. Increases in international commodity prices, a pro-cyclical fiscal policy, and credit expansion helped propel the CAD from 8.4 percent in 2006 to 13 percent in 2007 and 14.5 percent in 2008. Hikes in the prices of fuel, food, and commodities, which represented nearly 42 percent of total imports in 2008, were especially detrimental. However, recent drops in commodity prices have improved the terms of trade, and the trade deficit is expected to fall. As noted, the WB forecasts that the CAD will drop to about 10 percent of GDP in 2009, despite an anticipated reduction in nominal exports. The boom in commodity prices also precipitated an increase in year-on-year inflation, which peaked in July 2008 at 9.6 percent, but fell to 3.8 percent in December 2008.

13. Under the global financial crisis, growth prospects for 2009 appear grim and medium term prospects uncertain. Aside from some depositor panic in October 2008, the financial sector did not suffer serious losses from the crisis. The October crisis of confidence was quickly resolved by authorities' swift actions to stimulate inflows of foreign exchange reserves, increase insured deposits from KM 7,500 to KM 20,000 (with a recent commitment to expand coverage to KM 50,000), and lower general and marginal reserve ratios for commercial banks from 17 percent to, respectively, 14 percent and 10 percent. Still, capital inflows from banks to finance new loans nearly stopped and credit growth in December 2008 and January 2009 slightly reversed. The year-on-year growth of exports slowed dramatically in the fourth quarter of 2008, and fell 21 percent in January 2009. Public revenues also dropped by 17% in February 2009. Though forecasts must be constantly updated in this volatile economic environment, the WB projects zero growth in 2009. However, given the rapid deterioration of key indicators, an economic contraction of 2 or 3 percent cannot be ruled out. In 2009, external financing requirements will be around US\$2 billion, but the sources to finance more than 50 percent of this requirement are still uncertain given the drop in FDI and private credit flows. Absent private capital inflows, the CAD would likely narrow further and could be safely financed in 2009 by reducing Central Bank foreign exchange reserves. Moreover, the rate of growth in the medium term will depend on the speed of recovery of the EU and regional economies and authorities' reactions to the crisis.

14. The authorities are taking actions to mitigate the impact of the financial crisis, including a decision to negotiate with the IMF, but a coordinated response is necessary. Aligned with a request from the Council of Ministers (CoM), the WB prepared a policy note on the impact of the global economic crisis and possible remedial policy measures. The policy note was debated by the Fiscal Council, which requested that State and Entity governments discuss the proposed measures and adjust Entity plans. The policy note proposed a temporary and targeted fiscal stimulus to increase public investment under a sharp downturn, to be financed exclusively by external sources to ensure adequate CAD financing. It also proposed measures to increase credit to the private sector, such as through government-funded credit lines channeled through commercial or Entity development banks, and rapid

⁷ The BH Agency for Statistics, using a relative poverty line (as a percent of the median consumption), estimates a poverty headcount of 18.3 percent in 2004 and 18.2 percent in 2007. However, these estimates were calculated using different poverty lines and cannot be used to establish a reliable trend. Alternatively, one could use the international poverty line currently set at US\$2.50/person/day and an internationally comparable consumption aggregate (ECAPOV), which is constructed by the World Bank for ECA countries that participated in the most recent International Comparison Program (2005). Under this measure, which is much lower than the national poverty line and thus captures trends in chronic poverty, the poverty rate fell from 2.2 to 1.5 percent, which is statistically insignificant.

measures to improve the business environment. Improved targeting of current and already high social expenditures was also recommended. The Entities have since adopted plans that include crisis mitigation measures. Furthermore, on March 6, the Fiscal Council agreed to authorize the CoM to initiate talks with the IMF and WB on programs to alleviate the impact of the crisis. A day earlier, the CoM had agreed on 16 measures to reduce the impact of the crisis, largely in line with the recommendations from the World Bank policy note.⁸ A proactive and well coordinated approach is necessary if the social impact of the crisis is to be mitigated and the economy strengthened.

15. The global financial crisis threatens to reverse recent gains in household living standards.

The rate of poverty reduction, for example, may decelerate or even stall as the economy slows under the global crisis. Two approaches illustrate possible impacts. First, 2007 HBS data suggest that nearly a fifth of the population has per-capita monthly consumption levels between 204 KM and 306 KM, which is between 100 to 150 percent of the poverty line.⁹ Many BH citizens thus risk falling into poverty under even a modest economic deterioration. Second, indicative growth projections suggest foregone opportunities to reduce poverty. Assuming a continuation of historic GDP growth rates and growth-poverty elasticities, poverty might have fallen by up to 14 percent through 2010, which would have pulled nearly 80,000 people or 2 percent of the population out of poverty. Moreover, under zero or negative growth scenarios for 2009, poverty is likely to increase unless adequate and well-targeted policy and social measures are undertaken to protect the poor and vulnerable.

16. Social expenditures are high in both Entities, but rose substantially in the Federation from pre-election laws in 2006 that granted additional benefits to the disabled, unemployed demobilized soldiers and war medal holders. As beneficiaries grew beyond expectations, including through cases of fraud, Federation expenditures shot up dramatically, and the Federation is struggling to cover a 2008 shortfall estimated at about KM 280 million. The Federation Government is committed to reforming its social benefit system, and aims to push through Parliament laws to streamline social expenditures through, *inter alia*, enhanced income testing for certain categories of social benefits. Improved targeting and control of fraud would help balance the budget, improve the efficiency of social spending, and possibly create fiscal space for capital spending. Problems are less acute in the RS, but the RS would also benefit from strengthening monitoring and targeting of social benefits. Moreover, estimates suggest that only 27 percent of means-tested non-insurance social benefits in BH go to those in real need (i.e., the bottom quintile of the distribution).¹⁰ Besides prompting equity concerns, high social spending and a growing public wage bill are negatively affecting fiscal balances, particularly in the Federation. To achieve a fiscal balance amid falling revenues, untargeted social expenditures will have to be reduced. Failing to do so could bring public debt in the Federation to unsustainable levels with serious implications for the overall macroeconomic stability of BH.

C. COUNTRY PRIORITIES AND CPS RELEVANCE

17. The Government is preparing a new medium-term Country Development Strategy (MCDS).

The development of the MCDS was delayed by the October 2008 local elections and cumbersome consultation processes at State and Entity levels, but should be completed by the end of 2009.¹¹ State

⁸ These measures aim to increase the stability of the banking sector, increase public revenues, and support the real economy. Among other things, an agreement was reached on the method for dividing among the two Entities about 180 million KM of funds from the succession agreement with other former Yugoslav countries. The funds will be used to cover urgent commitments, particularly in the Federation, which is facing a budget crisis. Furthermore, the CoM decided to increase the level of insured deposits from twenty to fifty-thousand KM. The CoM also approved a new draft Excise Law, which is due to increase excise taxes on fuel, tobacco, and alcohol beverages. Finally, a higher excise tax on fuel is a contractual obligation from the credit agreement with the EBRD on financing for the road corridor Vc.

⁹ Using the 2001 national poverty line in real terms.

¹⁰ World Bank staff estimates using the 2007 Household Budget Survey data.

¹¹ Six strategic objectives have been identified: (1) strengthen macroeconomic stability (including measures to foster fiscal coordination, debt management, and privatization); (2) promote sustainable development (including sustainable development of infrastructure and agriculture); (3) strengthen the competitiveness of the economy

and Entity governments are monitoring the impact of the global economic crisis and plan to adjust their priorities accordingly. Consultations with State and Entity governments indicate that the CPS remains aligned with current government priorities.

II. IMPLEMENTATION PROGRESS

A. PROGRESS TOWARDS CPS OUTCOMES

18. CPS outcomes are on track and aligned with the updated CPS result matrix. The results framework laid out under both CPS pillars establishes a strong set of country outcomes, indicators, and milestones linked to WB interventions. Some changes were introduced in the result matrix to better align the performance of individual projects with the CPS pillars, introduce performance indicators that were not included in the original matrix, and add new indicators on “formal employment” and improved targeting of social benefits. Project and sector level monitoring and assessments performed jointly by WB teams and counterparts indicate that progress on most indicators is on track at mid-term. In particular, good headway was achieved in enhancing business registration and providing financial services to agri-businesses. Areas with less progress included energy sector development, where political disputes impeded advances, and “non-core” activities such as privatization and corporate restructuring.¹² Summaries of key CPS outcomes are provided below, with a graphical depiction of progress in Figure 1. The updated results matrix in Annex 1 provides additional information on advances in each program area. The WB and Government teams will continue to monitor the impact of the global economic crisis and its effects on CPS development objectives, and will modify the results matrix as needed to reflect reprogrammed lending to respond to the challenges posed by the crisis.

Figure 1: CPS Implementation Progress¹³

CPS Pillar	CPS outcome areas	CPS implementation progress			
		<i>Not accomplished</i>	<i>On-track</i>	<i>Partially accomplished</i>	<i>Fully accomplished</i>
Pillar I: Improve the environment for private sector led growth and convergence to Europe	Business registration				
	Land markets				
	EU compatible agriculture				
	Road network				
	Electricity system				
	Ecosystem protection				
	Avian influenza				
	Sava river				
	Privat.& corp.restr.*				
Pillar II: Improve the quality of public spending and the delivery of public services for the vulnerable	Water and sanitation				
	Municipal cap. invest.				
	Family medicine				
	Commercial agriculture				
	Social benef. targeting*				
	Fiscal coordination*				
	Formal employment				
* Non-core outputs (see footnote 12)					

(including improving the business environment and restructuring state-owned enterprises (SOEs) and voucher-privatized SOEs); (4) increase the employment rate; (5) promote EU integration; and (6) promote social inclusion (including improved targeting of social expenditure).

¹² The CPS structured assistance around “core” areas where Government commitment to reform is clear, and “non-core” areas, where reform is less certain.

¹³ The graphical assessment in this table is judgment-based and reflects the direction in which concrete actions are moving toward reaching CPS outcome indicators, rather than absolute progress.

Pillar I: Improving the environment for private sector led growth and convergence with Europe

19. Substantial headway was made in simplifying business registration to improve the business climate. The days needed for courts to process business registration fell from 17 in 2007 to 6.1 in 2008 in the RS, and from 23.7 to 11.8 days in the Federation. Government activities were supported by the FY02 Business Environment Structural Adjustment Credit, whose second tranche disbursed in December 2007.¹⁴ A *Doing Business* Reform Memo was delivered to authorities in December 2008, and the International Finance Corporation (IFC) partnered with the Federation to conduct a regulatory “guillotine” of excessive business rules and procedures. The World Bank Institute (WBI) also supported activities to boost the competitiveness of the information and communication technologies (ICT) sector (see Box 1).

20. Work is underway to strengthen compliance with EU agricultural regulations. In this context, the FY07 Agriculture and Rural Development Project is supporting improved regulatory compliance, establishment and restructuring of extension services, and access to co-financing for investment and working capital to promote EU-compatible production.

21. Weak political commitment led to less sanguine results in energy, privatization of state-owned enterprises (SOEs), and corporate restructuring. The State and the two Entities signed a tripartite “Agreement on Principles of Energy Policy” in November 2008 to broaden their cooperation across energy sub-sectors. However, disagreements among political parties in the Federation and disputes on the functioning of the national transmission company delayed investments and further integration of the power sector into the regional electricity market. An action plan under the FY06 Electricity Community of South East Europe (ECSEE) Adaptable Program Loan (APL) 3 is poised to accelerate project implementation and facilitate greater participation in the regional energy market. Privatization and corporate restructuring made only moderate headway due to the 2008 local elections. Substantial sales of state owned enterprises were completed in the RS, but the planned privatization of strategic companies in the Federation, including two telecom operators and an aluminum smelter, did not advance. WB support in these areas was considered “non-core” and was channeled through non-lending. The WB engaged in policy dialogue and advisory services supporting the privatization policy document for the Federation and the regulatory “guillotine” initiative. In addition, the WB supported preparation of an Investment Climate Assessment and administration of a European Community Trust Fund for accelerating enterprise restructuring.

22. Activities to improve road infrastructure, develop protected areas, and strengthen country capacity to respond to the avian influenza and other outbreaks are on track. However, there is insufficient data to measure the impact of these activities as associated projects only recently became effective.

23. IFC has continued to support strategic FDI to encourage high quality and growing companies in the region to invest in BH. For example, IFC supported a Slovenian company to modernize its automotive component production facilities in BH to improve efficiency and increase production capacity. In addition, IFC supported strategic investors to develop several regional projects in infrastructure, commercial property and the Small and Medium Enterprise (SME) sector in Southeast Europe, including in BH.

Pillar II: Improving the quality of public spending and the delivery of public services for the vulnerable

¹⁴ However, these improvements were not captured in the 2009 *Doing Business* Report mainly due to the timing of data collection and methodological differences for tracking progress.

24. Progress on local infrastructure was significant. Authorities substantially improved the quality and delivery of water, sanitation, and solid waste management services. Under the FY05 Urban Infrastructure and Services Project, water losses were reduced in all participating municipalities and 24 hour water supplies were achieved three out of five cities. The FY05 Solid Waste Management Project established four regional landfills with two more expected by end-2009, and work is underway to reduce illegal dumpsites by 20 percent. The FY09 Second Solid Waste Management Project approved in November 2008 will expand these efforts nationwide. In addition, a Bank-financed study on municipal service delivery triggered policy debate among State, Entity, and local governments, and this study's findings are being used to prepare the proposed FY10 Municipal Development Project (MDP).

25. Policy dialogue on social benefits laid the groundwork for more efficient social expenditure. The WB team and counterparts worked together to identify ways to improve targeting of social programs, particularly in the Federation. The WB prepared a policy note on non-insurance social protection transfers and associated targeting tools. Dialogue on these issues led to agreement among authorities on the objectives of the proposed FY10 Social Assistance and Employment Project. WBI also provided training and capacity building to support poverty analysis and improved local governance.

26. Advances were made in expanding health care and promoting income generation opportunities. The FY05 Health Sector Enhancement Project has supported expansion of a family medicine model of basic health. The FY07 Small Scale Commercial Agriculture Development Project has helped to increase horticulture in poorer southern regions, double the marketable surplus of milk, and boost livestock production by 30 percent. The latter operation also improved access to credit by supporting 107 investments in agribusinesses in southern regions, with over US\$12 million disbursed in support of small scale agricultural activities.

**Box 1: World Bank Institute (WBI) in Bosnia and Herzegovina
An Integrated and Multi-Faceted Technical Assistance Program**

WBI has been involved in Bosnia and Herzegovina since 2005 providing training and capacity building for a variety of programs. In 2008-2009, WBI supported the following five programs:

- **Competitiveness:** Completed in 2009, this program strengthened the capacity of the Bosnian Association for Information Technologies to advocate reforms to improve the competitiveness of the ICT sector among government and stakeholders.*
- **Social Accountability in Local Governance:** As an integral component of the Bank's Municipal Development Project, WBI's program aimed to improve public service delivery. The program included a social audit of local government capacity, a Training-of-Trainers workshop on participatory budgeting, and pilot workshops in municipalities.*
- **Government Performance and Accountability:** WBI organized a high-level workshop on improving government performance and accountability.*
- **Poverty Analysis:** As part of the program on poverty monitoring and assessment for the Western Balkans, WBI organized in 2008 an advanced Poverty Analysis Course to strengthen country capacity to analyze and monitor poverty data.
- **Gender Statistics:** In partnership with the United Nations Economic Commission for Europe, WBI launched a capacity-building program on gender statistics in the ECA region. In 2008, WBI delivered a Regional Gender Statistics Workshop in BH, and in 2009 organized a National Statistics Workshop.

* Capacity building and training were supported by a grant from the Austrian Development Agency.

27. IFC supported the health sector by providing investments to establish a full-service hospital and heart center in Tuzla, which will be the first private hospital in the country. In addition to providing cardiac, cardiology and vascular services to children and adults, the facility will offer telemedicine capabilities and an education center. The project will provide access to high quality and affordable cardiovascular health services through a pioneering Public-Private-Partnership (PPP) with the Federation Health Insurance and Reinsurance Fund.

B. CPS PROGRAM IMPLEMENTATION

28. The WB portfolio comprises 12 investment operations and three grants from the Global Environment Facility (GEF) amounting to about US\$267 million in total commitments. More specifically, the portfolio includes 12 IDA credits totaling US\$224 million, one IBRD loan of US\$25 million, and three GEF grants of US\$18 million. Eleven ongoing operations approved between FY02 and FY07 preceded this CPS in health, energy, agriculture, forestry, community development, employment services, land administration, urban infrastructure, and solid waste management.

29. New CPS operations are on track. Lending approved under the “core” program included the FY08 Road Infrastructure and Safety Project; two FY08 GEF projects (Neretva and Trebisnjica Management, and Forest and Mountain Protected Areas); and the FY09 Second Solid Waste Management Project, which was the first operation in BH to receive IBRD financing (US\$25 million). The total commitment of these projects equals US\$74.4 million, which is below the US\$87 million projected in the CPS. This difference is due to the postponement of the MDP (about US\$50 million) from late FY09 to early FY10.

30. The October 2008 Joint Portfolio Review (JPPR) indicated that portfolio performance is largely satisfactory. Prior to the JPPR, the World Bank cancelled a US\$10 million IDA Credit for the FY05 Education Restructuring Project, which was a long term problem project delivered in the previous CAS period. The Credit was cancelled after an attempt to restructure the project failed. Fifteen projects rated *satisfactory* in project development objectives (PDO), and eleven achieved *satisfactory* ratings on implementation progress (IP). The only *moderately satisfactory* PDO rating was given to the FY05 Health Sector Enhancement Project. On IP, three projects were *moderately satisfactory* and one project *moderately unsatisfactory* (ECSEE APL 3). Less than *satisfactory* ratings resulted from sluggish project implementation, which stemmed from effectiveness delays resulting from BH’s labyrinthine institutional arrangements. The Government is striving to adopt a new law on executing international agreements that will streamline processing of donor and WB operations.

31. Despite complicated institutional arrangements, faster disbursement testifies to stronger implementation. The disbursement ratio for the first half of FY09 was 9.0 percent, surpassing the 8.5 percent target suggested in the October 2008 JPPR. Disbursement accelerated at the start of FY09, and by the end of March reached 13.2 percent. The disbursement ratio compares favorably with ECA averages, and is expected to improve once larger infrastructure and energy projects come on line.

32. Strong operational dialogue has opened the way for broader and deeper analytical engagement. This engagement is strengthening the Bank’s lending in core areas while providing opportunities for timely support in non-core areas. WB and BH teams analyzed and proposed measures to improve municipal management and service delivery and local governance and accountability. An energy study provided the analytic foundation for development of energy policies. Intense country dialogue has taken place on targeting social benefits, privatizing SOEs in the Federation, promoting the investment climate, and responding to the global financial and economic crisis. Policy dialogue also underpinned the WB’s Policy Note on Social Benefits. The *Doing Business* Reform Memo crystallized ongoing policy debate into recommendations on short and medium term measures to improve the business environment, and national and Entity coordinators are being selected to implement reforms. These efforts have complemented activities of the regulatory guillotine initiative. Finally, the WB partnered with the Directorate for Economic Planning to deliver a Policy Note on the local effects of and

possible solutions to the global economic crisis, whose findings were discussed by the National Fiscal Council.

33. The complex structure of BH continues to undermine far-reaching governance reforms. The EU agenda remains the key entry point for governance reforms, and the WB is supporting this agenda by strengthening government effectiveness and regulatory capacity, particularly through lending in agriculture, land registration, forestry and the environment, and municipal service delivery, including solid waste collection. Engagement in non-lending activities including technical assistance (TA), strategic communications and dialogue with civil society in “non-core” areas (e.g., social protection) has also paid dividends. In particular, policymakers and the public appear to have a heightened understanding of the benefits of reform and the costs of inaction. Nonetheless, corruption is still reported as widespread, and efforts to combat it have lacked substantive political commitment.

C. LESSONS LEARNED AND GUIDING PRINCIPLES GOING FORWARD

34. Differentiating the CPS program into “core” and “non-core” areas proved to be an effective strategy. This approach provided a useful way of building government ownership, while facilitating productive policy dialogue in “non core” areas such as social policy, privatization, and corporate restructuring. It has also helped pave the way for potential future financial support.

35. Demand and capacity-based resource allocation proved to be a successful approach for assigning WB resources among Entities. WB resources were allocated between Entities¹⁵ based on client demand, capacity to fulfill development objectives, and the need to balance development in different parts of the country. This was a clear improvement over allocating resources based on a predetermined ratio. Full performance based allocation was also considered by the WB team. However, any change of an Entity’s share of debt, which would be needed to allocate resources after a review of performance, requires parliamentary approval, which has proven administratively untenable.

36. The effectiveness of WB lending may be enhanced by supporting a portfolio with fewer but larger operations and leveraging other donors’ funds. At the end of the CPS period, the portfolio is expected to include 10 projects with a total commitment of US\$347 million, representing a significant consolidation compared to 16 projects spread over US\$282 million in commitments in December 2007. Parallel financing is and will continue to be pursued, particularly with the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB).

37. The Government is gradually assuming responsibility for donor coordination with support of the WB, the United Nations Development Programme (UNDP) and other organizations. The Aid Coordination Unit of the Ministry of Finance and Treasury recently assumed control of donor coordination. This is an important step forward in aligning donor programs with country goals. The WB is supporting this effort and continues to pursue partnerships with other donors in all program areas. For example, coordination and partnerships with the EBRD, EIB, EC, German Reconstruction Credit Institute (KfW), and the United States Agency for International Development (USAID) are pursued during the preparation of the SME competitiveness project.

III. CPS PROGRAM GOING FORWARD

A. LENDING PROGRAM

38. Looking forward, the Bank and the authorities agree that the rapidly changing economic environment requires urgent reprogramming of certain planned investment operations and careful

¹⁵ In previous CAS periods, resources were allocated based on the criteria established in the immediate post-conflict environment, and were based on levels of war damage, the number of refugees and displaced persons, and overall population. An allocation of resources among the two entities of 60 percent (Federation) and 40 percent (RS) was the prevalent method used.

consideration of Development Policy Lending (DPL). This shift entails concentrating investment lending on fewer projects, particularly to mitigate the impact of the crisis on the real economy through, for example, the SME Competitiveness and Access to Credit Project and infrastructure investments, particularly at the municipal level. The WB is also prepared to consider a DPL program to assist the Government in improving the structure of public expenditure and mitigating the impact of the financial crisis on vulnerable groups. Such support would be in the context of an internationally coordinated assistance package anchored on a new Stand-By Agreement with the IMF and possible macro-financial assistance from the European Commission.

I. Reprogrammed CPS Lending for FY10-11 with DPL Financing: The following projects would be considered under this scenario.

- *FY10 Municipal Development Project:* This project, scheduled for early FY10,¹⁶ aims to improve the access to and quality and reliability of public services in participating municipalities. The project will invest in water supply and sanitation infrastructure, solid waste collection services, and local roads, and may support revenue generating and/or cost saving investments such as those in energy efficiency.
- *FY10 Enhancing SME Competitiveness and Access to Credit Project:*¹⁷ Responding to the economic crisis, the authorities requested WB financing for an operation that strengthens SME competitiveness by improving access to finance in credit constrained sectors. The WB, in close coordination with IFC, has begun preparation of a project that would include a Line of Credit to provide medium-term financing to eligible commercial banks for on-lending to SMEs, particularly export-oriented enterprises. The Line of Credit would seek to encourage investment in new equipment and technology, which would contribute to new employment and add value to business production. This operation is also being prepared in close coordination with the EBRD and the EC.
- *FY10 DPL:* This project would be prepared in cooperation with the EC and in complement with a new IMF program. The DPL would be linked to appropriate reforms, which might include measures to improve: (i) the management of aggregate demand by means of a coordinated fiscal policy among different levels of government; (ii) the structure of public expenditures, most notably streamlining social expenditures and the public sector wage bill; and c) the targeting of social assistance.
- *FY10 Social Assistance and Employment Project:* Complementing the DPL, this project would strengthen the social safety in BH and support key related objectives: (i) improved targeting via a needs-based approach; (ii) more effective benefit administration and a strengthened benefit registry; and (iii) improved rationalization of disability benefits.
- *FY10 Sava River Rehabilitation Project:* This operation would be part of a major regional program to return the Sava River to full Class V navigability, which will permit passage of vessels of 3,000 tons between Sisak and Belgrade for the first time since 1990. The proposed project is supported by the EC and the Regional Cooperation Council, and involves the four riparian countries under the auspices of the International Sava River basin Commission.
- *FY11 Additional Financing for Primary Health Care:* The proposed Additional Financing for the Health Sector Enhancement Project would support the effective and efficient delivery of basic health services by scaling up the family medicine model of primary health care nationwide, and by strengthening the monitoring and evaluation capacity of health institutions. The project would also establish a foundation from which to launch broader sector reforms.

¹⁶ This project was originally scheduled for FY09 and was recently moved forward to July 2008.

¹⁷ Preliminary assessments by WB teams on the ground indicate that the financial needs might be larger than what is currently allocated.

II. Alternative Scenario: Solely Investment Lending

- There is broad agreement that the economic crisis presents enormous challenges but also opportunities to accelerate reforms stalled by inter-ethnic politics. However, lessons from previous DPL preparation indicate that the WB should not underestimate the difficulty of reaching consensus among government entities. Thus, if political commitment to support an IMF program and reform agenda diminishes, the WB will support the SME project and consider other demand-driven investment operations, such as an irrigation rehabilitation and expansion project.

39. **Given limits on WB resources and the noted reprogramming, several projects that are buoyed by strong Government interest may be considered in the next CPS period.** These might include an irrigation rehabilitation and expansion project; an energy sector project to improve energy efficiency and/or boost capacity in gas storage and distribution; additional financing for road safety and rehabilitation; and a second phase of the FY06 Land Registration Project. The WB is ready to advance the preparation of any of the above operations if WB funds become available over the current CPS period.

Table 2: 2008 – 2011 Lending Program

Maximum Planned Lending in CPS				Actual and Planned CPSPR Lending		
	Project	Amounts (US\$mil.)		Project	Amounts (US\$mil.)	
		IDA	IBRD		IDA	IBRD
FY08	Road Infrastructure and Safety	25		Road Infrastructure and Safety	25	
	Solid Waste II		25			
	GEF Neretva (i)		8	GEF Neretva(i)		6
	GEF Forest and Prot. Areas (i)		4	GEF Forest and Prot. Areas (i)		3.4
	Subtotal	25	25	Subtotal	25	
FY09	Municipal Development	15	10			
	Sava River Navigability	10	15	Solid Waste II	15	25
	Subtotal	25	25	Subtotal	15	25
FY10	Pillar 1					
	Investment Climate			Municipal Development		
	PSD			SME Competitiveness and Access to Credit		
	Land registration II			Sava River Navigability (iv)	TBD	TBD
	Regional Transport Corridor (Vc)	79	126	Social Ass. and Employment		
	Disaster Management			Development Policy Loan		
	Pillar 2					
Public sector Admin. Reform						
Social Sectors						
FY11	Readiness for IPA Accession			Add. Fin. for Primary Health Care	TBD	TBD
	Financing Rural/Agriculture					
	Subtotal	79	126	Subtotal	89	131
	TOTAL	129	176	TOTAL	129	156
		(ii)	(iii)			(v)

(i) GEF grants; (ii) IDA 15 allocation: SDR70.3 (or about US\$104 mil)
 (iii) High case lending allocation; (iv) In addition to US\$15 mil of regional IDA
 (v) In line with the new IBRD Exposure Management Framework

40. **IFC intends to focus its strategic investments in the financial and infrastructure sectors.** On January 31, 2009, IFC's committed portfolio in BH was US\$154 million, including US\$21 million in equity and US\$133 million in loans. During the reporting period, IFC increased its advisory services and investments in BH, and invested US\$41 million for its own account.

41. **In the financial sector, IFC will support client banks that are solvent despite having temporary liquidity problems given the lack of wholesale funding worldwide.** In addition, IFC will

offer short-term finance including trade finance to local banks to maintain trade flows, and will selectively review recapitalization needs of banks that may pose systemic risks to the financial sector. IFC also plans to conduct trainings on credit risk and financial risk management with IFC clients and other financial institutions. To reach small companies in less developed areas, including rural micro-entrepreneurs, IFC will continue to support existing microfinance clients and will develop new microfinance institutions. Promoting financing for energy efficiency and renewable energy projects remains one of IFC's strategic priorities.

42. IFC will continue to pursue opportunities to support private sector participation (PSP) in the infrastructure sectors. IFC remains interested in providing advisory services to help the Government structure PSP infrastructure projects. IFC has already supported the Government in structuring PSPs in diverse sectors such as energy, water and wastewater, and transport (i.e., ports and construction of toll roads). However, IFC's activities are dependent on market demand, government progress on privatization, institutional reforms, and improvements in the legal framework. Given the global financial crisis and traditionally long implementation periods for PSP projects, infrastructure projects with PSP elements will likely take place in the next CPS period.

B. ANALYTICAL AND ADVISORY SERVICES

43. Policy dialogue and non-lending activities will continue to respond to country demand and economic concerns. Dialogue on key issues in trade, investment, economic governance, and the business climate will be channeled through policy notes, a Country Economic Memorandum, and other products. TA will be provided to improve country accounting systems.¹⁸ TA linked to the FY09 Poverty Assessment will sponsor notes and workshops to strengthen poverty analysis, improve targeting, and assist in the design and development of social protection measures and programs to help the poor. The WB will produce a Transport Sector Review to help authorities devise a national transport strategy and sector action plan. In addition, the BH Team will consult with the Bank's Fragile and Conflict-Affected Countries Group on the unique challenges confronted by conflict affected countries and exchange ideas and best practice on how to address obstacles to reform that stem from the history of conflict.

44. BH has made progress in establishing modern financial management institutions and systems, yet challenges remain. These challenges include strengthening strategic planning, enhancing the quality and level of fiscal coordination, and improving public procurement and budget execution and reporting. Due diligence under the DLP would consider relevant public financial management issues, particularly those related to portfolio fiduciary risks. In FY10, a portfolio procurement audit will be completed and additional analytical work, such as Public Expenditure and Financial Accountability (PEFA) assessment, will be considered based on dialogue with authorities and interested donors.

45. IFC Advisory Services¹⁹ will continue to focus on: (i) Corporate Advice, with programs in corporate governance, recycling/linkages, international standards and technical regulations; (ii) Business Enabling Environment, with programs in Alternative Dispute Resolution, and Sub-national Competitiveness; (iii) Access to Finance, with programs in micro-finance and sustainable finance; and (iv) Infrastructure, mainly to promote PSP in all infrastructure sub-sectors. For more information on the results of IFC's advisory services, please see Annex 2.

C. MANAGING RISKS

46. Despite BH's strong economic growth and reasonably healthy portfolio, program risk remains high. The main ongoing risk is that political polarization between the three constituent groups may slow the reform process. The World Bank will manage this risk by carefully vetting individual

¹⁸ REPARIS – Road to Europe Program of Accounting Reform and Institutional Strengthening

¹⁹ IFC's advisory projects have received an extension of funding until December 31, 2010.

lending and implementation decisions at the Entity level against the creation of a BH-wide single economic space and acceleration of EU accession process. Focusing World Bank support on “core areas” while adopting a cautious approach to sectors with questionable levels of political commitment provides additional risk management.

47. The regional environment and lingering uncertainties about the transition to a post-OHR model of engagement with the IC also present risks of instability. The World Bank will monitor developments closely and will make the necessary adjustments to support the strategy as warranted.

48. The global economic crisis is putting strains on the economy. The World Bank will continue to monitor economic and fiscal developments and maintain an active dialogue with the authorities on economic issues, and stands ready to make programmatic adjustments as needed.

**Annex 1
Bosnia and Herzegovina: Updated CPS Results Matrix FY08-11**

Country Strategic Goals	Issues and Obstacles	CPS Outcomes Supporting Country Goals	CPS Milestones / Summary of Progress	CPS Program
Pillar I – Improve the environment for private sector led growth and convergence to Europe				
<p>Create the conditions for sustainable and balanced economic growth and EU integration process</p> <p>Key reform priorities in the Platform for Action supporting this goal:</p> <ul style="list-style-type: none"> - Create a better business environment - Promote reforms that ensure sustainable economic development 	<p><i>In order to create the conditions for sustainable and balanced growth and accelerate the EU association process BH needs to:</i></p> <p><i>1. Facilitate business activity and increase economic opportunities</i></p>	<p>Core Program Outputs:</p> <p>1. Reduction in the duration and number of procedures required to register a business.</p> <p>Baseline: June 2007: New Business Registration System (BRS) launched – Average registration time 54 days (DB) Target: 30 days in the FBH, 23 days in the RS (2008)</p> <p>Development of transparent land markets through registration of real estate</p> <p>Baseline: 2006: 150,000 registry folders completed in the automated database, 80,000 backlog cases, several months to complete real estate transactions Target: 2m folders, full reconciliation, no backlogs (2011)</p> <p>Support harmonization with the EU's Common Agricultural Policy by supporting the establishment of agricultural information systems, and EU-compatible payment systems for subsidies.</p> <p>Target: EU-compatible payment system designed (2010). Initiating EU-compatible Rural Development Grants (2011)</p>	<p>2008: 16 courts use the new BRS; average registration time: 30 days in the Federation, 23 days in the RS</p> <p>Largely accomplished: at end-November 2008, average court registration in the RS takes 6.1 days and 11.8 days in the FBH. Overall start up process takes 32 days in the FBH and 21.1 days in the RS.</p> <p>2008: 500,000 registry folders in the automated database and at least 50% registry folders updated and reconciled</p> <p>On-track: 850,000 registry folders completed. Backlog reduced by 11,000 over the last 9 months. 52% of cases resolved in 5 working days in the FBH and 50% in the RS. 23 offices resolve 80% of cases in 5 days.</p> <p>2009: Rural Development Strategies formulated, and extension strategies completed.</p> <p>On track: Entity level rural development strategies were formulated and extension strategies have been developed.</p>	<p><u>Current portfolio:</u> EC grant on enterprise restructuring, Agriculture and Rural Development Project, Land Registration Project, IFC Investments Project, IFC Investments</p> <p><u>Potential new financing:</u> SME competitiveness project, IFC investments, MIGA Guarantees</p> <p><u>AAAs:</u> Investment climate assessment, ROSC A+A, IFC advisory services, WBI competitiveness</p> <p><u>Partners:</u> DFID, USAID, SIDA, EC, IFAD, GTZ</p>

Country Strategic Goals	Issues and Obstacles	CPS Outcomes Supporting Country Goals	CPS Milestones / Summary of Progress	CPS Program
		<p><i>Stakeholder driven extension services operational</i></p> <p>Baseline: Limited in the RS, none in the Federation (2007)</p> <p>Target: Stakeholder managed, contracted public-private extension services reaching 20% of commercial farmers (2012)</p>	<p>2008: extension agencies established/restructured</p> <p><i>On track: participation in the market is expanding by increasing productivity/production in commercial farms. FBH extension services law adopted. Extension services strategies outlining pluralistic model under preparation in both entities and will be initiated in 2009. Extension services division established and staff recruited in the FBH Ministry of Agriculture, Water Management and Forestry. Staff recruited in the RS Ministry of Agriculture, Water Management and Forestry – restructuring of Extension services agency planned for 2009.</i></p>	
	<p>2. <i>Improve key infrastructure and links to Europe</i></p>	<p>2. Road network better maintained and safer</p> <p>Baseline: 2006: road user costs US\$0.25 per km per vehicle</p> <p>Target: Reduction in road user costs of at least 10 percent on rehabilitated roads [a total 2,200 kms of regional and rural roads rehabilitated with EIB and EBRD/240 kms by IDA] (2011)</p> <p>Baseline: No integrated road safety strategy at the State and Entity level</p> <p>Target: Integrated road safety strategy at the State and Entity level is implemented (2011)</p> <p><i>To facilitate BH's participation in the SEE energy market and integration into the EU; BH electricity system operated as a</i></p>	<p>2009: Institutional framework for road strategy developed.</p> <p><i>On track: Road Infrastructure and Safety Project became effective in September 2008 and implementation is expected to accelerate in 2009. A consensus was reached recently by the two Entities on creating institutional framework through results focus interventions, development of intervention plans, and selection and preparation of pilot projects. Substantial results are expected by the end of the CPS period.</i></p> <p>2007: ISO created 2008: ISO has functional market operation system.</p> <p><i>Not accomplished: BH participation in the SEE energy market remains</i></p>	<p>Current portfolio: Power III, ECSEE APL III, Urban Infrastructure and Service Delivery Project, Forest Development and Conservation, Road Infrastructure and Safety</p> <p>Potential new financing: Sava River Project, IFC investments, MIGA guarantees</p> <p>AAA: PPP training follow-up, PPIAF TA, IFC advisory services, Local Roads Study</p> <p>Partners: EC, EBRD, EIB, KFW, US</p>

Country Strategic Goals	Issues and Obstacles	CPS Outcomes Supporting Country Goals	CPS Milestones / Summary of Progress	CPS Program
	<p>3. <i>Manage global public goods, including environment, clean energy and hazard risk, with a regional perspective and in cooperation with neighboring countries</i></p>	<p>single control area Baseline: no ISO (2006) Target: ISO-administered “Balancing Market/Mechanism” for the entire BH electricity system is fully operational (2011)</p> <p>BH electricity generation and exports sustained or increased at corresponding hydrological conditions Baseline: Power generation 12,800 Gwh (2006) Target: Equal or greater and commercial “Power Exchange” is established to intermediate electricity import/export transactions between EPs in BH and other regional power utilities</p> <p>Improved commercial use of the Sava river corridor Baseline: 2007: sections of the river are not navigable Target: Priority sections of the River Sava returned to navigability</p> <p>3. Critical forests, water and mountain ecosystems protected and used in a sustainable way Baseline: Area under formal protection is 0.55% (2007) Target: protected area 3% (2010)</p>	<p>insignificant due to insufficiently developed framework for operation of Transco and ISO. USAID funded consultants are working with ISO to develop market rules. The activity is delayed but the ISO has become functional and is operating the power system. Electricity generation (10,643 GWH) in 2007 was lower than 2006 baseline due to less than average rainfall and consequent shortfall in hydro generation.</p> <p>2012: Priority sections of the River Sava returned to navigability On track: Sava Waterway Rehabilitation Project under preparation.</p> <p>2008: Separation of forest administration and forest enterprise functions On track: By the end of 2008 the percentage of PAs had increased to about 1%. Consideration of further expansions covering both existing PAs as well as large new PAs will take place during 2009, and no problems are envisaged in achieving the 3% target by the end of 2010. The State Forest Inventory (the first since the 1962), which now covers 42% of total forest</p>	<p>Current portfolio: Forest Development and Conservation , GEF Water Quality Protection, GEF Neretva-Trebinjica River Basin Protection, GEF Protected Mountain Areas, Avian Influenza Preparedness Project</p> <p>Potential new financing: Irrigation project</p>

Country Strategic Goals	Issues and Obstacles	CPS Outcomes Supporting Country Goals	CPS Milestones / Summary of Progress	CPS Program
	<p data-bbox="240 1371 487 1673">Enhanced capacity for an effective response to avian influenza infection Baseline: 2007: weak and inconsistent safe poultry handling procedures Target: 50 % of at risk population practicing safe handling procedures in respect to poultry meat</p> <p data-bbox="487 1371 730 1673">Non-Core Program Goals: 4. Privatization and corporate restructuring advanced Baseline: FBH - 14 SOEs scheduled for privatization in 2008. RS - privatization about 2/3 completed, 80 enterprises to be privatized in 2008. ICA estimated that most of 500 SOEs would benefit from privatization and restructuring; about 200 VPEs are viable candidates for restructuring.</p> <p data-bbox="730 1371 1458 1673">4. The advancement of privatization and corporate restructuring would also contribute to the country goal</p>	<p data-bbox="240 951 487 1365">2011: 50 % of at risk population practicing safe handling procedures in respect to poultry meat. On track: State Veterinary Office hiring consultant to enhance preventive communication. There is no outbreak but animal health centers started preparing a poultry culling compensation scheme manual. Chain of command exercise for veterinarian sector completed (supported by FAO).</p> <p data-bbox="487 951 1458 1365">2008: FBH – 14 SOEs privatized; RS 80 SOEs privatized. Corporate restructuring underway. Not accomplished: FBH - 2 enterprises privatized in 2008 (Hepok – Mostar, and Tobacco factory Mostar). In the RS - 80 enterprises were scheduled for privatization in 2008 and 13 were privatized (of which 4 strategic enterprises). An ongoing WB (with EC funding) pilot project is on track in restructuring 12 enterprises to demonstrate possible methods and benefits of active approach. The</p>	<p data-bbox="240 489 487 945">areas and is expected to cover 100% within the next year, will provide a more rigorous and complete basis for monitoring analyzing the status of forest cover throughout the country. A range of other support for certification of sustainable forest management, forest management information systems and other forest management capacity development which are being supported through FDCP and by other donors will also increase the effectiveness of forest protection.</p>	<p data-bbox="240 184 487 483">AAA: Regional climate change study Partners: Croatia, SIDA, WHO, UNICEF, EC</p> <p data-bbox="487 184 974 483">Current portfolio: Accelerating Enterprise Restructuring (EC funded, Bank administered) Potential new financing: SME competitiveness project, IFC investments, MIGA guarantees, WBI competitiveness project AAA: Investment Climate Assessment, Country</p>

Country Strategic Goals	Issues and Obstacles	CPS Outcomes Supporting Country Goals	CPS Milestones / Summary of Progress	CPS Program
	<p>Target: FBH Govt's privatization policy adopted and implemented. RS – policy adjustment to reflect lower quality of remaining assets to be privatized. Complete restructuring of 12 enterprises to demonstrate possible methods and benefits of active approach –2009.</p>	<p>preparatory work to create the single BH stock market index has been completed and work on its implementation is underway. In addition to the single stock market index, the FIRST-funded project would strengthen the two stock markets in BH and contribute to VPE consolidation</p>	<p>Economic Memorandum Partners: USAID, EC, ADA</p>	
Pillar II – Improve the quality of public spending and the delivery of public services for the vulnerable				
<p>Reduction of Poverty Key reform priorities in the Platform for Action supporting this goal: - Improving stability and fiscal coordination by, inter alia, reviewing and streamlining social spending schemes with a view to improve their effectiveness</p>	<p>Slow formal employment is a key determinant of poverty and vulnerability in BH. Thus, the CPS supports this country goal partly via Pillar I strategies aimed at creating growth and a better business environment conducive to job creation. The CPS also supports this country goal by strengthening the quality of public spending and the delivery of public services, particularly for the vulnerable. Thus the CPS will aim to:</p> <p>5. Improve delivery of municipal services and strengthen municipal finance</p>	<p>5. Improved delivery of water supply, sanitation and urban services Baseline: Water supply in five participating municipalities (92%, 0%, 100%, 90%, 94%) (2004) Target: 100% in 4 large municipalities Administration of solid waste at municipal level improved Baseline: 2003: 1 regional (not sanitary) landfill operational, numerous wild dumpsites Target: Six regional sanitary landfills established and operational (2009); 20% reduction in wild dumpsites</p> <p>Sustainable mechanisms for municipal capital investments Baseline: Weak citizen participation in decision making at local level (2007)</p>	<p>2008: 60%; 2010 100% in four large municipalities. 3 regional sanitary landfills established and operational; 10% reduction in wild dumpsites; 2009 Six regional sanitary landfills established and operational, 20% reduction in wild dumpsites On track: Water losses were reduced in all participating municipalities, and water supply improved to 100% (24hrs a day) in three out of five participating municipalities. New Municipal Development Project under preparation. Multi-municipal waste management districts established. Three regional landfills operational. 10% reduction of wild dumpsites and 145 wild dumpsites cleaned, 10% of waste disposed in environmentally sound manner.</p> <p>2008: Capacity building program in participatory budgeting underway in several poor municipalities; 2009: Improved participatory budgeting in 30 poor municipalities</p>	<p><u>Current portfolio:</u> Community Development Project, Solid Waste Management Project I and II, Urban Infrastructure and Services Delivery Project <u>Potential new financing:</u> Municipal Development Project AAA: Strengthening Local Governance study, WBI Advisory services <u>Partners:</u> USAID, SIDA, Netherlands, UNDP, EC</p>

Country Strategic Goals	Issues and Obstacles	CPS Outcomes Supporting Country Goals	CPS Milestones / Summary of Progress	CPS Program
	<p>6. <i>Improve quality of social services delivery</i></p> <p>7. <i>Reduce urban-rural disparities in income</i></p>	<p>Target: Improved participatory budgeting in 30 poor municipalities (2009)</p> <p>6. Significant increase in utilization of family medicine in primary health care</p> <p>Baseline: No. of first examinations by FM doctors (FBH: 582,716; RS: 572,876 (2005))</p> <p>Target: increase by 55% in FBH; by 15% in RS (2010)</p> <p>Significant reduction in utilization of secondary and tertiary health services</p> <p>Baseline: No. of referrals to specialists in locations where FM model was introduced FBH: 1,513,241 (2005) RS: tbd</p> <p>Target: FBH: decrease by 10% (2010); RS: tbd</p> <p>7. Increase in marketable horticultural produce in poor southern BH areas</p> <p>Baseline: 5% of farm production is marketed (2003) Target: 30 % of farm production marketed (2011)</p>	<p>On track: in the FBH, 12 participating local governments use participatory budgeting practices systematically. 70% of budget investments follow these practices. Data collection underway in the RS.</p> <p>2009: 30% FBH; 5% RS</p> <p>On track: number of first examinations by FM doctors in FBH 741,233 (27% increase); in RS 602,235 (5% increase).</p> <p>2008: - 3%,</p> <p>On track: in 2008, total number of referrals to specialists in locations where FM model was introduced decreased by 11% in the FBH (1,351,099 referrals). RS data on referrals being confirmed.</p> <p>On track: in southern part of BH, the marketable surplus of milk doubled; area under vineyards doubled, area under horticulture increased by 25%, and livestock increased by 30%.</p>	<p>Current portfolio: Health Sector Enhancement, Second Employment Support Project</p> <p>Potential new financing: Social Sector Project, HSEP additional financing</p> <p>Partners: EC, IMF</p> <p>Current portfolio: Small Scale Commercial Agriculture Development Project, Community Development Project, WBI capacity building program</p> <p>Potential new Financing: Irrigation Project</p>

Country Strategic Goals	Issues and Obstacles	CPS Outcomes Supporting Country Goals	CPS Milestones / Summary of Progress	CPS Program
	<p><i>Additionally, and provided there is strong political commitment to reform, it will also support the achievement of this goal by supporting:</i></p> <p>8. <i>The increased targeting of social benefits</i></p>	<p><i>Small-scale market integrated commercial agriculture further developed. Improve access to credit for agribusiness/ agri-processing and small farmers</i></p> <p>Baseline: 2006: US\$2.15 million for agribusiness/agro-processing; US\$1.5 million for microcredit</p> <p>Target: - US\$4.5 million long-term loans by 2010 for agribusiness/agri-processing, US\$7.5 million disbursed as microcredit to small farmers and rural families with 99.5% repayment rates</p> <p>Non-Core Program Goals:</p> <p>8. Increased targeting of social benefits</p> <p>Baseline: targeting accuracy of social benefits – below 20% (2008). Social benefits reach only 18% among the poorest quintile. Right-based approach.</p> <p>Target: targeting accuracy of social benefits at least 40% Social benefits reach 70% among the poorest quintile (2012). Needs based approach.</p>	<p>2009: US\$2m long term loans made to agribusinesses/agro-processing; US\$3 million disbursed as microcredits to small farmers/rural families;</p> <p>Fully accomplished: A total of 107 investments in agribusinesses were supported by participating commercial banks amounting to US\$4.5 million. Over US\$ 12 million disbursed as micro-credits. Portfolio at risk remains low at 0.3%.</p> <p>On track: The Bank team continued policy dialogue on social benefits with authorities. FBH counterparts were particularly engaged in identifying an optimal solution for substantial ineffective spending on different social benefits. The WB team and its counterparts identified three areas for attention: i) tools for targeting-proxy means and means testing; ii) unified database and registry system; and iii) reform of the Disability Institute and improving disability benefits. The team that includes colleagues from the FBH Ministry of Labor and Social Affairs and the Bank will propose a concrete set of actions in each of the three areas and propose activities that would be addressed in partnership with the World Bank as a part of a possible social sector operation.</p>	<p>Partners: EC, USAID, UNDP, IFAD, SIDA</p> <p>Current portfolio: Second Employment Support Project</p> <p>Potential new financing: Social Sector Project</p> <p>AAA: Poverty Assessment, Country Economic Memorandum, Social Benefits Policy Note</p> <p>Partners: EC, DFID, IMF, UNDP, UNICEF</p>

Country Strategic Goals	Issues and Obstacles	CPS Outcomes Supporting Country Goals	CPS Milestones / Summary of Progress	CPS Program
	<p>9. <i>Reducing the burden of Government in the economy and strengthening fiscal coordination</i></p>	<p>9. Reduce the burden of Government on the economy and strengthen fiscal coordination</p> <p>Baseline: National Fiscal Council not established, and fiscal targets not well coordinated between different levels of government. Current expenditures equal to 41% of GDP (2007).</p> <p>Target: Fiscal Council established and functional. Sound fiscal framework maintained. The share of current expenditures in GDP lower by 2pp (2011).</p>	<p>On track: The Fiscal Council (FC) was established. The FC agreed on the overall fiscal envelope for the state and the two entities. The agreement specifies a 12 percent increase in the state budget and 6 percent increases in the budgets of the entities. This was the first time that the overall fiscal target was firmly agreed by all relevant stakeholders. The State budget was increased more than those of the entities with the aim of strengthening the capacity of central institutions in the light of EU integration demands. Furthermore, as the financial crisis has changed the revenue and growth outlooks, both entities are taking measures to reduce spending to render them in line with available revenues. While the state budget is likely to grow at the rate of 12%, as agreed in the FC, the entities will probably keep their expenditures at the 2008 level, or even below this level.</p>	
		<p>10. Increase formal employment</p> <p>Baseline: 687,445 employees (2007)</p> <p>Mid-term: 5% growth (2008)</p> <p>Target: 10.2% growth (2010)</p>	<p>On track: Employment growth in 2008 was 5.1%. Employment is likely to stagnate in 2009 as a result of the crisis, but to pick up again in 2010, meeting the 10.2% growth target.</p>	

Annex 2: IFC Advisory Services

Key outputs and outcomes of IFC's advisory services are noted below.

- **IFC worked to improve the business environment** through a sub-national competitiveness project by implementing regulatory simplification at the national level and in Banja Luka, Mostar, and Novo Sarajevo. Estimated savings for businesses during this phase are about US\$ 3.5 million. Further expansion into municipal, entity and cantonal levels is planned.
- **IFC took steps to strengthen corporate governance practices and regulation.** IFC provided support to two companies, including assisting one to conduct the first Initial Public Offering in BH. About 400 people were trained. Key partners included stock exchanges, security and exchange commissions, educational institutions and local consultant firms.
- **IFC's Recycling Linkages Program** promoted a cleaner environment and energy conservation. Under this program, 18 companies received advisory services, a law on waste packaging was drafted, and about 5,400 people, including 900 individual scrap collectors, were trained. The Program partnered with municipalities to initiate residential recycling programs. Overall, the program mobilized approximately 13 million USD in investments in the private sector.
- **The International Standards and Technical Regulations** program supported 7 companies to implement international standards as a precondition to increase exports into the EU and other international markets. Over 500 people were trained on these subjects.
- **IFC's Alternative Dispute Resolution (ADR)** program is establishing two Mediation Centers, and 84 commercial cases were resolved releasing about US\$13 million in assets to participating parties. Over 2,000 participants were a part of an ADR public awareness campaign where IFC promoted the advantages of mediation to the larger business community.
- **IFC's Balkan Hotel Market Access** program is active and is contributing to the opening of the Balkan region to the lucrative independent travelers' market.

Annex 3

Bosnia and Herzegovina: Key Economic Indicators

Indicator	Actual			Estimate			Projected		
	2004	2005	2006	2007	2008	2009	2010	2011	2012
National accounts (as % of GDP at current market prices)									
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture ^a	11.0	11.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Industry ^a	25.0	25.0	25.0	22.0	21.0	22.0	22.0	22.0	22.0
Services ^a	64.0	64.0	65.0	69.0	68.0	68.0	68.0	67.0	67.0
Total Consumption	122.0	120.0	109.0	106.0	108.0	107.0	105.0	104.0	104.0
Gross domestic fixed investment	17.0	22.0	19.0	23.0	26.0	21.0	23.0	23.0	23.0
Government investment	7.0	7.0	6.0	4.0	6.0	6.0	7.0	7.0	7.0
Private investment	11.0	15.0	13.0	18.0	20.0	15.0	16.0	16.0	16.0
(includes increase in stocks)									
Exports (GNFS) ^b	29.0	33.0	37.0	39.0	36.0	34.0	34.0	35.0	35.0
Imports (GNFS)	71.0	75.0	66.0	69.0	70.0	63.0	63.0	63.0	62.0
Gross domestic savings	-22	-20	-9	-6	-8	-7	-5	-4	-4
Gross national savings ^c	2	2	11	44	10	10	14	14	15
<i>Memorandum items</i>									
Gross domestic product	10023	10765	12255	15139	18594	19060	20259	21636	23107
(US\$ million at current prices)									
Gross national product per capita	2550	3000	3360	3780	4450	4920	5460	5840	6250
(US\$, Atlas method)									
Real annual growth rates									
(%, calculated from 1996 prices)									
Gross domestic product at market prices	6.1%	5.0%	6.2%	6.8%	6.0%	0.3%	4.0%	4.5%	4.5%
Gross Domestic Income	17.8%	4.5%	5.5%	38.7%	-20.0%	2.6%	3.8%	4.4%	4.6%
Real annual per capita growth rates (% calculated from 1996 prices)									
Gross domestic product at market prices	5.6%	4.5%	6.3%	7.0%	6.1%	0.5%	4.2%	4.8%	4.8%
Total consumption	22.8%	1.3%	-0.3%	1.0%	7.7%	5.3%	1.4%	4.1%	3.9%
Private consumption	25.1%	2.0%	-3.3%	-1.2%	8.3%	7.2%	0.1%	3.9%	3.7%
Balance of Payments (US\$m)									
Exports (GNFS) ^b	2947	3550	4485	5918	6726	6529	6975	7519	8089
Merchandise FOB	2082	2596	3371	4504	5066	4820	5179	5577	5998
Imports (GNFS) ^b	7083	8040	8149	11154	13076	11928	12663	13537	14301
Merchandise FOB	6649	7578	7644	10539	12291	11140	11826	12645	13350
Resource balance	-4136	-4490	-3663	-5236	-6350	-5399	-5688	-6018	-6203
Net current transfers	1861	1902	1892	2700	2954	2998	3444	3717	3987
Current account balance	-1792	-2135	-1309	-2041	-2696	-2049	-1919	-1985	-1894
Net private foreign direct investment	662	522	424	2143	582	623	1000	1240	1373
Long-term loans (net)	6	112	85	345	1124	441	465	289	224
Official	103	104	34	293	78	111	100	18	15
Private	-97	8	51	52	1046	330	365	270	209
Other capital (net, including errors & omiss.)	1554	1971	1573	481	1009	645	717	768	819
Change in reserves ^d	-430	-470	-773	-929	167	340	-264	-311	-522
<i>Memorandum items</i>									
Resource balance (% of GDP at current market prices)	-41.3%	-41.7%	-29.9%	-34.6%	-34.2%	-28.3%	-28.1%	-27.8%	-26.8%
Real annual growth rates (YR96 prices)									
Merchandise exports (FOB)									
Primary									
Manufactures									
Merchandise imports (CIF)									

Annex 3
Bosnia and Herzegovina: Key Economic Indicators (cont.)

Indicator	Actual				Estimate			Projected	
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Public finance									
(as % of GDP at current market prices)									
Current revenues	44.7	46.6	47.0	44.8	45.7	45.1	44.6	44.2	43.9
Current expenditures	40.2	40.4	38.3	40.7	42.0	40.4	40.9	40.4	39.9
Current account surplus (+) or deficit (-)	4.5	6.2	8.7	4.1	3.7	4.8	3.7	3.8	3.9
Capital expenditure	9.5	9.1	5.9	4.5	5.8	6.1	7.3	7.3	7.0
Foreign financing	6.0	4.8	3.1	1.5	1.4	1.2	1.2	0.8	0.8
Monetary indicators									
M2/GDP (at current market prices)	43.3	47.7	52.7	56.6	58.8	62.5	66.7	71.4	76.9
Growth of M2 (%)	24.3	18.2	24.7	21.6	18.3	8.9	13.4	14.4	15.0
Private sector credit growth / total credit growth (%)	96.6	106.8	120.1	188.8	..	..	..	..	..
Price indices(YR96 =100)									
Merchandise export price index									
Merchandise import price index									
Merchandise terms of trade index									
Real exchange rate (US\$/LCU) ^f	1.0	1.0	1.0	1.0	..	..	0.0	0.0	0.0
Real interest rates									
Consumer price index (% growth rate)	0.3%	3.6%	7.5%	4.9%	8.2%	2.2%	2.4%	2.7%	2.2%
GDP deflator (% growth rate)	2.6%	2.1%	6.3%	6.0%	7.4%	2.2%	2.2%	2.2%	2.2%

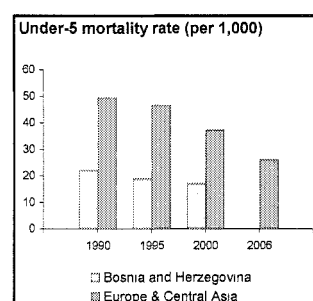
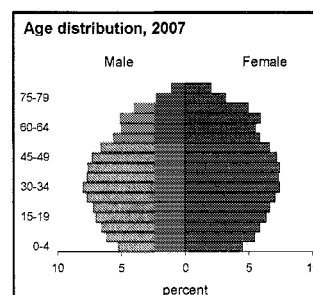
- a. If GDP components are estimated at factor cost, a footnote indicating 'Data-YR' fact should be added.
b. "GNFS" denotes "goods and nonfactor services."
c. Includes net unrequited transfers excluding official capital grants.
d. Includes use of IMF resources.
e. Should indicate the level of the government to which the data refer.
f. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

Annex 4

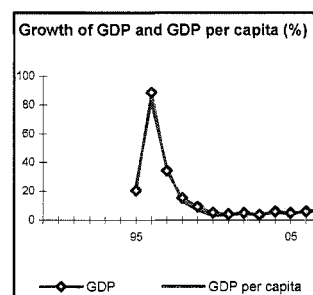
Bosnia and Herzegovina at a glance

4/21/09

Key Development Indicators (2007)	Bosnia and Herzegovina	Europe & Central Asia	Lower middle income
Population, mid-year (millions)	3.8	445	3,437
Surface area (thousand sq. km)	51	23,972	35,510
Population growth (%)	-0.1	0.0	1.0
Urban population (% of total population)	46	64	42
GNI (Atlas method, US\$ billions)	14.3	2,694	6,485
GNI per capita (Atlas method, US\$)	3,780	6,051	1,887
GNI per capita (PPP, international \$)	7,700	11,116	4,544
GDP growth (%)	6.8	6.8	9.7
GDP per capita growth (%)	7.0	6.7	8.6
<i>(most recent estimate, 2000–2007)</i>			
Poverty headcount ratio at \$1.25 a day (PPP, %)	..	5	..
Poverty headcount ratio at \$2.00 a day (PPP, %)	..	11	..
Life expectancy at birth (years)	75	69	69
Infant mortality (per 1,000 live births)	13	23	41
Child malnutrition (% of children under 5)	4	..	25
Adult literacy, male (% of ages 15 and older)	99	99	93
Adult literacy, female (% of ages 15 and older)	94	96	85
Gross primary enrollment, male (% of age group)	..	98	112
Gross primary enrollment, female (% of age group)	..	96	109
Access to an improved water source (% of population)	97	95	88
Access to improved sanitation facilities (% of population)	95	89	54



Net Aid Flows	1980	1990	2000	2007 ^a
<i>(US\$ millions)</i>				
Net ODA and official aid	..	10	737	494
<i>Top 3 donors (in 2006):</i>				
European Commission	..	0	196	89
United States	..	0	86	66
Sweden	..	0	24	40
Aid (% of GNI)	12.4	3.9
Aid per capita (US\$)	..	2	199	131



Long-Term Economic Trends	1980	1990	2000	2007 ^a
Consumer prices (annual % change)	5.0	4.9
GDP implicit deflator (annual % change)	24.8	6.0
Exchange rate (annual average, local per US\$)	2.1	1.4
Terms of trade index (2000 = 100)
Population, mid-year (millions)	3.9	4.3	3.7	3.8
GDP (US\$ millions)	5,338	15,139
<i>(% of GDP)</i>				
Agriculture	11.7	9.8
Industry	25.5	21.6
Manufacturing	11.2	13.3
Services	62.7	68.6
Household final consumption expenditure	103.5	55.5
General gov't final consumption expenditure	24.7	21.8
Gross capital formation	21.2	22.7
Exports of goods and services	29.6	39.1
Imports of goods and services	77.9	39.1
Gross savings	13.8	43.6

1980–90 1990–2000 2000–07
(average annual growth %)

Population, mid-year (millions)	1.0	-1.5	0.3
GDP (US\$ millions)	..	28.5	5.3
Agriculture	..	5.1	5.0
Industry	..	22.8	7.1
Manufacturing	..	9.0	8.1
Services	..	32.6	6.6
Household final consumption expenditure	..	..	5.4
General gov't final consumption expenditure	..	..	7.4
Gross capital formation	..	21.7	6.4
Exports of goods and services	..	41.8	9.8
Imports of goods and services	..	21.5	8.8

Note: Figures in italics are for years other than those specified. 2007 data are preliminary. .. indicates data are not available.
a. Aid data are for 2006.

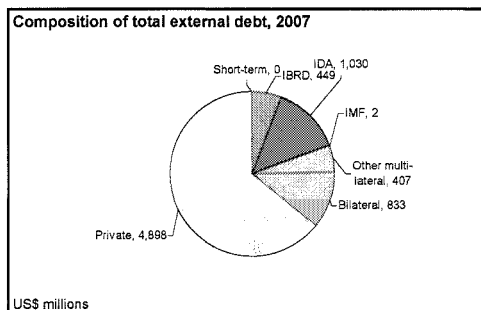
Development Economics, Development Data Group (DECDG).

Annex 4 (cont.)

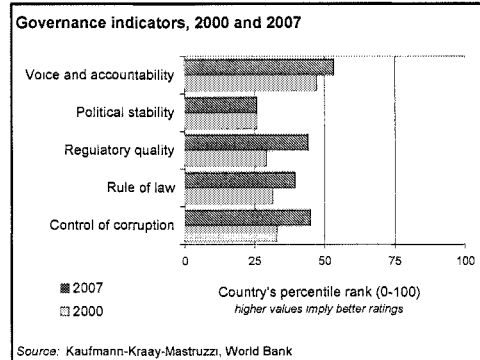
Bosnia and Herzegovina

Balance of Payments and Trade	2000	2007
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	1,130	4,504
Total merchandise imports (cif)	4,166	11,277
Net trade in goods and services	-2,577	-5,236
Current account balance	-396	-2,041
as a % of GDP	-7.4	-13.5
Workers' remittances and compensation of employees (receipts)	1,595	2,514
Reserves, including gold	486	4,990
Central Government Finance		
<i>(% of GDP)</i>		
Current revenue (including grants)	40.3	44.8
Tax revenue	21.8	38.6
Current expenditure	44.2	40.7
Overall surplus/deficit	-6.0	0.6
Highest marginal tax rate (%)		
Individual	..	15
Corporate	..	30

External Debt and Resource Flows		
<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	1,929	7,619
Total debt service	325	428
Debt relief (HIPC, MDRI)	-	-
Total debt (% of GDP)	36.1	50.3
Total debt service (% of exports)	10.2	4.9
Foreign direct investment (net inflows)	146	2,143
Portfolio equity (net inflows)	0	0



Private Sector Development	2000	2008
Time required to start a business (days)	-	60
Cost to start a business (% of GNI per capita)	-	30.8
Time required to register property (days)	-	128
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2007
Access to/cost of financing	..	34.9
Economic and regulatory policy uncertainty	..	33.3
Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	20.1	13.8



Technology and Infrastructure	2000	2007
Paved roads (% of total)	52.3	52.3
Fixed line and mobile phone subscribers (per 100 people)	24	93
High technology exports (% of manufactured exports)	..	2.9

Environment		
Agricultural land (% of land area)	42	42
Forest area (% of land area)	42.7	42.7
Nationally protected areas (% of land area)	..	0.5
Freshwater resources per capita (cu. meters)	..	9,388
Freshwater withdrawal (% of internal resources)	..	..
CO2 emissions per capita (mt)	6.2	4.1
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	4.6	4.7
Energy use per capita (kg of oil equivalent)	1,088	1,313

World Bank Group portfolio	2000	2007
<i>(US\$ millions)</i>		
IBRD		
Total debt outstanding and disbursed	518	449
Disbursements	0	0
Principal repayments	0	24
Interest payments	33	26
IDA		
Total debt outstanding and disbursed	522	1,030
Disbursements	44	105
Total debt service	3	17
IFC (fiscal year)		
Total disbursed and outstanding portfolio	30	140
of which IFC own account	30	138
Disbursements for IFC own account	5	56
Portfolio sales, prepayments and repayments for IFC own account	1	13
MIGA		
Gross exposure	21	200
New guarantees	21	0

Note: Figures in italics are for years other than those specified. 2007 data are preliminary.
.. indicates data are not available. - indicates observation is not applicable.

4/21/09

Development Economics, Development Data Group (DECDG).

Annex 4 (cont.)

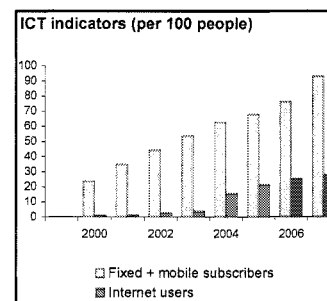
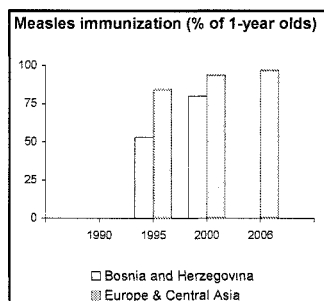
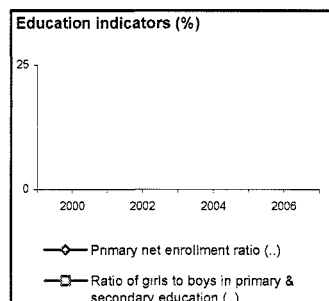
Millennium Development Goals

Bosnia and Herzegovina

With selected targets to achieve between 1990 and 2015

(estimate closest to date shown, +/- 2 years)

	Bosnia and Herzegovina			
	1990	1995	2000	2007
Goal 1: halve the rates for extreme poverty and malnutrition				
Poverty headcount ratio at \$1.25 a day (PPP, % of population)	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	19.5	..
Share of income or consumption to the poorest quintile (%)	..	..	9.5	..
Prevalence of malnutrition (% of children under 5)	..	..	4.1	..
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	..	..	..	..
Primary completion rate (% of relevant age group)	..	..	..	..
Secondary school enrollment (gross, %)	..	..	..	..
Youth literacy rate (% of people ages 15-24)	..	..	..	..
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	..	..	..	..
Women employed in the nonagricultural sector (% of nonagricultural employment)	36	..	..	..
Proportion of seats held by women in national parliament (%)	..	..	29	17
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	22	19	17	15
Infant mortality rate (per 1,000 live births)	18	16	14	13
Measles immunization (proportion of one-year olds immunized, %)	52	53	80	88
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	31	..
Births attended by skilled health staff (% of total)	97	..	100	..
Contraceptive prevalence (% of women ages 15-49)	..	..	48	..
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	0.1
Incidence of tuberculosis (per 100,000 people)	94	..	..	53
Tuberculosis cases detected under DOTS (%)	..	..	70	96
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	97	..	..	97
Access to improved sanitation facilities (% of population)	..	..	..	95
Forest area (% of total land area)	..	..	42.7	42.7
Nationally protected areas (% of total land area)	..	..	..	0.5
CO2 emissions (metric tons per capita)	1.6	1.2	6.2	4.1
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	..	3.6	4.6	4.7
Goal 8: develop a global partnership for development				
Telephone mainlines (per 100 people)	15.4	7.1	21.1	28.2
Mobile phone subscribers (per 100 people)	0.0	0.0	2.5	64.9
Internet users (per 100 people)	0.0	0.0	1.1	28.0
Personal computers (per 100 people)	..	..	3.9	6.4



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

4/21/09

Development Economics, Development Data Group (DECDG).

Annex 5

Bosnia and Herzegovina Social Indicators

	Latest single year			Same region/income group	
	1980-85	1990-95	2001-07	Europe & Central Asia	Lower-middle-income
POPULATION					
Total population, mid-year (millions)	4.1	3.3	3.8	445.1	3,437.1
Growth rate (% annual average for period)	1.0	-5.1	0.3	0.0	1.1
Urban population (% of population)	37.6	41.1	46.9	63.6	41.7
Total fertility rate (births per woman)	1.9	1.5	1.2	1.6	2.3
POVERTY					
<i>(% of population)</i>					
National headcount index	..	..	19.5	..	..
Urban headcount index	..	..	13.8	..	..
Rural headcount index	..	..	19.9	..	..
INCOME					
GNI per capita (US\$)	..	..	3,790	6,051	1,887
Consumer price index (2000=100)	..	..	..	159	144
Food price index (2000=100)	..	..	..	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	35.8	..	..
Lowest quintile (% of income or consumption)	..	..	7.0	..	..
Highest quintile (% of income or consumption)	..	..	43.2	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	5.2	4.1	2.0
Education (% of GDP)	..	..	..	4.6	4.7
Net primary school enrolment rate					
<i>(% of age group)</i>					
Total	..	79	..	91	90
Male	..	79	..	92	91
Female	..	79	..	90	89
Access to an improved water source					
<i>(% of population)</i>					
Total	..	97	99	95	88
Urban	..	99	100	99	96
Rural	..	96	98	88	82
Immunization rate					
<i>(% of children ages 12-23 months)</i>					
Measles	..	53	90	97	77
DPT	..	55	87	95	75
Child malnutrition (% under 5 years)	..	..	2	..	25
Life expectancy at birth					
<i>(years)</i>					
Total	71	64	75	69	69
Male	69	56	72	64	67
Female	74	73	77	74	70
Mortality					
Infant (per 1,000 live births)	23	16	13	23	41
Under 5 (per 1,000)	29	19	15	26	54
Adult (15-59)					
Male (per 1,000 population)	181	186	148	299	202
Female (per 1,000 population)	108	109	77	123	128
Maternal (modeled, per 100,000 live births)	..	..	3	44	300
Births attended by skilled health staff (%)	..	97	100	95	69

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.

World Development Indicators database, World Bank - 10 September 2008.

Annex 6
Bosnia and Herzegovina: Summary of Non-lending Services FY2008-2011

As Of Date 02/24/2009

<i>Product</i>	<i>Completion FY</i>	<i>Cost (US\$000)</i>	<i>Audience^a</i>	<i>Objective^b</i>
Recent completions				
Program Poverty Work	2006	129	Government	
Pension System Note	2006	133	Government	
FSAP Preparation TA	2006	38	Government	
PEIR	2006	292	Government	
Labor Market	2006	60	Government	
Pension TA	2006		Government	
CFAA-CPAR Update	2007	150	Government	
Road Safety Capacity	2007		Government	
Bosnia Policy Notes	2007	79	Government	
Rev. of Fin. Oversight	2007	78	Government	
Investment Climate	2008	146	Government	
Proxy Means Targeting	2008	93	Government	
Underway				
Social Safety Nets	2009	109	Government	
Poverty Assessment	2009	291	Government	
Strengthen Local Government	2009	235	Government	
Trade and Integration	2009	165	Government	
Planned				
Transport Sector Rev.	2010	100	Other	

a. Government, donor, Bank, public dissemination.

b. Knowledge generation, public debate, problem-solving.

Other planned :

- Macro Monitoring 2009-2011
- Poverty Monitoring 2009-2011
- REPARIS and supervision 2009-2011
- IFC Advisory services 2009-2011

Annex 7

Bosnia and Herzegovina: IFC Investment Operations Program

	2006	2007	2008	2009*
Original Commitment - Gross (US\$ m)**	34.0	43.0	41.0	-
Original Commitment - Net (US\$ m)***	34.0	43.0	41.0	-
Original Commitment (Net) by sector (%)				
Financial Markets	100%	27%	-	-
General Manufacturing	-	73%	84%	-
Health & Education	-	-	16%	-
Original Commitment (Net) by Investment Instrument (%)				
Equity	-	18%	-	-
Loan	100%	82%	100%	-

* as of January 31, 2009

** IFC plus Participation account

*** IFC's account only

Annex 7 (continued)

Bosnia and Herzegovina Committed and Disbursed Outstanding Investment Portfolio As of 01/31/2009 (In US\$ Millions)

Commitment Fiscal Year	Institution Short Name	LN Cmtd-IFC	ET Cmtd-IFC	QL+QE Cmtd-IFC	All Cmtd-IFC	All Cmtd-Part	LN Out-IFC	ET Out-IFC	QL+QE Out-IFC	All Out-IFC	All Out-Part
1999/ 2001/ 2008	Bosnalijek Cimos Bosnia	5.50 0.00	1.27 0.00	0.00 29.20	6.76 29.20	0.00 0.00	5.50 0.00	1.27 0.00	0.00 29.20	6.76 29.20	0.00 0.00
2007	EKI Bosnia	1.00	0.00	0.00	1.00	0.00	1.00	0.00	0.00	1.00	0.00
1998	Enterprise Fund	0.00	1.17	0.00	1.17	0.00	0.00	0.62	0.00	0.62	0.00
2008	Heart Center BH	5.44	0.00	0.00	5.44	0.00	0.00	0.00	0.00	0.00	0.00
2006	MI-BOSPO	0.66	0.00	0.00	0.66	0.00	0.66	0.00	0.00	0.66	0.00
2006/ 2007	Nova Banka	11.34	3.73	0.00	15.08	0.00	8.69	3.73	0.00	12.42	0.00
2002/ 2003	PBS-SPV	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2003/ 2004/ 2005/ 2006	Raiffeisen-BOS	39.79	0.00	0.00	39.79	0.00	39.79	0.00	0.00	39.79	0.00
1998	SEF Lignosper	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2007	Sisecam Bosnia	31.86	0.00	0.00	31.86	0.00	31.86	0.00	0.00	31.86	0.00
	UniCredit Bosnia	7.81	14.53	0.00	22.34	0.00	7.81	14.53	0.00	22.34	0.00
	Wood Kozara	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Wood Podgradci	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Portfolio:		103.39	20.70	29.20	153.30	0.00	95.30	20.15	29.20	144.65	0.00

Annex 8
Bosnia and Herzegovina: Selected Indicators of World Bank Performance^{*20}

As Of Date 04/21/2009

Indicator	2006	2007	2008	2009
Portfolio Assessment				
Number of Projects Under Implementation ^a	17	16	14	13
Average Implementation Period (years) ^b	2.7	3.1	3.4	4.0
Percent of Problem Projects by Number ^{a, c}	23.5	6.3	7.1	7.7
Percent of Problem Projects by Amount ^{a, c}	20.5	3.3	4.1	13.8
Percent of Projects at Risk by Number ^{a, d}	23.5	6.3	7.1	7.7
Percent of Projects at Risk by Amount ^{a, d}	20.5	3.3	4.1	13.8
Disbursement Ratio (%) ^e	18.0	15.4	13.1	13.2
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	45	14
Proj Eval by OED by Amt (US\$ millions)	876.9	212.5
% of OED Projects Rated U or HU by Number	11.4	15.4
% of OED Projects Rated U or HU by Amt	12.8	6.9

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- * All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

²⁰ 2009 disbursement ratio does not include Neretva GEF because it is a regional project (Croatia/BH) and not picked up by SAP.

Annex 9 Bosnia and Herzegovina: Operations Portfolio (IBRD/IDA and Grants)

CAS Annex B8 - Bosnia and Herz
Operations Portfolio (IBRD/IDA and Grants)
As Of Date 4/15/2009

Closed Projects 48

IBRD/IDA *
Total Disbursed (Active) 85.56
of which has been repaid 0.00
Total Disbursed (Closed) 801.39
of which has been repaid 19.25
Total Disbursed (Active + Closed) 886.96
of which has been repaid 19.25
Total Undisbursed (Active) 172.08
Total Undisbursed (Closed) 0.00
Total Undisbursed (Active + Closed) 172.08

Active Projects

Project ID	Project Name	Fiscal Year	Last PSR		IBRD	IDA	GRANT	Cancel.	Undisb.	Orig. Frm Rev'd	Difference Between Expected and Actual Disbursements ^{a/}
			Development Objectives	Implementation Progress							
P101213	AGR/RURAL DEVELOPME	2007	MS	S	21			18.32762	5.0837957	-1.29954	
P100415	AVIAN FLU - BA	2007	MS	S	5			4.174102	2.5885	2.038791	
P070995	COMM DEVT	2001	S	S	20			2.268561	-4.897351	-0.78718	
P090666	ECSEE APL3-BIH	2006	MU	S	36		0.03996134	36.4917	18.594982		
P087094	FOREST AND MOUNTAIN S	2008	S	S		3.4					
P079161	FOREST DEVT/CNSRV TA S	2003	S	S	7.09			2.210574	-1.692463	-0.832	
P088663	HLT SEC ENHANC	2005	MS	S	17			6.112948	5.8396699	5.722903	
P096200	LAND REGISTRATION S	2006	MS	S	15			12.02391	0.5153222		
P085112	QUALITY PROTECT (GEF) S	2005	MS	S		8.9		8.199295	7.9042947	1.273401	
P100792	ROAD INFRASTRUCTURE S	2008	S	S	25			25.38408	2.5833333		
P055434	SM SC COM AGRIC	2003	S	S	12			0.760802	-1.408199		
P057950	SOLID WASTE MGMT	2002	S	S	26			10.6663	-0.840069	2.627091	
P107998	Solid Waste Mgmt 2	2009	#	#	15			39.28451			
P083353	URB INFRA & SERV DEL S	2005	S	S	25			14.3717	5.2248735		
Overall Result					25	12.3	0.03996134	180.2761	39.496589	8.743462	

Annex 10
Bosnia and Herzegovina: Key Exposure Indicators
As of March 11, 2009

Indicator	Actual			Estimated			Projected		
	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total debt outstanding and disbursed (TDO) (US\$m) ^a	5632	5114	6383	7619	8705	8933	9109	9512	9726
Net disbursements (US\$m) ^a	6	112	284	345	1174	339	266	409	213
Total debt service (TDS) (US\$m) ^a	381	410	373	428	506	672	742	1041	1186
Debt and debt service indicators (%)									
TDO/XGS ^b	112.3	90.6	95.1	87.4	89.9	93.9	90.3	87.7	83.5
TDO/GDP	56.2	47.5	52.1	50.3	46.8	46.9	45.0	44.0	42.1
TDS/XGS	7.6	7.3	5.6	4.9	5.2	7.1	7.4	9.6	10.2
Concessional/TDO	45.6	53.9	40.9	38.2	34.4	33.5	32.9	29.5	28.6
IBRD exposure indicators (%)									
IBRD DS/public DS	24.1	29.1	27.2	30.0	30.2	19.0	16.9	16.7	16.7
Preferred creditor DS/public DS (%) ^c	64.9	84.9	84.2	78.9	69.9	59.9	62.2	64.6	63.3
IBRD DS/XGS	0.8	0.7	0.7	0.6	0.7	0.6	0.6	0.5	0.5
IBRD TDO (US\$m) ^d	481	507	444	449	417	408	413	418	423
Of which present value of guarantees (US\$m)									
Share of IBRD portfolio (%)	0	0	0	0	0	0	0	0	0
IDA TDO (US\$m) ^d	847	966	933	1030	1040	1058	1067	1070	1069
IFC (US\$m)									
Loans									
Equity and quasi-equity /c									
MIGA									
MIGA guarantees (US\$m)									

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

BOSNIA AND HERZEGOVINA

- SELECTED TOWNS
- ⊕ NATIONAL CAPITAL
- MAIN RIVERS
- MAIN ROADS
- RAILROADS
- DAYTON AGREEMENT LINES
- MUNICIPAL BOUNDARIES
- INTERNATIONAL BOUNDARIES

This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply, on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.

