



Report Number : ICRR0020669

## 1. Project Data

<b>Operation ID</b>	<b>Operation Name</b>	
P146740	BiH DPL	
<b>Country</b>	<b>Practice Area(Lead)</b>	
Bosnia and Herzegovina	Trade & Competitiveness	
<b>L/C/TF Number(s)</b>	<b>Closing Date (Original)</b>	<b>Total Financing (USD)</b>
IBRD-84360	31-Dec-2015	50,000,000.00
<b>Bank Approval Date</b>	<b>Closing Date (Actual)</b>	
03-Oct-2014	31-Dec-2015	
	<b>IBRD/IDA (USD)</b>	<b>Co-financing (USD)</b>
Original Commitment	50,000,000.00	0.00
Revised Commitment	50,000,000.00	0.00
Actual	42,492,510.23	0.00

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## 2. Project Objectives and Policy Areas

### a. Objectives

The Program Document (page 33) defined the program development objective of the Business Environment Development Policy Loan (BEDPL) for Bosnia and Herzegovina as: “to improve Bosnia and Herzegovina’s business environment through facilitating business startups, streamlining investment procedures in inspections and construction, and simplifying processes for cross-border trading”.



**b. Were the program objectives/key associated outcome targets revised during implementation of the series?**

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**c. Pillars/Policy Areas**

The BEDPL supported reforms in three policy areas (also termed “pillars”).

Pillar I – Facilitating Business Startups aimed to simplify the process and reduce the costs of starting businesses, including by simplifying the procedures for registering a business and reducing the costs of notary services. Bosnia and Herzegovina performed poorly in enabling business startups --- the country ranked among the lowest on the “Starting a Business Indicator” in the Bank’s and the International Finance Corporation’s (IFC’s) “Doing Business, 2013” report (162nd among 185 countries). Entrepreneurs registering a business faced 11 procedures, 23 days of processing time, and BAM (Bosnia Convertible Mark) 1,000 -1,500 in costs. The facilitation of business startups would create more firms and more jobs in the economy.

Pillar II – Streamlining Investment Procedures in Inspections and Construction aimed to improve the system for conducting business inspections and streamline the procedures for issuing construction permits.

Business inspections were not coordinated among the national, regional and municipal governments with the result that certain export products lacked certification for entry into the European Union (EU). The procedures for issuing construction permits lacked consistency and transparency, hurting small and medium enterprises with limited political connections. The country ranked among the lowest (175th among 189 countries) on the “Obtaining Construction Permits Indicator” in the “Doing Business, 2014” report.

Applicants for a construction permit faced 17 procedures, 170 days of processing time, and a cost of 1,100 percent of the country’s per capita income. Streamlining business inspections and construction permit issuance would foster private sector development.

Pillar III – Simplifying the Processes for Cross-Border Trading aimed to simplify cross-border trading, including by reducing the number of documents, the time, and the costs for obtaining licenses, permits, and approvals for export and import transactions in key sectors. Businesses spend US\$135.0 million annually to comply with complex export and import administrative procedures. Exporters applying for export permits in seven industries faced 240 procedures administered by 22 separate national, regional and municipal government agencies. Reducing export and import administrative costs would facilitate international trade and economic integration particularly with the EU.

**d. Comments on Program Cost, Financing, and Dates**

Program Cost: The cost for the program was EUR37.4 million (US\$50.0 million equivalent): EUR22.44 million (US\$30.08 million) for the program in the Federation of Bosnia and Herzegovina (the first of Bosnia and Herzegovina’s two “entities” or politically autonomous regions) and EUR14.96 million (US\$20.0 million) for the program in Republika Srpska (the second “entity”).



**Financing:** The IBRD financed EUR37.4 million (US\$50.0 million) of the program cost with a development policy loan (DPL) to Bosnia and Herzegovina. Bosnia and Herzegovina made EUR22.44 million (US\$30.08 million) of the loan proceeds available to the Federation of Bosnia and Herzegovina and EUR14.96 million (US\$20.0 million) to Republika Srpska under subsidiary agreements signed with the two “entities”. The amount of EUR31.78 million (US\$42.49) of the total DPL was disbursed.

To support the preparation and implementation of the BEDPL, the Bank and IFC provided grant-financed technical assistance (TA) to the Government that were separate from the BEDPL. The Bank TA was provided under the Investment Climate and Institutional Strengthening Project, supported by a recipient- and Bank-executed trust fund financed by the Swedish International Development Cooperation Agency (SIDA) in the amount of US\$4.89 million. The IFC TA was provided under the Bosnia Investment Climate Project, supported by a IFC-executed trust fund financed by SIDA in the amount of US\$2.8 million, by the Facility for Investment Climate Advisory Services (FIAS) Austrian Trust Fund in the amount of US\$210,000, and by client cash fees in the amount of US\$250,000.

**Borrower Contribution:** There was no counterpart funding from the borrower, Bosnia and Herzegovina.

**Dates:** The appraisal date was December 13, 2013 and the Bank Board approval date, October 13, 2014. All policy area actions were completed prior to the Board approval date. The effectiveness date was September 30, 2015. The closing date was December 31, 2015.

### 3. Relevance of Objectives & Design

#### a. Relevance of Objectives

The program development objective of the BEDPL was relevant to Bosnia and Herzegovina’s development priorities at the time of appraisal.

- Bosnia and Herzegovina, which had emerged from a peaceful twenty-year post-war reconstruction period with a functioning but complicated system of government, faced a new set of economic challenges following the general elections of 2014. The country had achieved much in the post-conflict transition period from 1995 to 2014 --- infrastructure destroyed by the war had been rebuilt, the framework for economic and fiscal management had been established, and macroeconomic conditions had been stabilized. Yet, serious challenges remained --- the public sector remained disproportionately large and inefficient, and the private sector was hampered by a poor business environment and other constraints, with the result that only half the working age population was economically active, unemployment was persistently high at 27 percent, and poverty remained intractable at 15 percent. The BEDPL reforms addressed these issues.

The program development objective continues to be fully aligned with the country’s current national development agenda, at the time of the BEDPL’s closing.



- The new Council of Ministers of the Bosnia and Herzegovina and the newly elected Governments of the Federation of Bosnia and Herzegovina and of Republika Srpska officially adopted in 2015 a medium-term “Reform Agenda for Bosnia and Herzegovina, 2015-18”. Representing a broad consensus among government and society on the country’s key priorities for development going forward, the plan focuses on structural reforms in six areas: public finance, taxation, and fiscal sustainability; the business climate and competitiveness; the labor market; social welfare and pension reform; the rule of law and governance; and, public administration reform.
- The legal, institutional, and policy reforms supported by the BEDPL exactly match those advocated in the business climate and competitiveness section of the “Reform Agenda” --- “adopting new laws on companies”; “simplifying business registration”; “expediting procedures for getting construction permits”; “facilitating exports by continuing inspections reform”; “strengthening quality control”; and, “listing para-fiscal fees to reduce them and make them more transparent”.

Similarly, the objective of the BEDPL, which was consistent with the goals of the Bank Group’s Country Partnership Strategy (CPS) for Bosnia and Herzegovina for FY2012-15, remained firmly aligned with strategic focus of the Bank Group’s Country Partnership Framework (CPF) for Bosnia and Herzegovina for FY2016-20.

- The Systematic Country Diagnostic (SCD) for Bosnia and Herzegovina, prepared before the CPF was submitted to the Board in 2015, concluded that the country could attain higher levels of income and eliminate poverty if it rebalanced its development model in two fundamental ways. First, the country needed to unleash the potential of the private sector while reducing the large footprint of the public sector. And second, it needed to shift from an inward focus driven by local consumption and imports to international integration anchored on investments and exports. To this end, the country needed more vibrant private enterprises, and a business environment that allowed firms to expand output, employment, and exports.
- The CPF for 2016-20 itself commits the Bank Group to support policies and investments in Bosnia and Herzegovina that are centered around three strategic objectives: increasing public sector efficiency and effectiveness; creating conditions for accelerated private sector growth; and, building resilience to natural shocks. Evidently, the objective of the BEDPL is aligned with the two strategies of the latest SCD and consistent with the first and second goals of the current CPF.

## Rating

Substantial

### b. Relevance of Design

The policy areas and their associated set of prior actions were consistent with the program development objective.

- The program development objective was clear and explicit: “to improve Bosnia and Herzegovina’s



business environment through facilitating business startups, streamlining investment procedures in inspections and construction, and simplifying the processes for cross-border trading”.

- The three policy areas --- “Facilitating Business StartUps”, “Streamlining Investment Procedures in Inspections and Construction”, and “Simplifying the Processes for Cross-Border Trading” --- exactly matched the elements of the program development objective.
- The set of prior actions for the first pillar --- enacting the amendments to the Business Registration Law in the Federation of Bosnia and Herzegovina and submitting the draft Company Law to parliament in Republika Srpska --- were consistent with the first policy area, and therefore supportive of the program development objective. Similarly, the set of prior actions for the second pillar --- enacting the new Inspection Law in the Federation of Bosnia and Herzegovina and enacting the Spatial Development and Construction Law in Republika Srpska --- and for the third pillar --- adopting regulations to streamline export and import procedures in the Federation of Bosnia and Herzegovina and Republika Srpska --- were consistent with the second and third policy areas and supportive of the program objective.

The causal chain in the Results Framework was convincing.

- Simplifying the process for registering businesses and reducing the costs of notary services would ease regulatory barriers to entry and facilitate business startups. Improving the system by which the government conducted business inspections and issued construction permits would enhance business activity and encourage investment. And simplifying the processes by which the government issued export and import licenses and permits would facilitate international trade.
- The combination of all three policy area outcomes would enhance the business environment in Bosnia and Herzegovina, attaining the primary development objective of the BEDPL.
- Moreover, an improved business environment would: enable private sector development, leading to greater output and more jobs, and, facilitate trade, enabling Bosnia and Herzegovina to integrate with the EU --- the overarching goals of the “Reform Agenda”.

The choice of the Development Policy Loan (DPL) as the financing instrument was appropriate for the reform program, as a DPL funds the implementation of policy reforms through budgetary support. The stand-alone structure afforded the Government the opportunity to score early legislative wins, which would then propel the reform initiative forward. The decision was politically insightful, considering Bosnia and Herzegovina’s complex governance structure and the difficult political environment prevailing at the time of program preparation.

**Rating**  
Substantial

#### **4. Achievement of Objectives (Efficacy)**



## **Objective 1**

### **Objective**

To improve Bosnia and Herzegovina's business environment through facilitating business startups, streamlining investment procedures in inspections and construction, and simplifying processes for cross-border trading.

### **Rationale**

The degree of achievement of this objective is assessed as Substantial.

The process for starting businesses was improved, with the initial business capitalization costs decreased and the business registration costs reduced

- The Government of the Federation of Bosnia and Herzegovina amended the Company Law in 2015, reducing the minimum capital required for a limited liability company from BAM (Bosnian Convertible Marka) 2,000 to BAM 1,000.
- The Government of the Federation of Bosnia and Herzegovina also amended the Business Registration Law in 2015 to update and streamline the business registration process, align the business registration law with recent taxation and statistics laws, and reduce business registration costs by 50 percent. Moreover, the Government issued a new regulation reducing notary tariffs.
- The Government of Republika Srpska adopted the one-stop-shop (OSS) approach to business registration. They created a registry of business entities, located within the Intermediary Agency for Information Technology and Financial Services (APIF) but linked through a unified information system to the courts, which retained the authority to register businesses. The new single registry replaced the separate systems previously kept by the courts, the Tax Office, and the Statistical Office.
- To implement the OSS, the Government of Republika Srpska passed amendments in 2013 to 13 laws including: the Company Law (to reduce the founding capital requirement for a new Limited Liability Company); the Law on Court Taxes and Fees (to eliminate the court registration cost for the first business registration); the Law on Administrative Taxes (to set the maximum fee for registering crafts); and, the Regulation on Notary Fees (to reduce the notary fee for a simple company registration).
- Following the completion of the foregoing “prior actions”, the process for registering businesses was simplified and the associated costs were reduced, as evidenced by results on the following six PDO indicators.
  - In the Federation of Bosnia and Herzegovina, the target to reduce both the business registration cost and the business registration time by 20 percent was exceeded. Based on data collected from all 10 business registration courts, 825 new companies saved BAM 1.016 million in registration costs. The savings amounted to 27.5 percent of the business registration cost of BAM 3.7 million in the baseline. The 825 new companies also saved BAM 0.62 million in time equivalent costs. The savings amounted to 47.7 percent of the time equivalent cost of BAM 1.3 million in the baseline.
  - The target to reduce the specific notary tariffs for startup businesses by 15 percent was also exceeded. Notary tariffs are no longer mandatory to the business registration process, where previously specific



startup notary tariffs amounted to BAM 175 to BAM 1,000.

- In Republika Srpska, the target to reduce the number of steps in the business registration process to five steps was met. The number of steps had been eleven in the baseline.
- The target to reduce the time to register a business to three days was also met. The number of days to register a business had been 23 days in the baseline.
- The target to reduce the initial capital requirement for a newly established Limited Liability Company (LLC) to BAM 1.00 was also exactly met. The capital requirement was previously BAM 2,000 in the baseline. Moreover, although not part of the target, the total cost for registering an LLC --- the sum of the cost of business registration, publication in the Official Gazette, and acquisition of a Court certificate, statistics number, tax registration receipt, and VAT registration receipt --- was reduced to an average BAM 250 from an average BAM 3,500 in the baseline.
- Finally, the target to reduce notary tariffs by 30 percent was exceeded. The amendment to the Notaries Law eliminated the tariff altogether. The tariff had been BAM 350 in the baseline.

The system for business inspections was improved and the procedures for issuing construction permits were streamlined, with the compliance costs reduced.

- The Government in the Federation of Bosnia and Herzegovina enacted a new Inspection Law in 2014, overhauling the system governed by the old Inspection Law of 2006, which also created the Federal Department for Inspection Affairs (FUZIP). The new law consolidated all business inspections by government in the FUZIP and created within FUZIP: a new Federal Food Inspectorate to meet EU accession requirements; a new Sector for Internal Control, and a new Sector for Border Inspections. The new law introduced a new risk-based business inspection system, provided mandatory checklists for inspectors, and pursued a program to train and certify inspectors.
- The Government in Republika Srpska passed a new Law on Spatial Development and Construction in 2013, streamlining the process for issuing construction and usage permits and providing for a more efficient administrative processing of infrastructure projects. The requirement to obtain a site permit for buildings of up to 400 square meters in area was waived, where a locality had previously adopted a spatial and zoning plan. The new law updated planning documents, replaced obsolete references to building standards, and updated rulebooks.
- Following the completion of the foregoing “prior actions”, the system for business inspections in the Federation of Bosnia and Herzegovina was improved and the procedures for issuing construction permits in Republika Srpska were streamlined, as evidenced by the results on the following four PDO indicators.
- In the Federation of Bosnia and Herzegovina, the introduction of risk-based business inspections reduced the inspections compliance costs by BAM 1.01 million, on costs of BAM 9.0 million in the baseline. Costs were reduced by 12 percent, exceeding the target of 10 percent (the accounting used the Compliance Cost Savings approach). The effectiveness of business inspections increased, but only by 13 percent, two percentage points short of the target of 15 percent. Data provided in the 2015 annual report of the FUZIP showed that the agency issued an average 350 certificates per day following the reforms, compared to an average 311 certificates per day in the baseline --- the improvement was 13 percent.
- In Republika Srpska, both targets for streamlining the procedures for issuing construction permits were



exceeded. Based on data provided in the 2015 annual report of the Ministry of Spatial Planning, Civil Engineering and Ecology (MoSPCEE), the time required to obtain individual construction permits was reduced to 15 days. The average time to obtain individual permits had been 45 days in the baseline. The target to realize direct and indirect cost savings of BAM 17.0 million annually from the implementation of the new Law on Spatial Development and Construction was also exceeded. The introduction of the new and simplified construction permit system yielded savings of BAM 18.1 million annually since.

The processes for cross-border trading were simplified, with the licensing, permitting and approval costs reduced

- The Government of the Federation of Bosnia and Herzegovina adopted a package of new export and import regulations in 2013, covering seven selected sectors: wood processing; machinery; electronic appliances; metal processing; dairy; meat and meat processing; and, fruits and vegetables.
- Similarly, the Government of Republika Srpska issued a decree to streamline export and import procedures in 2013.
- Following the completion of the foregoing “prior actions”, the processes for cross border trading were streamlined, with the costs reduced, although not to the extent targeted by the PDO indicator.
- In the Federation of Bosnia and Herzegovina, savings on direct and indirect costs for obtaining licenses, permits and approvals for exports and imports in the seven sectors amounted to BAM 1.2 million, on costs of BAM 19.2 million in the baseline --- the cost savings were 5.7 percent of the baseline (the accounting used the Compliance Cost Savings methodology).
- In Republika Srpska, the savings were BAM 0.7 million, on costs of BAM 27.8 million in the baseline --- the cost savings were 2.1 percent.
- Overall, the combined savings were BAM 1.9 million, on costs of BAM 47.0 million in the baseline --- the total cost savings were four percent, a percentage point shy of the target of five percent.

#### **Rating**

Substantial

## **5. Outcome**

The outcome for the BEDPL is rated as Satisfactory.

The relevance of program objectives is rated as Substantial.

The relevance of program design is also rated as Substantial.



The efficacy of the program is rated as Substantial.

**a. Outcome Rating**

Satisfactory

## **6. Rationale for Risk to Development Outcome Rating**

The risks to the sustainability of the development outcome of the BEDPL are assessed as Modest.

**Risk of Policy Reversal:** The risk that the BEDPL policies may be reversed is assessed as Negligible, because: (a) the policies are set in laws enacted by legislatures; (b) the reforms have had demonstrable beneficial results, in terms of simpler procedures and lower costs for businesses; (c) the policies have been carried over into a new medium-term structural reform agenda, approved by the newly elected state and “entity” governments; and, (d) the reforms are crucial to the country’s accession to the EU. In fact, the national and “entity” governments are broadening and deepening the reform program as illustrated by the following examples. The Government of Republika Srpska is proceeding with the second phase of the One Stop Shop (OSS) business registration process with the digitization of court archives, including that of the Banja Luka Court, which has the largest business registry archive in the region. The Government of the Federation of Bosnia and Herzegovina is planning to introduce the OSS system for business registration as well, following the successful implementation of the concept in Republika Srpska. The Sarajevo Canton Government is considering approving a new construction permit procedure, emulating the risk-based model introduced in Republika Srpska.

**Institutional Risk:** The risk that the institutional capacity built under the BEDPL may not be adequate to further advance the reform effort is assessed as Modest. The BEDPL strengthened the capacity of the Federal Department for Inspection Affairs (FUZIP) to act as the central regional agency for business inspections in the Federation of Bosnia and Herzegovina. But the FUZIP is facing challenges staffing some key positions in the organization and implementing the inspector training and certification program. A prolonged inability to address these issues will erode the institutional gains made under the BEDPL.

**Country Risk:** The risk that the complex system of government in Bosnia and Herzegovina --- that stemming from the division of the country between two politically autonomous “entities”, the Federation of Bosnia and Herzegovina and Republika Srpska --- may hurt the reform initiative going forward is assessed as Modest. The harmonization of institutions and the creation of a single “economic space” is generally considered to be ideal. However, the governments in both autonomous “entities” are aware of this risk and have so far clearly committed to continue strengthening their institutional capacity for good governance and deepening the business environment reform agenda in each of their jurisdictions. That the reform measures have been enacted in each of the “entities” provides some assurance that the reforms, embedded in the two governments, will likely survive. Moreover, the stronger case for Bosnia and Herzegovina to join the EU, through reforms that improve integration with EU countries, helps mitigate this risk.



**a. Risk to Development Outcome Rating**  
Modest

## **7. Assessment of Bank Performance**

### **a. Quality-at-Entry**

The Bank, and the Government, advocated reforms that were well informed by analytical work:

- The “Regulatory Impact Assessment of the Business Registration Process in Republika Srpska”, completed in September 2012, helped design the first “prior action” (enacting the business registration legislative package in Republika Srpska).
- The “Regulatory Impact Assessment of the Company Law in the Federation of Bosnia and Herzegovina”, completed in March 2013, helped with the second (drafting the new Company Law) and third (enacting amendments to the Business Registration Law).
- The “Firm-Level Analysis of the Crisis in Inspection Supervision”, completed in March 2013, and the “Final Report of the Food and Veterinary Audit”, submitted by EU in February 2012; helped with the fourth (enacting the new Inspection Law).
- The “Compliance Cost Savings Assessment in Construction Permitting”, completed in 2013, helped with the fifth (enacting the Spatial Development and Construction Law).
- The “Competitiveness Study of Three Value Chains in the Agribusiness Sector”, completed in December 2012; the “Final Report of Food and Veterinary Audit”, and, the study “Compliance Cost Savings Assessment of Export and Import Procedures”, completed in 2013, helped with the sixth and seventh (adopting regulations to streamline export and import procedures in the Federation of Bosnia and Herzegovina and Republika Srpska).

The Bank and the IFC provided wide-ranging technical assistance (TA) to the Government to help design the BEDPL. The Bank TA was extended to:

- the Government of Republika Srpska to assess the business registration system and help draft laws to implement the One Stop Shop (OSS) approach to business registration; and,
- the Government of the Federation of Bosnia and Herzegovina to help draft the new Inspection Law (the assistance was part of a multi-year TA project focusing on inspection supervision).

And the IFC TA was provided to:

- the Ministry of Energy, Mining and Industry in the Federation of Bosnia and Herzegovina to assess the legal framework governing business entry and to help draft the new Company Law;
- the Ministry of Justice in the Federation of Bosnia and Herzegovina to help amend the legal framework for business registrations, streamlining the process for registering new businesses;
- the Government of Republika Srpska to help draft the new Spatial Development and Construction Law,



focusing on the construction permitting process; and,

- the Governments of the Federation of Bosnia and Herzegovina and Republika Srpska to assess the export and import licensing processes in seven export industries.

The Bank was responsive to the political preferences of the Government. The Bank agreed to drop the fiscal component originally submitted for inclusion in the BEDPL due to weak political support for the proposal. The decision halved the loan amount to US\$50.0 million from an original US\$100.0 million. The Bank also agreed to a single DPL operation rather than a programmatic DPL series in view of the uncertain political situation in the country. Political coalitions in Bosnia and Herzegovina changed frequently in 2012 and 2013, resulting in a difficult political environment for any reform program. Moreover, the operation was prepared in the period leading up to the tension-filled general elections in October 2014. The BEDPL focused on institutional and policy reforms for which political commitment by the Government have been secured.

#### **Quality-at-Entry Rating**

Satisfactory

#### **b. Quality of supervision**

Given the short duration of the BEDPL --- three months from the declaration of loan effectiveness in September 30, 2015 to the closing of the loan account in December 31, 2015 --- and the completion of all the “prior actions” by the time of Board approval in October 3, 2014, there was no separate period of supervision for this operation, as would be the case for a standard investment financing operation or for a programmatic DPL series.

Following the declaration of loan effectiveness, the loan proceeds were disbursed in a single tranche and the loan was closed, following which the Bank team prepared the ICR. As these were the only activities during the period, the Bank’s performance rating would solely depend on whether and how these tasks were completed. Given that the loan disbursement and the loan closing were performed satisfactorily and the ICR is rated Substantial, Bank performance during this period is rated as Satisfactory.

#### **Quality of Supervision Rating**

Satisfactory

#### **Overall Bank Performance Rating**

Satisfactory

### **8. Assessment of Borrower Performance**

#### **a. Government Performance**

Collectively, the BiH Institutions were strongly committed to the development objective of the BEDPL. The BEDPL reforms were formally made part of the "Reform Agenda for Bosnia and Herzegovina, 2015-18",



officially agreed upon by the Council of Ministers of Bosnia and Herzegovina, the Government of the Federation of Bosnia and Herzegovina, the Government of Republika Srpska, and the country's ten cantonal governments in July 2015, leading up to the effectiveness of the BEDPL in September 2015.

The executive branches of the “entity” governments worked closely with their parliamentary bodies --- the House of Representatives and House of Peoples of the Federation of Bosnia and Herzegovina and the National Assembly of Republika Srpska --- to enact the laws, including amendments to existing laws, and to issue the regulations to implement the BEDPL reforms. Altogether, more than 20 laws and amendments to laws were passed by the legislatures.

To the Government’s credit, the country’s modest economic recovery in 2013 and its resilience in the face of the devastating floods of 2014 offered an enabling environment for the BEDPL. Five years after the global financial crisis of 2008-09, the economy staged a moderate recovery in 2013 (GDP grew 2.4 percent), spurred by a strong performance in manufacturing, a surge in exports, and an improvement in the current account, and supported by fiscal consolidation, monetary stability, and low inflation. Following efforts at fiscal consolidation beginning in 2010, the Government succeeded in reducing the fiscal deficit from 5.5 percent of GDP in 2009 to 2.0 percent in 2013. Despite the devastating floods of May 2014, GDP grew modestly by 1.1 percent in 2014 but rose rapidly to 5.5 percent growth in 2015.

The Government should be credited for ably shepherding the BEDPL reforms through the country’s highly complex system of government. Following the Dayton Peace Agreement of 1995, the country’s constitution provided for four levels of government: (a) at the Institutions of Bosnia and Herzegovina level; (b) at the “entity” level, two politically autonomous regions, the Federation of Bosnia and Herzegovina and Republika Srpska, with their own legislatures; (c) the Brcko District, part of both “entities”, as a self-governing unit; and, (d) within the Federation of Bosnia and Herzegovina, ten cantons, each with its own government and legislative assembly.

Overall, the Government implemented the business environment reform program, meeting the “prior actions” for the effectiveness of the BEDPL, in a difficult economic and political environment in 2012-15. Political coalitions in Bosnia and Herzegovina changed frequently in 2012-13 (political allegiances are usually based on ethnic identity). Devastating floods paralyzed a third of the country in May 2014 and inflicted damages estimated at 15 percent of GDP. And, the country faced a tension-filled general election in October 2014, with 65 parties and 24 coalitions fiercely contesting elective posts in the state, the two “entities”, and the ten cantons.

## **Government Performance Rating**

Satisfactory

### **b. Implementing Agency Performance**

The Ministry of Finance and Treasury of Bosnia and Herzegovina (MoFT), the Ministry of Finance of the Federation of Bosnia and Herzegovina, and the Ministry of Finance of Republika Srpska were the implementing agencies of the BEDPL.



The three implementing agencies collaborated closely with each other and with their respective Ministry of Justice (MoJ) to fulfill the “prior actions” of the BEDPL. They also coordinated the activities of seven other agencies implementing the reform program: the Ministry of Agriculture, Forestry and Water Management (MoAWF), the Ministry of Energy, Mining and Industry (MoEMI), and the Ministry of Trade (MoT) in the Federation of Bosnia and Herzegovina; and, the Ministry of Agriculture, Forestry and Water Management (MoAFW), the Ministry of Economic Relations and Regional Cooperation (MoERC), the Ministry of Trade and Tourism (MoTT), and the Ministry of Spatial Planning, Civil Engineering and Ecology (MoSPCEE) in Republika Srpska.

The staff of the implementing agencies were knowledgeable of the objectives and activities of the reform plan. Gaps in analytical and implementation capacity were addressed with technical assistance provided to the implementing and participating agencies by the Bank and IFC.

### **Implementing Agency Performance Rating**

Satisfactory

### **Overall Borrower Performance Rating**

Satisfactory

## **9. M&E Design, Implementation, & Utilization**

### **a. M&E Design**

The M&E design for the BEDPL, including the choice of PDO indicators, was consistent with the Results Framework. The indicators were specific and could be directly linked to the “prior actions” stipulated in the policy matrix. They were measurable, with the sources of data specified in the M&E plan. They were realistic and were time bound, designed to be measured at closing in end-2015.

The indicators had baselines (values in end-2012). To report cost savings, the implementing agencies used the Compliance Cost Saving methodology to compute the costs of complying with government regulations in the baseline, and the savings realized from complying with changed laws, rules, and regulations as a result of the BEDPL.

The M&E design called for the three implementing agencies to execute the M&E plan. M&E data were to come from official sources, including other agencies in the Federation of Bosnia and Herzegovina and in Republika Srpska participating in the reform program.

### **b. M&E Implementation**

The three implementing agencies of the BEDPL were responsible for the supervision and coordination of



M&E implementation. The participating agencies delivered M&E data adequately, using set reporting formats, and in a timely manner.

The agencies benefitted from analytical work supplied by the Bank to help fulfill some M&E tasks (see Section 7.a). In particular, the Bank assisted with the application of the Compliance Cost Savings methodology to measure the reductions in costs to enterprises from complying with the revised rules on business inspections and changed rules on export and import licenses and permits.

The Bank also closely monitored the Government's progress toward meeting the BEDPL "prior actions".

### c. M&E Utilization

The M&E data helped track progress not only with the BEDPL, but also with Bosnia and Herzegovina's "Reform Agenda, 2015-18". This was possible because the BEDPL reforms closely matched those articulated in the business climate and competitiveness section of the "Reform Agenda".

The M&E data were used to maintain the ongoing dialogue between the Bank, the IFC, and the Government on business environment reforms as well as on public sector reform and private sector development.

According to the ICR, the M&E data were used to develop parts of the Activities Framework for the Bank's "CPF for Bosnia and Herzegovina, 2016-20".

Moreover, the implementation of the M&E reportedly contributed to strengthening the participating agencies' capacity for M&E in general. In order to collect and analyze construction permit data, for example, the Ministry of Spatial Planning, Civil Engineering, and Ecology (MoSPCEE) in Republika Srpska started surveying municipal departments in the region for construction information. The exercise helped the MoSPCEE build capacity in the M&E of construction activities, beyond the requirements of the BEDPL.

### M&E Quality Rating

Substantial

## 10. Other Issues

### a. Environmental and Social Effects

Environment: The BEDPL was covered by a separate Bank Operational Policy --- OP 8.60. Under OP 8.60, because DPL proceeds are not designed to finance specific investments, it is assumed that there is no tangible investment footprint associated with the DPL. Hence, the safeguards policies and procedures governing environmental and social risk management in investment project financing are not suitable for the DPL. Instead the environmental and social requirements for DPLs are spelled out in OP 8.60, Paragraph 9:



Poverty and Social Impacts, and Paragraph 10: Environmental, Forests, and Other Natural Resource Aspects, which require the Bank to determine whether specific country policies supported by the DPL are likely to have significant poverty/social/environmental effects.

Following OP 8.60, the Program Document (PD) for the BEDPL (pages 27-28) made the following determination: “policies supported by the operation are not likely to have significant effects on the environment and natural resources in Bosnia and Herzegovina”. Measures advocated by the BEDPL to reform the construction permit system had protections against adverse environmental impacts of construction activities. Although the new Law on Spatial Development and Construction passed in Republika Srpska in 2013 simplified the procedure for issuing construction permits, it nevertheless required the construction permit system to include an Environmental Impact Assessment-based environmental permit that considered all the possible negative environmental impacts associated with a construction project, and the measures proposed to mitigate them.

#### **b. Fiduciary Compliance**

Procurement: The DPL proceeds were provided as general budget support to the Government and not earmarked for any agency or purpose. Hence, no special procurement requirements were issued (other than that the Bosnia Convertible Marka equivalent of the proceeds transferred to Government’s budget management system not be applied to finance expenditures in a negative list). No procurement issues arose either.

Financial Management: The ICR does not mention any financial management issue with the withdrawal of the loan proceeds, the deposit of the loan amounts in the Government’s budget management system, or the use of the loan proceeds. The ICR does not mention any financial audit being conducted either.

#### **c. Unintended impacts (Positive or Negative)**

The BEDPL has no unintended impacts.

#### **d. Other**

No other issues were raised by the ICR.

### **11. Ratings**

Ratings	ICR	IEG	Reason for Disagreements/Comment



Outcome	Satisfactory	Satisfactory	---
Risk to Development Outcome	Modest	Modest	---
Bank Performance	Satisfactory	Satisfactory	---
Borrower Performance	Satisfactory	Satisfactory	---
Quality of ICR		Substantial	---

#### Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

## 12. Lessons

Four lessons are drawn from the ICR (pages 20-21), with some adaptation.

One, ownership is crucial to the success of an institutional and policy reform program. Commitment to the BEDPL was secured at all levels of government in Bosnia and Herzegovina's complex system of government. The objectives and elements of the reform program have since been embedded in the new medium-term "Reform Agenda for Bosnia and Herzegovina, 2015-18", approved by the new political leadership in 2015. Business environment reforms could be broadened in a new Business Environment Strengthening Project being prepared for FY2018 for Bank financing. In all cases, strong government ownership of the reform objectives is propelling the program forward.

Two, political pragmatism and flexibility helps a reform program survive implementation challenges. The Government turned its focus on business environment and investment climate reforms after efforts at a fiscal expenditure reform initiative fell out of political favor. The BEPDL was subsequently developed in lieu of the cancelled Public Expenditure DPL series. A fiscal policy reform package, originally included in the BEDPL, was dropped for similar reasons --- a lack of political support for the program component. The DPL survived as a US\$50 million rather than a US\$100 million operation. Finally, the operation was scaled down to a stand-alone DPL in view of the difficult political environment prevailing at the time of program preparation. Political pragmatism kept the reform program intact.

Three, complementary technical assistance is often essential to the success of a development operation. The provision by the Bank and the IFC of technical assistance to the state and "entity" governments helped substantively with the design and implementation of the BEDPL. The Bank provided technical assistance on business registration law and business inspections law. The IFC provided technical assistance on trade facilitation, construction sector regulations, the new company law, and the decree on notary fees. The technical assistance packages, provided under separate projects and financed with grants (see Section 1.d), were doubly essential, considering Bosnia and Herzegovina's previous "poor track record in implementing structural reforms".



Four, more nuanced institutional analysis is necessary for development programs that straddle various levels of government. Reforms in the business inspections system could be better designed if the role of the canton governments in the Federation of Bosnia and Herzegovina are more thoughtfully considered, in addition to those of the Government of the FBiH. Similarly, reforms in the construction permit system could be better implemented if gaps in the operational capacities of some municipal governments in Republika Srpska are directly addressed. The roles of various levels of government, particularly of cantonal and municipal governments, are often not systematically analyzed in process reform initiatives.

### **13. Assessment Recommended?**

No

### **14. Comments on Quality of ICR**

The strengths of the ICR are:

One, the ICR is well written following OPCS guidelines, comprehensive in its presentation of the institutional and policy reforms, and concise in its accounting of the program results. The motivation for the business environment reform program is well explained. The unity of the reform plan with the national development agenda and the strength of the Government's commitment to the reform effort is well documented. The ICR (page 6) cites the close alignment of the BEDPL reforms with the "BiH Draft Strategy for Development and Social Inclusion, 2010-20", the Federation of Bosnia and Herzegovina's "Work Plan, 2011-14", and Republika Srpska's "Strategic Plan for Investment Climate Improvement". The ICR (page 11) also cites the inclusion of the BEDPL reforms in the medium-term program "Reform Agenda for Bosnia and Herzegovina, 2015-18".

The accounting of the program results --- the Results Framework Analysis (section F of the data sheet) --- is complete, well annotated, and concise.

Two, the assessment of the program objective is evidence-based, results-oriented, and candid. The evaluation focuses on the expected end-program outcomes, as evidenced by data on the eleven PDO indicators. Yet, the ICR goes well beyond a simple test of whether the indicator targets were met or not. Rather, the ICR engages in a full discussion (pages 13-16) of the results realized from fulfilling the prior actions, the progress made overall with the policy areas, and the outcomes achieved relative to the statement of the project objectives. The discussion is robust, comparing the end-program results with the data --- the number of regulatory procedures, the time to complete the processes, and the costs of compliance --- reported before the initiation of the reforms. Moreover, the discussion is candid, citing some gaps in the implementation of the reforms at the municipal government level.

Three, the analysis conducted by the ICR is detailed and insightful. To support the statement that the BEDPL was well informed by extensive analytical work covering various regulatory issues, the ICR (page 6) lists seven studies and reports that were used to help design the reform measures. And to support the statement that the BEDPL benefitted from complementary technical assistance (TA), the ICR (page 7) cites seven TA activities



contributed by the Bank and the IFC to the operation. The TA (see Section 7.a) were provided under separate projects supported by grant funds (see Section 1.d). The discussions of risks is thoughtful, with the ICR (page 8 and page 18) citing risks posed by Bosnia and Herzegovina's complex political and governance system on the implementation of the program and on the sustainability of the outcomes going forward.

One minor weakness of the ICR is that gives the impression that gains in Bosnia and Herzegovina's export earnings in the seven selected sectors from 2012 to 2015 (page 16) were largely due to the international trade regulatory reforms adopted under the BEDPL. Any attribution of the export results to the reforms, even a partial one, should be carefully qualified.

**a. Quality of ICR Rating**

Substantial