Board Meeting of August 6, 1998
Statement by Joaquim Carvalho

BOSNIA AND HERZEGOVINA - Country Assistance Strategy - Progress Report

We thank Management and staff for this concise update on the implementation of the Bank’s Country Assistance Strategy for Bosnia and Herzegovina (BH). On the whole, we are pleased to note the positive developments in the country, notwithstanding the difficult political and economic environment. IDA’s substantial contribution to the country’s economic recovery is worth noting. When the CAS was discussed last August, there was apprehension of the Bank acting alone. But what we see now suggests that there has been close cooperation among the different players, particularly the BH authorities, the Bank and the Fund.

The report indicates that the experience in implementing the CAS has been very encouraging, with progress made in meeting all benchmarks in priority development areas. We also note the progress made in various fronts hitherto; reconstruction tempo, positive economic growth, impressive macroeconomic performance, reduction in poverty level, decline in unemployment, and reopening of schools and health clinics. Nevertheless, the situation remains fragile.

The international community has also contributed substantially to the progress achieved so far, in close coordination and cooperation with the Bank Group. While we expect continued efforts by the international community during the post-conflict recovery period in BH, we hope that more attention would be directed at strengthening local capacity in various levels of government. We, therefore, welcome the proposed plan to ensure that the BH authorities are accorded an increased role in donor coordination. This will surely enhance client ownership of the development process.

On the State budget, we note with satisfaction the new financial arrangement between the State and other level of governments. However, we wonder whether the State is sufficiently equipped to deliver on the new role assigned to it. In this respect, we believe that the Bank should help in strengthening its capabilities. An area of concern that the progress report has not covered is the problem of refugees and displaced people. This group constitutes a large...
percentage of the population and therefore their voice must be heard to ensure sustainability of the peace process. Are we to assume that other development partners are addressing this problem? We would appreciate staff comments on this issue.

As the country transits from reconstruction and controlled economy to a market economy, the importance attached to private sector development is appropriate. In this respect, we welcome the passage of the legislation for privatization which paves the way for the establishment of privatization and bank supervision agencies. The new tariff policy and foreign investment law also provide substantial incentives to foreign direct investment. We commend both IFC and MIGA for their contribution in the implementation of this strategy. We applaud the innovative approach developed by the IFC to assist in the areas of small and medium enterprises and in the financial sector. MIGA's cooperation with BH's investment Guarantee Agency also deserves commendation. We expect that the momentum of the activities of both institutions will be maintained, particularly with their catalytic role in mobilizing the capital flows needed for private sector development.

Looking ahead, while we agree that the earlier the issue of credit-worthiness is settled, the sooner the country would be able to borrow from IBRD and the capital market, instead of continuing reliance on concessional aid flows which are steadily dwindling, we wonder whether this objective can be attained given the fact that the peace process is yet to take root.

Finally, we support the Bank's plan for FY99 of strengthening public finance management, private sector development in support of transition to a market economy, and deepening the sustainability of reconstruction. We believe that the adopted lending scenario is appropriate for meeting these objectives. We also note that the portfolio performance has been impressive, with most of the projects rated as satisfactory or highly satisfactory. We look forward to see a highly successful implementation of the current CAS.