Statement by Jan Piercy
Date of Meeting: May 18, 2000

BOSNIA AND HERZEGOVINA - Country Assistance Strategy

Overview and Key Challenges:

1. We welcome the opportunity to discuss this Country Assistance Strategy for Bosnia and Herzegovina (BH) for the period 2000-2002 and commend Bank staff for the broad array of consultations with the authorities, donors and stakeholders that informed its preparation. This CAS reflects a pivotal shift in the Bank’s role in Bosnia, from the broad sectoral focus of reconstruction during the immediate post-war period, to deepening structural reforms and sustainable reconstruction in the previous CAS, to the current focus on poverty reduction through strengthened state-level institutions and governance, sustained, private sector-led growth and equitable social services. We share the view that only by developing a single economic space with a vibrant private sector will Bosnia generate the employment opportunities and inclusive growth to support this CAS’s overriding goal of reducing poverty.

2. We agree that Bosnia is now at a critical juncture in its postwar development. It must transition from massive donor aid flows for reconstruction to sustainable economic growth based on declining aid flows to the eventual achievement of creditworthiness and the institutional capacity to attract private investment. At the same time, it must create an equitable and affordable social safety net for those who do not immediately benefit from private sector-led growth. In order for Bosnia to make this transition to ownership of its economic agenda, it must implement structural reform -- privatization, anti-corruption, labor market flexibility -- to generate the growth and employment that will produce inclusive growth. It must also undertake in earnest the harmonization of laws and regulations between the Entities. We agree with the thrust and priorities articulated in the CAS to achieve these objectives.

3. We also strongly agree with the Bank’s assessment of the risks to Bosnia’s country program. In particular, internal opposition to Bosnia’s reform agenda has been and will continue to be a
major factor in the pace of policy reform and related implementation of the Bank’s lending program. We feel strongly that these risks warrant tough policy conditionality, particularly in structural adjustment operations. With respect to the external risk identified by the CAS, we believe that the Regional Stability Pact will help to maintain an external environment that supports Bosnia’s outlook.

4. Coordinated economic assistance by the donor community will also continue to be critical in achieving these reforms. We commend Bank staff for its strong coordination efforts in development and implementation of its lending program and urge Bank staff to continue its close coordination with donors and the Office of the High Representative in implementing its ongoing program. Going forward, we welcome the authorities’ plans to prepare their own Economic Development Strategy for 2000-2004, and are pleased to see that this EDS will include country performance indicators to measure progress toward development goals. We also look forward to the release of Bosnia's Interim PRSP in December, which will build on the findings of the EDS and expect this to lead to IMF approval of a PRGF next Spring.

5. We concur with the emphasis in this CAS on broad labor reform to achieve greater labor market flexibility and thereby spur employment opportunities. We concur with the need to achieve labor reforms that the Bosnian authorities can implement fully. This is especially important in a country such as Bosnia where institutional capacity is low and inter-Entity trust must be established. We are eager for the dialogue with civil society, including labor unions, to continue as labor reforms proceed. We welcome the Bank's cooperation with the ILO on labor reform agenda.

6. Although this CAS does not include a broad discussion of core labor standards (CLS), as called for in the IDA-12 replenishment, we note the intent to reduce gender discrimination mentioned in the CAS, and have learned in discussions with staff that a number of CLS have been addressed in the course of consultations with civil society, including labor unions. That said, we urge management to add a complete section, in accord with the IDA-12 replenishment agreement, that addresses CLS in the final CAS. We also urge that due consideration be given to the ILO's views on protecting CLS within the context of labor market reform.

7. We are pleased to see that an Anti-Corruption Diagnosis and Strategy is underway. We look forward to the results of this diagnostic exercise and would welcome more details from staff as to how these findings will be incorporated into subsequent credits.

Lending Program:

8. We share staff’s assessment that Bosnia continues to qualify as an IDA borrower for the current CAS period, although the past extraordinary level of IDA support will decline to levels comparable with other IDA borrowers as structural reforms begin to take hold, per capita incomes recover, and Bosnia’s post-conflict recovery continues. We also share staff’s hope and projection that Bosnia will achieve creditworthiness by the time of the next CAS in 2003. In this regard, is an objective of this CAS to graduate Bosnia to blend status?

9. We note that nearly 50% of the base-case lending scenario would be for adjustment lending. We certainly agree with the priority the Bank gives to achieving systemic structural reform in
Bosnia. We also agree that the Bosnian Government will continue to rely on budget support until structural reforms succeed in addressing their underlying fiscal gap. However, given ongoing concerns with governance, transparency of government operations, and lagging institutional capacity to effect these essential reforms, we want to be sure that the diagnostic building blocks exist to assure the effectiveness of these funds.

10. As indicated in the Bank's operational guidelines, a Public Expenditure Review (PER) is a basic building block of adjustment lending. Staff have told us about their close work with the government on improving public finance management through the FY98 PER and two PFSACs, through which a Medium-Term Expenditure Management exercise has been undertaken. We commend staff for these initiatives, and urge that their key content and their links to loan conditionality be incorporated into the revised and final CAS, in accord with IDA-12 guidelines. We welcome plans for a PER II in 2001, to identify an appropriate level of public spending with particular focus on effective targeting of social sector spending.

11. We also commend the social sustainability objective described in the CAS. Bank programs must support equitable growth for Bosnia. Therefore it is particularly important that as soon as institutional capacity makes it possible, a social assessment be undertaken to identify target populations, thereby ensuring that in setting conditions for future SALs, attention is given to the impact on the most vulnerable, with mitigation where needed. The social assessment will be an important contribution to designing an appropriate PRGF.

12. We generally support the content of the triggers described in the CAS. We find some of the case triggers vague (for example, we would prefer a more specific measure for satisfactory project implementation under minimum base case conditions). However, we expect that project conditionality will be strictly adhered to throughout the CAS period. Further, we expect this lending to be multi-tranched with backloaded disbursements. We support the reference to "progress on privatization" trigger for base-case lending. These divestitures will clearly support structural foundations of a market economy, including reducing political control and interference in economic activity and creating more stakeholders in Bosnia’s economic prosperity. Expectations must be clear to the borrower and objectively verifiable by the Bank.

Education Development Loan

13. We support the Education Development Loan, which the Board is considering in conjunction with the CAS. Existing school segregation inhibits the return of minority refugee families with children. Thus, international education assistance to BH should give high priority to school integration, as well as improve educational standards. There is no contradiction between these two mutually-reinforcing goals. We believe that successful implementation of the Bank’s loan will be an important element in our efforts to promote inter-entity coordination, and we urge the Bank to work closely with OHR, which has led the international efforts in education reform, to assure the maximum impact on school integration.