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**INTERNATIONAL FINANCE CORPORATION**

**MULTILATERAL INVESTMENT GUARANTEE AGENCY**

**PERFORMANCE AND LEARNING REVIEW**

**OF THE COUNTRY PARTNERSHIP FRAMEWORK**

**FOR**

**BOSNIA AND HERZEGOVINA**

**FOR THE PERIOD FY16–20**

**December 28, 2018**

Western Balkans Country Unit  
Europe and Central Asia Region

International Finance Corporation  
Europe and Central Asia Department

The Multilateral Investment Guarantee Agency  
Economics and Sustainability Group

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The Country Partnership Framework was discussed by Executive Directors on December 15, 2015.

### **GOVERNMENT FISCAL YEAR**

January 1 to December 31

### **CURRENCY EQUIVALENTS**

Currency Unit = Convertible Mark (BAM)

1 US\$ = BAM 1.71858

(as of December 10, 2018)

### **WEIGHTS AND MEASURES**

Metric system

### **ABBREVIATIONS AND ACRONYMS**

ASA	Advisory Services and Analytics
BAM	BiH currency, the Convertible Mark
BiH	Bosnia and Herzegovina
CPF	Country Partnership Framework
DFID	UK Department for International Development
DPF	Development Policy Financing
DPL	Development Policy Loan
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECA	Europe and Central Asia
EHBS	Extended Households Based Survey
EIB	European Investment Bank
EU	European Union
EUR	Euro
FBH	Federation of Bosnia and Herzegovina
FDI	Foreign Direct Investment
FY	Fiscal Year
GDP	Gross Domestic Product
GEF	Global Environmental Facility
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
IPF	Investment Project Financing
MAP REA	Regional Economic Area Multi-Annual Action Plan
MFD	Maximizing Financing for Development
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro, Small and Medium Enterprises
NPL	Non-Performing Loan
PES	Public Employment Services
PLR	Performance and Learning Review
PPP	Public-Private Partnership

RE	Renewable Energy
RS	Republika Srpska
SCD	Systematic Country Diagnostic
SHPP	Small Hydro Power Plant
SIDA	Swedish International Development Agency
SME	Small and Medium Enterprise
SOE	State-owned Enterprise
TA	Technical Assistance
TF	Trust Fund
USAID	U.S. Agency for International Development
WBG	The World Bank Group

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**PERFORMANCE AND LEARNING REVIEW  
FY16–20 Country Partnership Framework  
BOSNIA AND HERZEGOVINA**

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## I. INTRODUCTION

1. **This Performance and Learning Review (PLR) assesses the implementation of, and presents the changes to, the World Bank Group Country Partnership Framework FY16-FY20 (CPF) for Bosnia and Herzegovina (BiH).** Since the CPF approval, the World Bank delivered five IBRD loans worth US\$321 million (one Development Policy Financing (DPF) operation, and four Investment Project Financing operations), or 43 percent of the originally planned lending program. The reform processes have slowed down due to shift of priorities during the period leading to local elections in 2016 and general elections in 2018, and the originally planned World Bank lending of US\$750 million will not be delivered in full. IFC's investments reached US\$13.2 million, with an additional US\$199 million facilitated in new private investments through advisory services engagements. The mentioned shift of priorities affected investment prospects, and IFC investment volume is expected to remain significantly below the original CPF envelope of US\$70 to 100 million. Since CPF approval, MIGA has issued four new guarantees in the financial sector supporting two new and two existing projects, with new commitments totaling US\$400 million.

2. **Despite the lower than expected lending volume, the CPF program has advanced significantly towards achieving its development objectives.** During the first years of the CPF, the World Bank DPF and Analytical Services and Advisory (ASA) supported strong reform performance by the Council of Ministers and entity governments in BiH and contributed to improvements in public sector efficiency, effectiveness, and service delivery. Throughout the CPF period, investment financing has contributed to significant improvements in economic infrastructure, and IFC advisory services have contributed to improvements in business environment. As a result, in spite of the lower than expected lending volume, 5 out of 20 CPF indicators have been achieved, 11 are still expected to be achieved before the end of the CPF cycle, and 4 indicators are off track.

3. **Important lessons are drawn from the CPF program implementation, including:**

- Readiness to take a “high risk/high reward” approach when reform commitment is strong, proved to be a sound principle of engagement in BiH at the beginning of the CPF cycle.
- Flexibility in deployment of the World Bank support has been critical. The World Bank has maintained support for structural reforms through targeted investment lending, analytic work, technical assistance, and continued policy dialogue when the pace of reforms slowed down.
- The experience supporting local public infrastructure and services (including water supply and sanitation), showed that shortcomings in financial and institutional capacity need to be addressed at a systemic level as these constraints hamper the ability of local governments<sup>1</sup> to operate and maintain public infrastructure and services.
- For IFC, it is critical to remain involved and pursue upstream reforms that will lead to market creation and enable a level playing field for the private sector. Cutting the red tape, regulatory consolidation in power, microfinance, insolvency, business registration, and investment policy and promotion are the examples of this approach.

4. **For the remaining part of the CPF cycle, the PLR proposes an increasing focus on addressing systemic deficiencies and a holistic approach to stimulate growth and jobs.** With regards to addressing systemic shortcomings, the World Bank will aim at working closely with authorities to enhance the long-term sustainability of municipal services and strengthening the performance of the health sector. The PLR also proposes supporting the growth and jobs agenda through targeted ASA, IBRD lending and IFC advisory to improve business environment and stimulate investments in key sectors such as agribusinesses, manufacturing and infrastructure. During the second

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<sup>1</sup> Local governments in this context mean municipalities in both entities in BiH, and cantons in the FBH.

half of the CPF cycle, the World Bank plans to support 3 new operations and provide additional financing for two ongoing operations for a total amount of US\$215 million.<sup>2</sup> This would bring the total World Bank commitments to US\$536 million or 71 percent of the originally planned commitments. IFC and MIGA will also continue to explore opportunities to support private sector development.

## II. MAIN CHANGES IN COUNTRY CONTEXT

5. **BiH's strong reform performance after adoption of the Reform Agenda has not been sustained.** The medium-term Reform Agenda was adopted in July 2015 by the BiH Council of Ministers, and Governments of the constituent entities, the Federation of Bosnia and Herzegovina (FBH) and Republika Srpska (RS), and Brcko District as the platform for structural reforms in BiH. The Reform Agenda has focused on six areas: fiscal sustainability and consolidation, business climate and competitiveness, labor market reform, targeting of social assistance and pension system reform, rule of law, and public administration reform. The WBG has been one of the lead partners in five out of six reform areas. Reform performance was strong during the first year of implementation with particularly significant advances made in the areas of fiscal sustainability, business climate, and labor market. The reform performance stalled ahead of local elections in October 2016 and has been slow thereafter.

6. **Meaningful progress with the Reform Agenda has been a key precondition for BiH's path to EU membership and IMF financing.** While progress has been slow, a notable milestone was achieved in February 2018 when BiH submitted responses to the European Commission's questionnaire on readiness for the EU candidate status. BiH also entered an International Monetary Fund (IMF) Extended Fund Facility (EFF) program in September 2016 and completed the first review of the program in February 2018. The arrangement with the IMF is currently off-track due to increase of public sector wage bill in the RS, and possible increase of veteran benefits in the FBH.

7. **Irrespective of the reform slowdown, the Reform Agenda continues to provide a framework for the WBG engagement in BiH.** During the PLR consultations, the BiH Council of Ministers, the Government of the FBH, and the Government of the RS reiterated continued commitment to the goals of the Reform Agenda.

8. **The elections provide an opportunity to renew the impetus of reforms, but delays in government formation pose a risk that this opportunity may be lost.** A record number of political parties competed in the general elections held in October 2018. While a rapid governments formation after elections and renewal of impetus for reforms are desirable, earlier experiences suggest that delays in governments formation are possible.

### A. Changes in Key Macroeconomic and Debt Developments

9. **BiH economy has been growing at 3 percent on average since 2017.** BiH experienced the beginning of a moderate economic recovery in 2013 when growth reached 2.4 percent. This was interrupted by the floods in May 2014 which impacted almost all sectors of the economy and slowed growth to 1.1 percent in 2014. The economy recovered in 2015 and since then it has been growing on average at 3 percent, mainly due to support from private consumption and to some extent investments.

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<sup>2</sup> The program estimate is based on confirmed areas of interest by the authorities. The World Bank will consider Fiscal Reform DPF, and investments in regional trade and transport facilitation, integrated program on Sava-Drina River Corridor, agriculture, and forestry sectors in case a strong demand for financing and commitment for reforms emerges in these sectors after elections.

Domestic demand remains the dominant driver of growth with consumption adding 3 percentage points, investment 0.8 percentage points and net exports subtracting -0.8 percentage points. Improved external demand has supported export growth, but a strong rise in imports is offsetting this momentum. With negative overall net exports, they are estimated to have subtracted from growth (-0.8 percentage points). See Annex 3 for summary of macroeconomic indicators.

**10. Unemployment remains high, and the structure of employment places a burden on the private sector.** Only 16 percent of the labor force is employed in enterprises, highlighting the size of economic burden on private sector (see Box 1 below). The unemployment rate fell from 25.4 percent in 2016 to 20.5 in 2017, driven by a fall in activity rate and a slight rise in employment. The decrease in unemployment was more pronounced among workers with only primary education (from 26 percent in 2016 to 18 percent in 2017), which is likely to have reduced poverty in 2017. In spite of these modest improvements, BiH is the only country in the Western Balkans that has not been able to reach employment levels observed before the financial crisis.

**Box 1: Jobs Challenge in BiH<sup>3</sup>**

**Social sustainability cannot be ensured without private sector jobs**

A small percentage of BiH citizens have jobs, few have formal jobs, and even fewer have private sector jobs. For every 100 BiH citizens (2017 LFS figures), 12 are under 15, 51 are inactive (20 of whom are over 65), and just 38 are in the labor force. Of the 38, 8 are unemployed, which means that only 30 are employed. Of the employed, 6 are self-employed and 1 works in a family business, leaving only 22 who are employees. Of these, based on estimates for 2015, around one third, or 7, work for the general government. This leaves only 16 out of 100 BiH citizens employed in enterprise sector. However, this includes people working in State Owned Enterprises. The proportion of people working in private sector is likely much lower. This highlights the size of the economic burden on private sector employees.

**11. Inflation has increased, but this has not had a major negative impact on the population.** After almost two years of deflation, inflation started to pick up in 2017, owing to the recovery of global oil price and imported inflation. In 2017 the consumer price index rose on average by 0.8 percent. The increase in consumer prices was due to a rebound of global energy markets and the increase in excise duties. Given limited growth in nominal salaries, higher consumer prices will most likely reduce the real incomes.

**12. Public revenues have increased, and expenditures decreased.** In 2017, the fiscal surplus reached 2 percent of GDP, up from a deficit of 0.3 percent in 2016. In 2017, revenues rose mainly due to stronger collection of indirect taxes while expenditures declined mainly because of continued restraint on current public spending. In 2018, as tax revenues continued to increase, the authorities have increased spending on wages, social transfers, and investments, and are expected to increase borrowing, causing a deficit of 0.5 percent of GDP. Irrespective of developments in 2018, the fiscal balance is expected to remain in surplus over the medium term. Total public debt in 2017 remained at 37 percent of GDP (external public debt was 27 percent of GDP) and consisted largely of concessional debt to international financial institutions.

**13. The economy is expected to continue growing, but the pace of growth is lower than the country's potential and the sources of growth are not sustainable.** Economic growth is projected to strengthen to about 4 percent by 2020, supported primarily by consumption and to some extent by public investment. A moderate rise in exports is expected, but these may be offset (as contribution to

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<sup>3</sup> From the World Bank ASA entitled "Bosnia and Herzegovina's Economic Journey: Through Peace and Transition to Prosperity"

growth) by strong demand for imports. Remittances are likely to remain stable, and, together with progress on reforms, are expected to underpin a gradual pickup in consumption, which is likely to remain a major driver of growth. Investments in energy, construction, and tourism are expected to support investment growth generally, as well as job creation in those sectors. Because of these dynamics, real GDP growth is projected to rise from 3 percent in 2017 to 3.2 percent in 2018 and to 4 percent in 2020. While this growth rate is positive, the growth drivers highlight that BiH still needs three major shifts: (i) from inward looking growth to export oriented growth, (ii) from public driven growth to private sector led one, and (iii) from consumption to investment. These three movements are necessary to unlock the potential of the country and enhance the sustainability and equity of growth going forward.

## **B. Changes to Poverty Reduction and Shared Prosperity**

**14. In a context of modest economic growth, BiH has struggled to reduce poverty and inequality.** Since the publication of the CPF a new round of the Extended Household Budget Survey (EHBS) has been made available, extending the available poverty series until 2015. According to this new data, 16 percent of the population in BiH were below the national poverty threshold in 2015. This is a slight increase from the 2011 estimate of 15 percent. Across entities, there was a small increase in the FBH (from 15 to 17 percent), but it remained stable in the RS (close to 14 percent). Inequality has remained constant in BiH between 2011 and 2015, at 33 Gini points. Since this data was collected, poverty is estimated to have decreased by around 2 percentage points, driven by labor market improvements.<sup>4</sup> While this is positive, it is still a slow pace in poverty reduction.

**15. Welfare along the income distribution deteriorated in 2011-2015 but is expected to have recovered slightly in more recent years.** Average household consumption in BiH fell by 0.8 percent annually between 2011 and 2015. This decrease was more pronounced among households in the top 60 percent (0.9 percent), but the bottom 40 also saw their level of consumption decrease, though to a lesser extent (0.5 percent). The more recent improvements in labor markets recorded in 2015-2018 (e.g. employment rates increased from 31.9 to 34.3) suggest that household consumption have recovered slightly, though the lack of welfare data after 2015 prevents from reporting an actual estimate.

**16. Increases in pensions and social assistance supported household income in 2011-2015.** Among the different income components, only pensions and social assistance played a meaningful role supporting consumption, avoiding what could have been otherwise an increase in poverty of 1.8 percentage points between 2011 and 2015. Pensions played a much more important role supporting consumption in urban areas, while social assistance (family and child benefit) equaled the importance of pensions in rural areas. Labor market related income components had a small poverty-increasing effect, but this effect is expected to have shifted to poverty-reducing in 2015-2018, in line with the improved performance of labor markets.

**17. Despite some recent improvements, youth in BiH faces considerable challenges for their participation in labor markets, sending a worrisome signal for the prospects of economic growth.** Only one out of three young people in BiH are in the labor force and, of these, less than half have a job.<sup>5</sup> This high level of unemployment and inactivity not only affects people now, but it also

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<sup>4</sup> The improvement in labor market indicators recorded between 2015 and 2018 suggests that poverty may have reduced recently. Simulations that replicate the fall in unemployment captured by the Labor Force Survey (LFS) show that this impact could account for a decrease of 2 percentage points in poverty.

<sup>5</sup> The youth (15-24 years old) report low levels of labor force participation (32.5 percent in 2017) and high unemployment rates (45.8 percent)

undermines their prospects of finding high-productivity (and better paid) jobs in the future. Moreover, those not in employment, education or looking for a job are 27.3 percent,<sup>6</sup> the highest in Europe behind Kosovo and Albania.<sup>7</sup> While these poor indicators reflect the inability of the youth to find jobs, more critically they also show that the pace of job creation in the private sector is well below what is needed to provide opportunities for the youth. This largely underpins the high pace of economic migration and is potentially the highest risk that the country faces – losing its human capital.

18. **BiH made progress in promoting equity between men and women, but gaps remain, particularly in access to economic opportunities.** Employment and participation in labor is substantially lower for women in BiH. This starts among the youth but remains throughout the life cycle. Unemployment rates are higher for women compared to men (23 versus 19 percent, respectively). Although this gap is narrower than in the previous three years, it remains wide (from 4.9 in 2015 to 3.1 in 2018). Gaps are observed in entrepreneurship as well, as only 24 percent of firms have a woman as manager and only 9 percent include female participation in ownership. [5] For those in the labor market, it is estimated that women earn 9 percent less than the average hourly wage of a male worker. Segregation in fields of study — where young women tend to concentrate more on certain areas such as health, education, and humanities and arts — also influences women’s labor market prospects. These outcomes are driven by persistent barriers and disincentives that women face and that require corrective policies.

### III. SUMMARY OF PROGRAM IMPLEMENTATION

#### A. Portfolio Performance Issues

19. **Portfolio quality and disbursement performance were sound at the beginning of the CPF cycle but deteriorated in FY17-18.** The World Bank portfolio currently consists of 10 investment projects with total commitments of US\$508.7 million (including US\$503.1 IBRD and IDA resources, and US\$5.6 GEF resources - see Annex 5 for details). As of December 2018, there is one problem project – Drina Flood Protection Project – resulting in 13.7 percent of portfolio commitments at risk. Disbursement performance was strong during the period FY14 - FY17 with disbursement ratio reaching 24, 23.7 and 30.8 percent respectively. But disbursement performance deteriorated in FY18 due to effectiveness delays (Banking Sector Strengthening), slow start of implementation upon effectiveness (Employment Support Project and FBH Road Sector Modernization), and slow disbursement of the problem projects. Disbursement performance is expected to improve in FY19 as mature projects are expected to continue with strong disbursement, problem projects will be restructured, and all projects in the portfolio will be effective and under implementation. FY19 disbursement ratio as of December 20, 2018 was 18.2 percent.

20. **Effectiveness delays remain a chronic problem in BiH.** On average, it takes 10.7 months from the project approval by the World Bank Board to effectiveness, and in some cases, this delay exceeds eighteen months.<sup>8</sup> While this delay is often related to the complexity of the approvals needed by various authorities in BiH, in practice, a project can reach effectiveness in less than three months.<sup>9</sup> This suggests that it is possible to rapidly meet administrative conditions for project effectiveness despite undoubtedly complex signing and ratification procedures at the entity and state level in BiH

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<sup>6</sup> 2017 LFS

<sup>7</sup> World Bank Group (2016) Ten Messages About Youth Employment in South East Europe. South East Europe Regular Economic Report, No. 9 S; World Bank, Washington, DC.

<sup>8</sup> The Banking Sector Strengthening Project was approved in April 2017 and declared effective in October 2018.

<sup>9</sup> The Floods Emergency Recovery Project was effective 2.5 months after approval.

which are often quoted as the main reasons for effectiveness delays. Working with the Governments in BiH, the World Bank team will map out all processes (on the World Bank and the Borrower side) during the project preparation and implementation. Such mapping would contribute to better preparedness for negotiations, improve implementation readiness, and help the Governments to manage processes that cause effectiveness delays.

**21. The World Bank teams will continue to focus on implementation readiness, and accelerated implementation.** Unresolved property issues have undermined the implementation of two projects in this CPF period (FBH Road Modernization Project and Drina Flood Protection Project). Going forward, efforts will be made to advance land acquisition ahead of project effectiveness to avoid delays. The recent experience under the Employment Support Project suggests that delays in forming the implementation teams and completing the project operations manual lead to effectiveness and implementation delays. The Bank teams will continue to work with counterparts to address these shortcomings aiming to have clear staffing structure of implementation agency and draft operations manuals ready by negotiations. Unplanned staffing changes were made in two projects (Floods Emergency Recovery Project in the RS, and Energy Efficiency Project in the FBH), and temporarily affected performance of these otherwise highly satisfactory operations. These factors have translated into implementation delays, often requiring project extension (all projects that were closed over the past two years had multiple extensions). The World Bank, the Ministry of Finance and Treasury, the FBH Ministry of Finance, and the RS Ministry of Finance will conduct regular quarterly and in-depth annual portfolio reviews to proactively address emerging portfolio issues.

**22. During the CPF, IFC's investments reached US\$13.2 million in long-term funds, with an additional US\$199 million facilitated in new private investments through advisory work.** IFC's own account investments have been limited due to a number of constraints. Most notably, the relatively low demand in the financial sector, as a result of banks' excess liquidity; limited progress on key structural reforms to unlock the potential of the private investments; and a complex political environment has weighed on the economy, business climate, and investor sentiments. In the real sector, IFC committed US\$8.5 million to Sisecam Soda Lukavac, the BiH soda ash producing subsidiary of the Sisecam Group, one of the largest glass producers in the world. IFC's investment in Sisecam Soda Lukavac helped increase energy and resource efficiency and productivity in production processes resulting in reductions in CO2 emissions. IFC provided US\$4.2 million to Mostar-based UniCredit Bank to support its lending activities for energy efficiency and renewable energy projects, leading to increased access to finance of households and SMEs while promoting energy efficiency. Additionally, through targeted corporate governance, resource efficiency, and regulatory level reform interventions, IFC Advisory Services facilitated US\$199 million of private sector investments. Although direct lending volume remained below the original CPF envelope, IFC's main impact in BiH has been primarily based on a strong advisory program aimed at promoting an enabling environment, and providing much needed support for reforms and institutional capacity building in critical areas. Main areas of Advisory Services support include insolvency, NPL resolution, corporate governance, investment climate, FDI promotion, trade facilitation, renewable energy and energy efficiency, and access to finance.

**23. MIGA's gross outstanding exposure in BiH reached US\$421 million as of December 25, 2018 in support of four projects in the financial sector.** In 2016, MIGA issued two guarantees for two new projects totaling US\$248 million covering the equity investments by UniCredit Bank AG of Austria, and UniCredit S.p.A. of Italy in their respective subsidiaries in BiH, against the risk of expropriation of funds held at the Central Bank of BiH. In March 2018, MIGA issued a US\$141 million guarantee covering the equity investment by Raiffeisen Bank International AG in its subsidiary in BiH also against the same risk of expropriation of funds held at the Central Bank. In July 2018, MIGA

issued a US\$10 million guarantee covering the equity investment by ProCredit Holding AG of Germany, in its subsidiary in BiH also against the same risk of expropriation of funds held at the Central Bank. These MIGA guarantees will free up equity held at the parent banks to protect against perceived BiH country risk thereby facilitating the subsidiaries' ability to extend more credit, and with it the potential to stimulate growth and employment in BiH.

## **B. Corporate Priorities (citizen engagement, climate change, gender, MFD)**

**24. Since 2014, when the Citizen Engagement (CE) corporate requirements were introduced at the WBG, efforts were stepped up to embed CE in all IPFs in the BiH portfolio.** While the country has now reached 100 percent compliance for CE, the portfolio has struggled with quality and with the level of implementation of CE mechanisms. Of those projects that have included CE activities, 50 percent enable citizens to provide feedback at least annually and only 25 percent make available more than one CE mechanism. The portfolio largely relies on rather passive mechanisms, such as Grievance Redress Mechanisms and satisfaction surveys, which do not provide an opportunity for direct interaction or active engagement. During the remainder of the CPF period, specific actions are planned to improve the quality and strengthen implementation of citizen engagement, including: (i) shifting from passive to active CE tools in the BiH portfolio which encourage more dialogue and a state/non-state interface, (ii) linking the implementation of CE activities to more open and frequent reporting of results, (iii) taking corrective action on projects facing CE challenges, and (iv) identifying CE country priorities in a CE country roadmap linked to CPF objectives (see Annex 4 for details).

**25. Climate co-benefits<sup>10</sup> analysis of the proposed projects in the second half of the CPF cycle suggests that over a third of financing carries climate mitigation or adaptation co-benefits.** Proposed additional financing operations, and new investments in road modernization and water and sanitation services are expected to carry over one third of climate mitigation or adaptation co-benefits.

**26. The CPF program focused on gender equality and services to the most vulnerable but the gaps still persist.** Recognizing “social inclusion” as a cross-cutting theme of the CPF, much progress has been made in the diagnosis of gender barriers over the past years, due to a large body of analytical work produced under a gender-focused Trust Fund program. Findings show that women face lower access to assets such as property and finance. Constraints embedded in labor regulation affect women's employment opportunities. Limited access to services that support economic participation such as child and elder care present another constraint. This analysis is feeding into the World Bank dialogue on access to finance in BiH, whereas at the regional level the World Bank is advocating a regional engagement aimed at addressing the above identified structural constraints and increasing cross-learning and monitoring. On the lending side, while all approved projects were gender informed, this has not led to significant outcomes in narrowing gender gaps. For example, in case of the RS Railways Restructuring project – the workforce retrenchment plan aimed to maintain the current 85 percent male to 15 percent female employee ratio rather than attempting to narrow the gap. On a positive side, Energy Efficiency Additional Financing operation included strong gender analysis and devised actions to help close skills gaps in the area of energy efficiency.

**27. Public sector dominates the economy, hence there are limited opportunities for the private sector development in BiH.** Therefore, through focus areas 1 and 2 by tackling governance of SOEs and improving the use of public resources and competitive business environment, the CPF

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<sup>10</sup> Climate co-benefits tracking determines a portion of project's financing that carries climate mitigation or adaptation co-benefits.

aims at addressing maximizing financing for development (MFD) binding constraints. The program targets investments in public goods in such sectors as energy, infrastructure, water, trade, and finance, which are essential for strengthening the enabling environment for private sector financing. Most promising results in terms of specific MFD enabling investments were demonstrated in the energy sector. Both IBRD and IFC have been working on supporting energy market improvements that can lead to country's longer-term energy self-sustainability, especially through increased reliance on renewable sources. Over the next two decades BiH can develop new renewable energy (RE) facilities (hydro, wind and solar) worth US\$1.5 billion if conditions are created to encourage private sector developments. IFC has helped with drafting the new RE laws, worked on increasing private sector participation in small-scale projects, and advised financial institutions on strengthening their risk management practices for the RE sector. As result of these activities, IFC facilitated close to US\$161 million of investment in small hydro, solar, and bio mass projects. IBRD and IFC technical teams jointly developed the Power Note that describes various scenarios of power sector development and sustainability focused on meeting country's climate targets. Both organizations have also started working together on the Drina river basin program to systematically create conditions for RE development at a larger scale while addressing flood prevention and biodiversity preservation. Additionally, BiH scores low on overall energy efficiency, and IBRD has prepared the Energy Efficiency AF project, scheduled for the Board in October 2018. The operation is designed to mobilize commercial solutions in the medium-term to scale up financing mechanisms beyond concessional financing. IFC, MIGA and IBRD teams will continue to systematically pursue the MFD potential in the energy and other key infrastructure sectors.

### **C. Evolution of Partnership and Leveraging**

28. **The WBG has supported implementation of the Reform Agenda with high level of alignment and cooperation with development partners.** In addition to support to the Reform Agenda, the World Bank closely collaborated with the EU in areas such as public finances, public sector management reform, waste water treatment, solid waste management, and agriculture. The IMF has been a close partner in strengthening public finances. Going forward, the World Bank and the IMF plan to provide additional technical assistance to the FBH Government aimed at taking stock of arrears and developing an action plan to prevent further accumulation and reduce the amount of public sector arrears in the FBH. In the transport, energy, and environment, the WBG will continue to explore partnerships with the EBRD, EIB, and the EU. Close collaboration is also visible in areas of transport where the World Bank cooperates with the EBRD, EIB and EU, but also in energy and environment. Swiss Development Cooperation remains the key development partner in the health sector, whereas SIDA and USAID will be closely consulted during preparation of the Water and Sanitation Services Modernization project. Concerning cooperation with Civil Society Organizations, more regular dialogue will be conducted during the remaining part of the CPF cycle to further improve understanding of reform processes and benefits of reforms in key sectors.

29. **In support of the Reform Agenda, and in particular its focus on restarting privatization process, IFC worked in close collaboration with IMF.** In the context of the IMF's Extended Fund Facility program, BiH authorities requested IFC assistance in completing a detailed due diligence as a basis for future privatization of BH Telecom, the largest telecom operator in the country, and 98 percent owned by the FBH government. However, the FBH Government could not commit to start a privatization process, and therefore was unable to sign any mandate for engagement with IFC to start this process.

30. **UK DFID/Good Governance Fund, the Swiss Government/SECO and the EU were the lead partners of the WBG in the areas of investment climate, and access to finance.** Specifically, IFC partnered with these development partners in the following programs: Local Investment Friendly Environment (LIFE), Investment Climate Advisory Project (ICAM), and Debt Resolution and Business Exit. Swiss Government/SECO continued to support IFC efforts in the microfinance sector through a country-based project. In parallel, it has provided funding to strengthen the financial market through trainings and other outreach activities under the umbrella of the regional advisory program in selected ECA countries, including BiH. IFC launched its Western Balkans Investment Policy and Promotion Project in collaboration with the European Commission. The project aims at unlocking higher levels of foreign direct investment, spur economic growth and promote job creation across the region. ECA Energy and Water program and recently approved ECA Power program (expanded from the Balkans Renewable Energy program) are implemented with support of the Austrian Federal Ministry of Finance. A total of 14 advisory projects were approved or active during reporting period. Seven projects had country specific allocations of US\$18 million, while the other six operated under regional umbrella platforms. It is estimated that approximately additional US\$5 million was allocated to BiH through regional platforms.

#### **D. Overview of Progress toward Achieving CPF Objectives**

31. **The design of the CPF Result Framework partially contributed to relatively solid performance against the CPF indicators despite stalled reforms.** The original CPF Result Framework largely reflected targets that were attainable during the first two years of the CPF cycle from mature operations, and Public Finance DPL, preparation of which was underway at the time of the CPF preparation. Recognizing the risk of reform slowdown, the CPF Result Framework was based on expectation that reform progress will be uneven during the CPF cycle. Consequently, the analysis of CPF indicators suggests stronger than expected progress considering the stalled reform process (see Table 1 below and Annex 1 for details). For example, targets in Focus Area 1: Increasing Public Sector Efficiency and Effectiveness appear largely on track although the reforms have stalled and the authorities in BiH showed little appetite for additional budget support over the past two years. The PLR introduced changes to the CPF Result Framework to align it with the planned engagement during the remaining part of the CPF cycle.

Table 1: Overview of Progress against CPF Indicators

CPF Focus Area	Achieved	On track	Off track
<b>Focus Area I: Increasing Public Sector Efficiency and Effectiveness</b>	0	4	2
<b>Focus Area II: Creating Conditions for Accelerated Private Sector Growth</b>	2	5	2
<b>Focus Area III: Building Resilience to Natural Shocks</b>	3	2	0
<b>TOTAL</b>	<b>5</b>	<b>11</b>	<b>4</b>

32. **In this context, the CPF is on track to meet its relatively modest objectives and remains aligned with the BiH Reform Agenda.** Based on the Systematic Country Diagnostic (SCD) priorities, and the BiH Reform Agenda, the CPF was designed around three pillars focusing on public sector efficiency, private sector growth, and resilience to natural shocks. Relatively stable performance of investment operations carried forward from the previous cycle, results of the World Bank development

policy financing (Public Finance DPL), and a strong engagement in technical assistance<sup>11</sup> and IFC advisory services have all contributed to attainment of CPF objectives. Investment projects approved during the first half of this CPF cycle (Federation Road Modernization, Employment Support Project, RS Railways Restructuring, and Banking Sector Strengthening) are expected to contribute to CPF objectives in the second half of this CPF cycle.

**33. In Focus Area 1, the CPF program is largely on track to achieve targets in increasing public sector efficiency, while important governance shortcomings were observed in public service delivery.** Public Finances DPF and strong ASA program strengthened management of public assets and liabilities, and improved transparency of public finances by supporting adoption of the Medium-Term Debt Strategy, Public Investment Programs at the state and entity levels, and introduction of reporting requirements on arrears for budget users in the FBH and health sector arrears in the RS. The Bank program also helped contain fiscal pressures by addressing structural challenges in pensions through new pension law in the FBH, public employment and public enterprises through reforms of the labor law, new bankruptcy procedures, and adoption of regulation on pricing of pharmaceuticals. Overall, whereas planned extensive DPF engagement did not materialize, strong ASA engagement contributed to progress against CPF indicators. For example, only for the CPF objective 1, seven different pieces of technical assistance and analytical work were delivered over the past two years, and six are currently ongoing. The program was less successful in reducing the fiscal burden of State-Owned Enterprises (SOEs), as the FBH Government's resolve to address this risk on fiscal health has weakened. Nevertheless, the Bank has helped reduce budgetary burden of SOEs in the RS by providing financing for restructuring of the RS Railways. Through the work on RS Railways, and substantive analytic work (SOE Diagnostic Note, and Policy Note on Railways Modernization), the World Bank has provided important inputs for improved transparency and better management of SOEs and paved the way for better informed policy making, and possible future engagement in this area. Mixed results were achieved in improving public service delivery. The Bank temporarily discontinued preparation of a lending operation in the health sector in recognition that the obstacles hampering the efficiency of the sector are not related to financing but to shortcomings in terms of strategic direction and governance; but policy dialogue and technical assistance in this sector have continued. While solid progress has been made in improving waste water services, sustainability of outcomes is uncertain as financial and operational sustainability of assets after project closure has been inadequate due to financial and governance constraints.

**34. In Focus Area 2, the WBG program has been on track to achieve targets related to competitive business environment and economic infrastructure, and less successful in improving employment opportunities.** There has been some progress in improving the business environment, however the country's Doing Business ranking has continued to deteriorate due to a depth and pace of business environment reforms that is much lower than that of peers. In financial sector, there has been considerable progress towards implementation of actions needed to enhance financial stability<sup>12</sup>. On economic infrastructure, noteworthy advancements were made in upgrading energy efficiency of public buildings and increasing renewable energy generation. On employment, despite effectiveness delays, the Employment Support Project is expected to support achievement of objectives related to

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<sup>11</sup> 23 different ASA products were completed in the first half of the CPF cycle and 18 are still ongoing.

<sup>12</sup> Actions followed recommendations from the World Bank's Financial Sector Assessment Program completed in 2015 and, include improvement in the areas of bank supervision and resolution aiming at strengthening financial oversight and safety net. The World Bank's technical assistance has supported enactment as well as implementation of a solid legal framework for banking aligned with EU requirements; and supported the authorities in conducting a Money Laundering/Terrorist Financing National Risk Assessment and developing an action plan based for the prevention and mitigation of money laundering and terrorism financing risks.

promoting and improving labor market outcomes. Some progress has already been made in this area, including two rounds of amendments to the labor law on collective bargaining, severance pay, and minimum wage, and new law on reduction of social security contributions.

35. **The CPF program achieved limited success in sustaining and creating jobs through direct real sector investments.** IFC financing for MSMEs in BiH helped more than double its client banks' outstanding MSME portfolio, resulting in indirect job creation. IFC completed three repeat investments with real sector clients and helped sustain existing jobs, though with limited impact on new job creation. An important development for IFC has been the PPP Advisory mandate for the Corridor 5c, a European route that connects Budapest with the Adriatic Sea, with an estimated investment volume of EUR400 million. Completion of this road section as a PPP concession is still unclear as progress had been delayed by the authorities due to elections. IFC's Debt Resolution and Business Exit program made progress in improving insolvency framework in BiH. The new Bankruptcy Law enacted in the RS in 2016 has already helped resolve 51 insolvency cases valued at US\$50 million. As a result, 600 jobs have been saved, which were at risk in ailing companies. Through its Investment Climate Advisory Project, IFC provided support for the development of five laws, focusing on improving operating environment for SMEs in tourism and agri-business value chains. These draft laws are currently pending for approval by the entity governments or parliaments. Western Balkans Investment Policy and Promotion Project supported the design and adoption of the Regional Economic Area Multi-Annual Action Plan (MAP REA). The plan will serve as the major roadmap for investment policy cooperation among the Western Balkan countries over the next 3-5 years. Besides notable achievement in cost savings to businesses, IFC's Local Investment Friendly Environment (LIFE) Project made significant strides towards more transparent and predictable business environment. It helped institute twelve public electronic registries for business procedures and thirteen inventories of investment incentives. IFC, through its Microfinance Bosnia Advisory project, is helping the FBH Banking Agency with the development of five new laws and policies. These will be critical for the consolidation of the market while also providing institutional and operational capacity support.

36. **In Focus Areas 3, the CPF program was successful in preventing degradation of natural resources and achieved mixed results in building resilience to natural shocks.** Targets related to sanitary landfills, sustainable land management have been already achieved, whereas targets related to management of hot spots and water resources management are on track to be achieved by the end of this CPF cycle. Noteworthy progress was made in supporting rehabilitation of regional and local infrastructure after catastrophic floods in 2014. The CPF program has been less successful in building resilience to floods along Drina river where unresolved property issues threaten to halt the project implementation in the RS, and targets will need to be significantly revised. BiH benefited from the regional projects aimed at building resilience to natural shocks (Drina GEF Special Climate Change Fund project). The Western Balkans Investment Facility TA for Joint Management of Sava River supported development of a regional platform for Flood Forecasting and Warning System. As stated earlier, institutional and financial capacity to operate and maintain infrastructure has proven problematic in BiH and will need to be addressed during restructuring of the existing and preparation of new operations.

#### IV. EMERGING LESSONS

37. **The World Bank was flexible in aligning its instruments to the reform commitment.** The CPF design took into consideration the lessons from earlier periods of strong support to structural reforms in BiH which suggested the need to continuously assess political commitment for reforms, align complexity of operations with institutional capacity in BiH, and maintain flexibility to adjust the

engagement<sup>13</sup>. The CPF correctly recognized the reform momentum in 2015 upon adoption of the Reform Agenda. Indeed, early reform efforts supported by the WBG through DPF and strong ASA support delivered positive results in pushing forward long overdue structural reforms in the labor market, public sector finance, and business environment. As the pace of reforms slowed, the World Bank used investment lending to support corporate restructuring and employment support, while continuing provision of ASA support. Going forward, factors such as lower than expected pace of reforms and low interest for budget support in light of fiscal surpluses are likely to reduce the need for DPF as a source of financing and an instrument to support policy reforms. The World Bank will remain actively engaged with the authorities through investment lending, ASA and policy dialogue in key sectors, and use these instruments to support policy reforms.

**38. The World Bank needs to continue actively supporting the improvement of the efficiency of SOEs.** The recent experience of the RS Railways Restructuring Project suggests that it is possible to support structural reforms, improve transparency and reduce budget burden from SOEs through well designed investment operations. ASA on Balkans Digital Highway also provided important lessons on avenues for SOE efficiency improvements. For example, in case of the SOE “Elektroprenos” Banja Luka, annual revenue could be increased by 3 to 5 percent by more efficient use of spare fiber optics capacity, 80 percent of which was unused as the time of assessment. Going forward, there will be continued engagement on the SOE agenda through ASA work, policy dialogue with the authorities and in cooperation with development partners (IMF, EU).

**39. Enhancing the operational and financial sustainability of infrastructure for provision of public services is paramount.** The results of the World Bank’s engagement in supporting infrastructure investments in transport, local infrastructure, waste water, and solid waste management were often undermined by inadequate operations and maintenance upon project closing. This is often linked to lack of operational and financial capacity of municipalities to run and maintain the underlying infrastructure. Going forward, the World Bank will aim to work pro-actively with all relevant authorities to address these shortcomings, aiming at ensuring that all investments are sustainable in the long term.

**40. Clear strategic direction and commitment to reforms is necessary to address systemic shortcomings in key sectors.** In the health sector for example, the World Bank will continue working closely with all relevant authorities to identify the issues undermining efficiency in the sector and to propose workable solutions. The experience working in this sector over the past decade highlight that bringing additional financing into the sector without addressing these shortcomings is unlikely to substantively contribute to an efficient and responsive sector that adequately serves the needs of the population in BiH.

**41. To seize the opportunity to increase private sector investment, coordinated engagement between IBRD, IFC, and other development partners is of paramount importance.** Recent experience with the BiH Energy Strategy development is one such example. A joint team of experts from IBRD and IFC developed the BiH Power Note, including a critical diagnostic to assess sustainability of power market in the country. The note was used by a team of consultants, overseen by the UK embassy under their Berlin process/Reform agenda mandate, during the preparation of the

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<sup>13</sup> In 2006, encouraged by the surge in public revenue after introduction of the VAT, the authorities abandoned an ambitious reform agenda that envisaged reforms of social benefits, higher education, public sector reform, and privatization of selected SOEs. Consequently, three World Bank credits (two DPLs and one TA credit) were cancelled and resources redirected for regional and local infrastructure investments.

BiH Energy Strategy. The strategy was finally adopted in August 2018, after years of delays resulting in repeated sanctions by the EU Energy Community.

42. **IFC's sequenced interventions in the renewable energy sector have been successful in attracting private investment into the sector for a number of small scale projects.** IFC deployed a cascade approach effectively during a long-term, systematic and multi-pronged engagement. From 2010 to 2013, IFC focused on harmonizing regulatory framework which was complex and not harmonized to support RE development and investment. IFC's initial advisory support under the Balkan Renewable Energy Program (BREP) eventually led to adoption of key renewable energy sector laws. In the second stage, IFC organized firm level workshops for local and international developers while, in parallel, supporting the policy process through further educating the policy makers. In the third stage, IFC provided assistance to local banks to build their internal capacities, especially in project finance, including support in assessing the first small hydro power plant (SHHP) projects in their pipeline. In 2016, in line with its advisory efforts, IFC extended a blended finance credit line to UniCredit Bank DD Mostar to support sustainable energy finance on-lending, especially to SHHPs. Finally, through its Renewable Energy Bosnia SHPP advisory project, IFC facilitated a cumulative US\$161.5 million in private sector financing into RE assets. The implementation of large scale private projects is still challenging mainly due to the dominance of public sector, counterparty risks related to key project parties (potential off-takers), and the level of development of contractual framework. These constraints need to be addressed by the regulator to unlock the potential for large scale projects in which IFC is willing to engage on the advisory and investment side.

43. **In an environment where there is inconsistent commitment to reform at the national level, some progress can still be made at the subnational level, provided there is leadership willing to reform.** Canton Sarajevo was a good example of how this model can bring about the results directly affecting the businesses – following the reforms, various fees related to court fees for land and business registers were reduced by 50 percent, followed by reduction of fees to register business by 82 percent, and re-registration fees reduced by 77 percent. The redundant fee for work permits for foreigners has been abolished (from a baseline of BAM1,000). These amendments and changes have resulted in US\$1,316,745 in direct cost savings for private sector on annual basis. In 2016, after the reforms were completed employment figures in Sarajevo Canton surged by 29.7 percent. Furthermore, experience working with the local (municipal) authorities under the Floods Emergency Recovery Project has been very positive. Local governments have proven capable to identify, prepare and implement priority projects in response to disastrous flooding in May 2014. Close to 400 sub-projects were implemented to rehabilitate and build-back-better local infrastructure in flood affected areas. This included rehabilitation of 226 kilometers of rural roads, rehabilitation of water supply and sewage systems, land slide rehabilitation, river beds rehabilitation, and rehabilitation of key local facilities such as schools, kindergartens and ambulances. The World Bank will build on this positive experience while designing the new Water and Sanitation Services Modernization Project.

44. **IFC's recent experience with a local sponsor in breach of contractual and payment obligations highlighted several systemic issues in relation to governance of private companies and legal predictability of the business environment.** IFC's attempts to resolve a contractual breach situation lasted for over 18 months, and did not result in mutually acceptable agreement, which has been a key lesson learned for IFC when operating in a politically complex environment. Although IFC found local courts to be relatively efficient and independent, the complexity of enforcement processes coupled with flawed valuation practices proves that international lenders are at risk of not being able to exercise their repayment rights.

## V. ADJUSTMENTS TO COUNTRY PARTNERSHIP FRAMEWORK

45. **The CPF focus areas and cross-cutting theme of social inclusion remain relevant and fully aligned with the BiH Reform Agenda.** Consultations with the Ministry of Finance and Treasury, and entity level ministries of finance, representatives of opposition parties, and civil society confirmed continued relevance of the CPF design. Political stakeholders also confirmed that, irrespective of the outcome of October 2018 general elections, the priorities outlined in the Reform Agenda will continue to provide a broad framework for economic and social reforms in BiH.

46. **Nevertheless, recognizing the current low pace of reforms, the World Bank will adjust its program.** The original CPF design envisaged a strong focus on support for structural reforms through a series of four development policy operations. World Bank support will increase focus towards addressing structural deficiencies and stimulate growth and jobs mainly through targeted investment lending and ASA. Until the end of the cycle, the CPF program will include additional financing for successful operations, new investment lending in areas where there is strong commitment (Table 2 below outlines the proposed IBRD financing program), and a strong ASA program. The ASA program will help maintain policy dialogue in the key sectors and provide analytical underpinning for engagement in key areas (for example: health, SOE reform) if the reform momentum re-emerges.

Table 2. CPF IBRD Financing Program

CPF FY16-FY20 LENDING SUMMARY				
PLANNED (in US\$ millions)		ACTUAL and PROPOSED (in US\$ millions)		
<b>FY16</b>	<b>IBRD</b>	<b>FY17</b>	<b>IBRD</b>	<b>TF</b>
Management of Fiscal Resources for Growth	70	Public Finances DPL	80	
Health Project	50	Federation Road Sector Modernization	64.6	
Federation Road Sector Modernization	55	Employment Support Project	55.8	
<b>FY17</b>		Banking Sector Strengthening	60	
RS Road Sector Modernization	50	Reducing Health Risk Factors		1.4
Business Environment (result based)	60	<b>FY18</b>		
Employment Support Program	50	RS Railways Restructuring	60.6	
Management of Fiscal Resources for Growth 2	70	<b>Sub-total FY17-FY18</b>	<b>321</b>	<b>1.4</b>
<b>Sub-total FY16-FY17</b>	<b>405</b>	<b>FY19 – FY20 proposed program*</b>		
<b>FY18 – FY20 indicative program</b>		Energy Efficiency AF	32	
SOE Reform (DPL)		Real Estate Registration AF	23	
Management of Fiscal Resources for Growth 3		Business Environment Strengthening	60	
SME Support for selected sectors, with IFC		Water and Sanitation Services Modernization	50	
Disaster Risk Management/Flood Protection		RS Road Modernization	50	
Financial Sector Stability	345	<b>Sub-total FY18-FY20</b>	<b>215</b>	
<b>Sub-total FY18-FY20</b>				
<b>TOTAL planned</b>	<b>750</b>		<b>536</b>	<b>1.4</b>

\*The program estimate is based on confirmed areas of interest by the authorities. The World Bank will consider Fiscal Reform DPF, and investments in regional trade and transport facilitation, integrated program for Sava-Drina river corridor, agriculture, and forestry sectors in case a strong demand for financing and commitment for reforms emerge in these sectors after elections.

47. **The IFC will revise its investment targets for the CPF period to US\$60-80 million while actively seeking to scale up depending on the reform progress in post-October election period.** The IFC's original lending target of US\$70-100 million was based on expected increase in FDI investments, implementation of structural reforms, particularly the privatization of SOEs including in the telecommunication sector, as well as the realization of the PPP on Corridor 5c. Most of these did not materialize, and IFC investment remained at only US\$13.23 million during the first two years of the CPF period. Given the lack of clarity in moving ahead with privatization and PPP agenda, coupled with stagnant FDIs in the country, the IFC will continue to allocate resources to support necessary structural reforms through its advisory services. The prospects for IFC to provide intermediate financing for on-lending to MSMEs is limited by several factors related to both the supply and demand for credit. On the supply side, BiH financial sector has recovered after the crisis and is now sufficiently liquid. The banking sector has gone through a systemic upgrade, having adopted new banking laws and strengthened banking operations and supervision role by introducing Basel III and IFRS9 standards. Non-performing loans have been steadily declining from the peak level of 15.1 percent in 2013 to 9.3 percent as of mid-2018, albeit still high in the corporate segment. Lending activity is geared towards retail and public sector as well as entity governments bonds, while small segment of the private sector being banked is driving low margins and shrinking profitability. European development banks continue to provide financing to a selected number of banks below market price, which further affects IFC's lending to banks. On the demand side, there is no uptick as the private sector is showing modest signs of recovery. Private sector accounts for about 50% of the GDP and is represented almost entirely by micro and small businesses. IFC will continue to support microfinance sector, help systematically mitigate market risk by modernizing insolvency framework, and provide support for NPL buy-outs. This is expected to result in increased lending volumes to the private sector in the MSME segment. Also, IFC will continue with targeted business environment reforms to stimulate business entry and operations.

48. **Considering the proposed shift from budget support to structural reforms towards addressing structural deficiencies in key sectors, the objectives of Focus Area 1 will be supported through ongoing investment lending, and strong program of advisory services and analytics.** Recently approved RS Railway Restructuring operation will contribute to results in this Focus Area. Engagement through the RS Railway Restructuring project, completed and ongoing analytic work on SOEs, and policy dialogue with the authorities on the SOE agenda, may pave the way for possible future operations in this area. Planned Water and Sanitation Services Modernization project will focus on improving public services in water sector by enhancing operational and financial sustainability. Based on the positive earlier experiences working with local governments, this project will build on the reform commitments and further strengthen capacity of selected local governments in the water sector. The ASA Program will continue supporting broad aspects of Public Sector Management Reform and informing the design of lending operations via diagnostics and capacity building. A series of tasks, including Debt Sustainability and Expenditure Arrears, Public Sector Accounting and Reporting, and Strengthening Legislative Scrutiny, will focus on debt reporting and recording, reporting of arrears, and overall fiscal planning and transparency of public finances. Functional reviews of health system performance and education service delivery will be conducted to assess structural deficiencies in these sectors. Pension Reform TA will continue strengthening social protection in BiH. Urban Partnership Program, Urbanization Review, the Danube Water Program, and Solid Waste Management TA will focus on enhancing local governance, effective public service delivery, and urban planning.

49. **New activities in Focus Area 2 will be aligned with the holistic approach to growth and jobs.** Additional financing for the Real Estate Registration Project will contribute to improvements in

business environment and provide prerequisite for rural development. A planned Business Environment Strengthening operation will support further enhancements of business environment. Additional financing for the Energy Efficiency Project will contribute to improvements of economic infrastructure. Building on the previous work, through a technical assistance program, the Bank will focus on fostering investment and improving access to finance and financial sector oversight and management. The Improving Commercial Justice TA aims at reducing procedural inefficiencies and practices that cause the greatest delays in commercial cases. Western Balkans Study on Diversification of Financial Markets and Western Balkans Competitiveness TA will be supporting the implementation of the Multiannual Action Plan for a Regional Economic Area in the Western Balkans Six, including BiH, with the aim to make the region more attractive for investment and trade. Developing Private Employment Services, Western Balkans Pension Reform TA, Public Sector Employment and Labor Markets, and Western Balkans Poverty Program will focus on improving labor market flexibility and social protection. A series of tasks, including Mainstreaming Disaster Risk Management into Road Network Management and Integrated Water and Hydropower Development in the Drina River Basin, will also tackle structural deficiencies in infrastructure. The World Bank Energy team will deepen its strategic support to the CPF program through: (i) a follow-up IFC/IBRD regional ASA on Integrated Water and Hydropower Development in the Drina River Basin to help review, identify and prioritize hydropower development projects for BiH, Serbia and Montenegro, and (ii) supporting key energy sector market reforms and renewable energy developments through follow-up ASAs and policy dialogue.

50. **IFC’s advisory program in Focus Area 2 will remain largely unchanged, as most active programs have been approved for continuation.** Building on its experience from the ECA Corporate Governance Advisory Project (completed in 2017), the IFC will continue supporting corporate governance improvements in BiH through a new regional initiative — the ECA Integrated Environment, Social and Corporate Governance Advisory Program. Regional ECA Financial Market Public Outreach Program is set to finish implementation in FY19 but similar activities are expected to continue under a new financial sector advisory program. Upon the closure of Balkans Renewable Energy Program, support to renewable energy market development has continued through recently approved IFC ECA Energy and Water program. Table 3 below indicates active IFC advisory projects and allocated budgets as of July 2018.

Table 3: IFC Advisory Projects

BiH SPECIFIC PROJECTS ACTIVE as of July 2018		Funded through
MF Bosnia (569807)	US\$ 3,281,324.00	30/Jun/20
DR BiH (601099)	US\$ 1,550,000.00	30/Mar/22
Bosnia SN IC (600904)	US\$ 8,226,202.00	31/Mar/19
ICAM (601646)	US\$ 2,500,000.00	31/Mar/19
REGIONAL PLATFORMS ACTIVE IN BH as of July 2018		
ECA FMPO (600668)	US\$ 1,081,444.00	31/Dec/18
ECA Power (601333)	US\$ 4,959,482.00	30/Jun/19
W.Balkans IPP (601642)	US\$ 2,766,000.00	30/Jun/2020
ECA Energy&Water (601067)	US\$ 4,210,582.00	31/Dec/2019
DCW ECA CGP (599538)	US\$ 1,285,446.00	31/Dec/2018

51. **In Focus Area 3, CPF objectives will be pursued through a strong portfolio of existing investment projects with increased emphasis on sustainability of infrastructure investments.** Floods Emergency Recovery Project and Sustainable Forest and Landscape Management Project are in final phase of implementation and have already significantly contributed to CPF objectives in this focus area. Drina Flood Protection and Irrigation Development Project will be restructured and are expected to meet their targets. Restructuring of these operations will also address sustainable operations and maintenance of project supported infrastructure. Solid Waste Management TA will continue helping improve sustainability of solid waste management practices in BiH. The Regional Air Quality Management study, focused on three cities in the Balkans where air pollution is most prominent, including Sarajevo, will assess the current status, help forge the path to future cooperation, and draw attention to the interlinked relationship between population health impacts and pollution management. A series of ASAs will focus on water resource management and capacity building for flood management and forecasting (Joint Flood Management of the Sava River Basin, Integrated Water and Hydropower Development in the Drina River Basin, Study for Establishment of the Protection Zones of a Klokot Source). Finally, preparation of a regional Integrated Program for Sava-Drina River Corridor is underway and offers another opportunity to strengthen capacity and build resilience to natural shocks.

52. **IFC and MIGA remain committed to support private sector development.** Depending on the pace of reforms after the October elections, IFC will explore opportunities to provide support through direct investments in distressed assets through IFC's regional DARP initiative, general manufacturing, agribusiness, services, and infrastructure. Advisory work will support better business environment, primarily to unlock viable assets by instituting modern insolvency regimes, reduce administrative burden and cut the red tape at municipal level, strengthen investment policy and promotion, introduce advanced trade facilitation regimes, further support microfinance sector, and help companies develop better corporate governance and resource efficiency mechanisms. In the remaining part of the CPF cycle, MIGA will continue to look to support cross-border investments, both debt and equity, aligned with the CPF's focus areas and objectives.

53. **The CPF Result Framework was revised to reflect changes in the program and to correct inaccuracies in the original version.** Timeline for baseline and target values was introduced for all indicators. The indicator on fiscal burden of SOEs was dropped and a new indicator introduced to better capture the nature of the World Bank engagement in this sector. The indicator on pharmaceuticals is better aligned with the earlier World Bank engagement in this sector and available data. Supplemental indicators related to planned health sector engagement were dropped due to uncertain engagement in this CPF cycle. Supplemental indicator was revised for engagement in flood management along Drina river to reflect realistic target until the end of the CPF cycle. See Annex 2 to review all revisions introduced.

## VI. RISKS TO PROGRAM

54. **The challenging political environment remains the key domestic risk.** The political environment may delay reforms and investments in critical sectors. Possible delays in governments formation after elections may delay planned operations. Political uncertainties also raise risks to the economic outlook. A deterioration of the external environment is a further risk to macroeconomic stability and growth. BiH continues to face balance of payments needs and relies on IFIs and the EU to fund its external financing gap. The country's export base, which is strongly dependent on steel and aluminum among other commodities, make the economy vulnerable to hikes in import tariffs. Moreover, shocks affecting the EU can be transmitted to BiH through trade and financing channels.

As recognized in the CPF, development of sound sector strategies and policies in the complex and decentralized governance structure in BiH remains challenging and creates adverse incentives for groups of stakeholders. Despite significant improvements, particularly in procurement and financial management, institutional capacity for implementation remains a substantial risk. Environmental and social risk remain substantial as the country is prone to natural disasters, floods in particular, and is yet to develop sustainable coping mechanisms. Summary of risk ratings is provided in Table 4 below.

55. **The risks will be mitigated through continued rigorous political economy analysis and adjustment of the program in line with commitment to reforms, and through intensive consultation during preparation.** The World Bank will strengthen focus on implementation readiness, and client capacity building, and intensify implementation support efforts to ensure continuous strengthening of sector strategies and institutional capacity. In addition to rigorous political economy analysis, political risk will be mitigated by focusing on lending and ASA instruments that are realistically deliverable in areas with strong commitment for reforms by majority of political stakeholders. Sector strategies and institutional capacity risk will also be mitigated through increased focus on structural deficiencies in key sectors and sustainability of investments in infrastructure.

Table 4: Systematic Operations Risk-Rating Tool

<b>Risk Category</b>	<b>Rating (H, S, M or L)</b>
Political and governance	High
Macroeconomic	Moderate
Sector strategies and policies	Substantial
Technical design of project or program	Moderate
Institutional capacity for implementation and sustainability	Substantial
Fiduciary	Moderate
Environment and social	Substantial
Stakeholders	Substantial
<b>Overall</b>	<b>High</b>

**ANNEX 1: Bosnia and Herzegovina - FY16–20 Country Partnership Framework – Performance and Learning Review**  
**Updated CPF Result Matrix**

<b>FOCUS AREA 1: INCREASING PUBLIC SECTOR EFFICIENCY AND EFFECTIVENESS</b>				
<b>CPF OBJECTIVE 1A: IMPROVE MANAGEMENT AND EFFICIENCY OF PUBLIC FINANCES</b>				
<b>CPF Objective Indicators</b>	<b>Progress to date</b>	<b>Supplementary Progress Indicators</b>	<b>Progress to date</b>	<b>WBG Program</b>
<p><i>Indicator 1:</i> Public sector arrears are documented, publicly available and updated on a regular basis and the level of such arrears is reduced as a share of GDP.</p> <p><b>Baseline:</b> No data  <b>Target:</b> Public sector arrears data available and updated on governments' website and level of arrears reduced relative to initial estimates</p> <p><i>Indicator 2:</i> Reduction in general government pension expenditure as a share of GDP</p> <p><b>Baseline:</b> 10.4 percent  <b>Target:</b> 9.4 percent</p>	<p><b>Off track</b> - The entity governments drafted strategies/programs on dealing with public sector arrears. While adoption of strategies/programs is possible until the end of the CPF cycle, strong reform commitment by the newly elected authorities will be required to tackle public sector arrears particularly in the health sector.</p> <p><b>On track</b> - New pension law adopted in the FBH and entered into force in 2018. The target is achievable until the end of this CPF, as pension expenditures are estimated to decline by 1 percentage points of GDP over the next 4 years of implementation (first year is 2018).</p>	<p><i>Indicator 1:</i> Adoption of annual budgets at the Entity and Institutions level in line with budget calendar.</p> <p><i>Indicator 2:</i> Adoption of Medium-Term Debt Strategy for the country.</p> <p><i>Indicator 3:</i> New pension law approved in the FBH (mid-2016)</p> <p><i>Indicator 4:</i> Deposit Insurance Fund adequately capitalized and balance sustained.</p>	<p><b>On track</b> - Achieved in 2016 and 2017. In 2018, annual budget for RS adopted in line with the budget calendar, annual budgets for BiH Institutions and FBH adopted with delays.</p> <p><b>Achieved</b> - Medium-Term Debt Strategy for the country adopted for the period 2016-2018.</p> <p><b>Achieved with delays</b> - (law adopted in January 2017, and entered into force in January 2018).</p> <p><b>On track</b> – Deposit Insurance Fund is adequately capitalized according to its biannual assessment and is finalizing discussions with EBRD over a new stand-by arrangement valued at EUR</p>	<p><b>Completed lending:</b>            -Public Finance DPL</p> <p><b>Completed ASA:</b>            -Macro modelling TA            -Debt Sustainability TA            -Wage Bill Management TA            -Public Sector Arrears TA            -Western Balkans Pension Reform TA            -Western Balkans Regional Health Engagement and Health Sector Arrears Study            -Deposit Insurance Agency Strengthening (Financial Sector Advisory Services Center)</p> <p><b>Ongoing ASA:</b>            -Capacity Building for Medium Term Fiscal Planning and Forecasting in BiH            -Support to Public Management Reform</p>

			30m. The Bank did not pursue planned operation in this area, only TA. This supplementary indicator will be dropped.	-Urban Partnership Program -Internal Audit Training of Trainers Program -Strengthening Legislative Scrutiny in the Western Balkans -Western Balkans poverty program FY18-19
<b>CPF OBJECTIVE 1B: STRENGTHEN THE GOVERNANCE AND REDUCE THE FISCAL BURDEN OF SOEs</b>				
<b>CPF Objective Indicators</b>	<b>Progress to date</b>	<b>Supplementary Progress Indicators</b>	<b>Progress to date</b>	<b>WBG Program</b>
<p><i>Indicator 1:</i> Fiscal burden of SOEs is substantially reduced</p> <p><b>Baseline:</b> No data on SOEs <b>Target:</b> To be set after analytical work is completed [TBD]</p>	<p><b>Off track</b> - SOE Diagnostic Note delivered. Report on Monitoring, Management and Prevention of Public Sector Arrears in the FBH also delivered. SOE's continue to present major risk on fiscal health mainly due to accumulated arrears (5.45% of BiH GDP; 8.39% of FBH GDP at the end of 2016), but the FBH Government commitment to address this agenda has been weakened ahead of 2018 elections. Indicator to be dropped.</p>	<p><i>Indicator 1:</i> Adopt a plan for SOE restructuring.</p> <p><i>Indicator 2:</i> Legal framework for missing pensions contributions formulated.</p> <p><i>Indicator 3:</i> 80% of SOEs attending governance trainings implement changes and report improved performance (e.g. operational, organizational, financial).</p>	<p><b>On track</b> - Report on Public Sector Arrears recommended short-term and long-term policy options.</p> <p><b>On track</b>- Transfer for unpaid past pension contributions will be determined by the Law on Settling the Unpaid Pension Contributions. The Law is prepared but currently on hold due to its potentially high fiscal cost. The FBH Government may decide to adopt it in 2019 after elections.</p> <p><b>On track</b> - Training provided to Board members and management of 10 SOEs. Percentage of SOEs that implement changes will be monitored going forward.</p>	<p><b>Completed lending:</b> -Public Finance DPL</p> <p><b>Completed ASA:</b> -Balkans Competitiveness Regional TA (SOE Diagnostic Note) -Support to Railway Modernization (Policy Note) -Western Balkans Pension Reform TA -IFC ECA Corporate Governance TA -Western Balkans Gender – FY18</p> <p><b>Ongoing ASA:</b> -Western Balkans poverty program FY18-19</p>

**CPF OBJECTIVE 1C: IMPROVE PUBLIC SERVICE DELIVERY**

CPF Objective Indicators	Progress to date	Supplementary Progress Indicators	Progress to date	WBG Program
<p><i>Indicator 1:</i> Tobacco excise taxes are aligned with EU standards.</p> <p><b>Baseline:</b> min. 51 EUR per 1000 cigarettes <b>Target:</b> min. 90 EUR per 1000 cigarettes</p> <p><i>Indicator 2:</i> Reduce expenditures on pharmaceuticals by: i) reducing the total cost of the 50 most commonly prescribed outpatient medicines.</p> <p><b>Baseline:</b> <b>Target:</b> Reduction by 20 percent</p> <p>ii) reducing the total cost of the 20 most commonly used hospital (inpatient) medicines.</p> <p><i>Indicator 3:</i> Improved services of water and wastewater.</p> <p><b>Baseline:</b> 3% of collected waste water is treated <b>Target:</b> 30% of collected waste water is treated</p>	<p><b>On track</b> - Based on the BiH Law on Excises, the structure of tobacco taxes is compatible with the EU system. As of January 2018, minimal excise duty amounts to 66.4 EUR per 1000 cigarettes. End target not achievable by 2020 and will be revised to 75 EUR per 1000 cigarettes.</p> <p><b>On track</b> - Rulebook on Pharmaceuticals has been approved by the BiH Council of Ministers in November 2016. Adoption led to reduction in outpatient sales from KM 72 million in 2015 to KM 67 million in 2017. Overall, there has been 9 percent decrease in overall Health Insurance Fund spending.</p> <p><b>On track</b> – WWTPs operational in Sarajevo, Zivinice, Odzak, Trebinje, Konjic, Ljubuski, Trnovo (WB supported), and Bihac and Bijeljina (other donors). WWTP in Mostar to be</p>	<p><i>Indicator 1:</i> Legislation adopted to strengthen autonomy and accountability of public hospitals.</p> <p><i>Indicator 2:</i> Increase spending on preventive and public health services</p> <p><b>Baseline:</b> 1.75 percent of health spending in 2013 <b>Target:</b> 2.25 percent of health spending</p> <p><i>Indicator 3:</i> Establish scope for water and wastewater PPPs.</p> <p><b>Baseline:</b> no work has yet been undertaken; and <b>Target:</b> completion of PPP study and vetted by key stakeholders</p> <p><i>Indicator 4:</i> Improve legal and regulatory framework and institutional capacity</p>	<p><b>Not achieved.</b> There has been no progress in this area and the Bank temporary discontinued engagement. Policy dialogue about possible engagement in the health sector will continue during the remaining part of the CPF cycle.</p> <p><b>Not achieved.</b> There has been no progress in this area and the Bank temporary discontinued engagement. Policy dialogue about possible engagement in the health sector will continue during the remaining part of the CPF cycle.</p> <p><b>Not achieved.</b> Planned Water and Sanitation Services Modernization project will consider pursuing this activity in cooperation with IFC, but indicator will not be achieved in this CPF cycle and will be dropped.</p> <p><b>Not achieved.</b> Planned Water and Sanitation Services Modernization project will consider pursuing this activity</p>	<p><b>Completed lending:</b></p> <ul style="list-style-type: none"> <li>- Public Finance DPL</li> <li>- Sarajevo Waste Water</li> <li>- GEF Water Quality Protection</li> </ul> <p><b>Ongoing lending:</b></p> <ul style="list-style-type: none"> <li>- Reducing Health Risk Factors (Swiss TF)</li> </ul> <p><b>Closed ASA:</b></p> <ul style="list-style-type: none"> <li>- Western Balkans Gender FY18</li> </ul> <p><b>Ongoing ASA:</b></p> <ul style="list-style-type: none"> <li>- Danube Water Programme</li> <li>- BiH: Solid Waste Management</li> <li>- Urban Partnership Program</li> <li>- Western Balkans poverty program FY18-19</li> </ul>

	operational by the end of calendar year 2018 when the target of 30% is expected to be fully achieved.	<b>Baseline:</b> EU assessment <b>Target:</b> [Double] execution capacity of civil service to undertake PPPs.	in cooperation with IFC, but indicator will not be achieved in this CPF cycle and will be dropped.	
<b>FOCUS AREA 2: CREATING CONDITIONS FOR ACCELERATED PRIVATE SECTOR GROWTH</b>				
<b>CPF OBJECTIVE 2A: SUPPORT A COMPETITIVE BUSINESS ENVIRONMENT AND ACCESS TO FINANCE</b>				
<b>CPF Objective Indicators</b>	<b>Progress to date</b>	<b>Supplementary Progress Indicators</b>	<b>Progress to date</b>	<b>WBG Program</b>
<p><i>Indicator 1: Improve Doing Business Distance to Frontier.</i></p> <p><b>Baseline:</b> 60.55 <b>Target:</b> 63</p> <p><i>Indicator 2: New and sustained jobs through real sector investments</i></p> <p><b>Total sustained jobs baseline:</b> 950 (existing) <b>Total sustained jobs target:</b> 1700 (existing + new clients)</p> <p><b>Total new jobs baseline:</b> 0 (existing clients) <b>Total new jobs target:</b> up to 400 (existing clients)</p> <p><i>Indicator 3: By FY20 at least double outstanding MSME and housing finance of IFC portfolio clients</i></p>	<p><b>Achieved</b> - As per Doing Business 2018 BiH Distance to Frontier improved to 64.2 points.</p> <p><b>Off track</b> - No new IFC clients in the real sector where employment measured. SSL IV is a repeat investment in 2016 with Sisecam Bosnia, already a portfolio client. Cimos Bosnia, a subsidiary of a Slovenian SOE, will be closed as announced by the ailing parent company. No actuals are reported in CY16-18 for Bekto Precisa, an NPL client.</p> <p><b>On track</b> – Actual outstanding MSME portfolio reached US\$124.4 million as of 2017. Housing finance indicator is</p>	<p><i>Indicator 1:</i> Up to US\$50 million of investment facilitated as a result of improved corporate governance, energy efficiency and regulatory reform interventions.</p>	<p><b>Achieved</b> – IFC direct investments reached US\$13.23 million in long term funds:</p> <ul style="list-style-type: none"> <li>US\$4.24 million RE credit line to UniCredit Bank supported through Energy and Water advisory program,</li> <li>US\$8.48 million investment by Sisecam SodaSo, the biggest Turkish glassware producer.</li> </ul> <p>Through its advisory work IFC facilitated additional US\$199.19 million in new private investments</p> <ul style="list-style-type: none"> <li>Renewable Energy Bosnia SHPP project facilitated a cumulative US\$161.5</li> </ul>	<p><b>Completed lending:</b></p> <ul style="list-style-type: none"> <li>SME Access to Finance</li> <li>Improving Quality Infrastructure and Investment Climate (RETF)</li> </ul> <p><b>Ongoing lending:</b></p> <ul style="list-style-type: none"> <li>WB Real Estate Registration Project</li> </ul> <p><b>Completed ASA:</b></p> <ul style="list-style-type: none"> <li>Improving Commercial Case Management in the Federation BH (under Good Governance and Investment Climate Reform TF Management and Knowledge)</li> <li>BiH Financial Sector Strengthening</li> <li>Corporate Governance Program</li> </ul>

<p><b>MSME outstanding portfolio baseline: US\$ 58 million</b>  <b>MSME outstanding portfolio target: US\$ 124 million</b>  <b>Housing finance outstanding portfolio baseline: US\$ 83 million</b>  <b>Housing finance outstanding portfolio target: US\$ 147 million</b></p>	<p>partially achieved. Outstanding housing finance portfolio increased to US\$91.5 million as of 2017.</p>	<p><i>Indicator 2:</i> Reduction of administrative burden of licensing in select areas, disaggregated below (using WBG T&amp;C methodology):</p> <p>a. direct costs savings by \$7 million as measured by standard CCS indicator.</p> <p>b. 20% reduction in indirect costs for businesses</p> <p>c. up to 2000 firms will benefit from reformed procedures.</p> <p><i>Indicator 3:</i> Cadastral municipalities with harmonized land register and cadastral data/established REC in urban areas</p> <p><b>Baseline:</b> 62  <b>Target:</b> 524</p>	<p>million of financing into RE assets.</p> <ul style="list-style-type: none"> <li>Corporate Governance and Resource Efficiency advisory program helped companies raise US\$3.04 million, and</li> </ul> <p>Additional US\$34.65 million through strengthened investment policy and regulatory simplification.</p> <p><b>On track</b> - Direct costs savings of US\$3.26 million.</p> <p><b>On track</b> - relevant laws yet to be enacted and implemented</p> <p><b>Achieved</b> - 14,866 firms benefit from reformed licensing and registration requirements.</p> <p><b>On track</b> –374 cadastral municipalities.</p>	<ul style="list-style-type: none"> <li>- Tax Transparency and Simplification Program (IFC)</li> </ul> <p><b>Ongoing ASA:</b></p> <ul style="list-style-type: none"> <li>- FinSAC Bank Resolution Framework and Supervision TA</li> <li>- EU REPARIS (Road to Europe – Program of Accounting reform and Institutional Strengthening)</li> <li>- Local Investment Friendly Advisory Project (IFC)</li> <li>- Investment Climate Advisory Project (IFC)</li> <li>- Debt Resolution and Business Exit (IFC)</li> <li>- Microfinance Bosnia Advisory Project (IFC; approved extension)</li> <li>- IFC ECA Energy and Water</li> <li>- Western Balkans Investment Policy and Promotion Project</li> <li>- Regional ECA Financial Market Public Outreach Program (IFC)</li> <li>- ECA Integrated Environment, Social and Corporate Governance Advisory Program (IFC)</li> </ul> <p><b>MIGA guarantees:</b></p> <ul style="list-style-type: none"> <li>- Cover to foreign banks for expropriation of funds held at the Central Bank of BiH, freeing up capital to support extended lending in BiH</li> </ul>
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<b>CPF OBJECTIVE 2B IMPROVE LABOR MARKET FLEXIBILITY AND SOCIAL PROTECTION</b>				
<b>CPF Objective Indicators</b>	<b>Progress to date</b>	<b>Supplementary Progress Indicators</b>	<b>Progress to date</b>	<b>WBG Program</b>
<p><i>Indicator 1:</i> Decrease the number of inactive persons: men aged 15 to 64, reduce by 10%</p> <p><b>Baseline:</b> 346,000 (2014)</p> <p><b>Target:</b> 311,400</p>	<p><b>On track</b> – 320,485 inactive persons, and unemployment reduced by 10% for both men and women - (total registered unemployed is 519,228). Results achieved due to</p>	<p><i>Indicator 1:</i> Reform of Public Employment Services, including: (i) delinking of health insurance from unemployment registration,</p>	<p><b>On track</b>, although limited progress has been made to date. FBH has formulated an Action Plan to reduce informality. The Plan is awaiting FBH Government</p>	<p><b>Ongoing lending:</b></p> <ul style="list-style-type: none"> <li>- BiH Employment Support Program</li> </ul> <p><b>Completed ASA:</b></p> <ul style="list-style-type: none"> <li>- Strengthening Employment Outcomes in BIH</li> </ul>

<p>women aged 15 to 64, reduce by 10%</p> <p><b>Baseline</b> 580,000 (2014) <b>Target:</b> 522,000 (source: LFS)</p> <p><i>Indicator 2:</i> Increase in private sector formal employment: men by 10%, <b>Baseline:</b> 401,000 (2013) <b>Target:</b> 441,000 (2020)</p> <p>women by 10%, <b>Baseline:</b> 240,000 (2013) <b>Target:</b> 265,000 (source: LFS and administrative data)</p> <p><i>Indicator 3:</i> Improve targeting accuracy of last resort social assistance: percentage of last resort social assistance benefits reaching the poorest quintile. <b>Baseline:</b> 40 percent <b>Target:</b> 65 percent</p>	<p>outmigration and negative population growth rather than due to positive measures.</p> <p><b>Off track</b> - 368,104 in private sector formal employment of which 220,989 women.</p> <p><b>On track</b> – 44 percent of social assistance reaching the poorest quintile</p>	<p>and (ii) improved profiling of unemployed.</p> <p><i>Indicator 2:</i> Reduced number of <b>men</b> who are registered with the Public Employment Services as active job seekers, but are not looking for work because they are informally employed or inactive, by 15 percent, from 152,000 (2014) to 129,000. Reduced number of <b>women</b> who are registered with the Public Employment Services as active job seekers, but are not looking for work because they are informally employed or inactive, by 20 percent, from 183,000 (2014) to 146,000 (20xx) (source: LFS)</p> <p><i>Indicator 3:</i> In the FBH, social assistance framework law and law on benefits for families with children passed/adopted (with improved targeting formula) Centers for Social Work start using an improved targeting formula to calculate cash benefits</p>	<p>approval. Further support will be provided under the Employment Support Project.</p> <p><b>Off track</b> - number of <b>men</b> who are registered with PES but not looking for a job in 2017 - 156,000. Number of <b>women</b> who are registered with PES but not looking for a job in 2017 - 190,000.</p> <p><b>Not achieved</b> – this target is achievable after elections. While the legislation has been already drafted, its adoption will depend on political commitment in the FBH to pursue reforms in the social sector.</p>	<ul style="list-style-type: none"> <li>- Western Balkans Pension Reform TA</li> <li>- Western Balkans Education Engagement</li> <li>- Western Balkans Gender FY18</li> </ul> <p><b>Ongoing ASA:</b></p> <ul style="list-style-type: none"> <li>- Developing Private Employment Services in BiH</li> <li>- Western Balkans poverty program FY18-19</li> </ul>
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CPF OBJECTIVE 2C UPGRADE ECONOMIC INFRASTRUCTURE				
CPF Objective Indicators	Progress to date	Supplementary Progress Indicators	Progress to date	WBG Program
<p><i>Indicator 1:</i> Travel time saving as a measure of connectivity between major economic growth poles. <b>Baseline:</b> 0.0 <b>Target:</b> 15 percent savings</p> <p><i>Indicator 2:</i> Increase lifetime energy savings. <b>Baseline:</b> No saving (0) <b>Target:</b> 650 thousand MWh</p> <p><i>Indicator 3:</i> Additional Renewable Energy capacity facilitated <b>Target:</b> 50 MW</p>	<p><b>On track</b> - FBH Road Sector Modernization was declared effective only in October 2017 and the civil works started.</p> <p><b>On track</b> - 501,864 MWh energy savings</p> <p><b>Achieved</b> - 49.68 MW of new RE installed capacity facilitated by IFC.</p>	<p><i>Indicator 1:</i> Percentage of primary roads improved. <b>Baseline:</b> 0 <b>Target:</b> 12 percent</p> <p><i>Indicator 2:</i> Value of financing for energy sector facilitated through PPP or advisory support (US\$) <b>Target:</b> 80 million</p> <p><i>Indicator 3:</i> Facilitated increase in RE generation <b>Target:</b> 125,000 MWh</p> <p><i>Indicator 4:</i> GHG emission expected to be avoided (mln tCO<sub>2</sub>/a) <b>Target:</b> 0.2</p>	<p><b>On track</b> – works started under the FBH Road Sector Modernization Project</p> <p><b>Achieved</b> – IFC facilitated US\$161.5 million of RE-related financing.</p> <p><b>Achieved</b> – IFC facilitated 188,773 MWh of increase in RE generation.</p> <p><b>On track</b> - RE generation of 188,773 MWh facilitated emission avoidance of 0.158 mln tCO<sub>2</sub>/a.</p>	<p><b>Ongoing lending:</b></p> <ul style="list-style-type: none"> <li>- Energy Efficiency Project</li> <li>- Federation BH Road Sector Modernization</li> <li>- Republika Srpska Railways Restructuring</li> <li>- IFC PPP Mandate with FBH Autoceste on Corridor 5c</li> </ul> <p><b>Completed ASA:</b></p> <ul style="list-style-type: none"> <li>- IFC Balkans Renewable Energy program in BiH closed on June 30, 2016</li> <li>- ECA Energy Solutions for Power and District Heating Sector</li> <li>- IFC PPP Mandate with FBH Autoceste on Corridor 5c</li> <li>- IFC ECA Water and Energy Advisory</li> <li>- IFC ECA Power</li> <li>- Power Sector Note: Least-Cost Power Development Plan</li> <li>- Sector Study on Biomass-heating in the Western Balkans</li> <li>- Southeast Europe Gas Power Consortium</li> </ul>

				<ul style="list-style-type: none"> <li>- Directions for the energy sector in the Western Balkans</li> </ul> <p><b>Ongoing ASA:</b></p> <ul style="list-style-type: none"> <li>- Mainstreaming disaster risk management into road network management</li> <li>- Financing of Public Buildings in the Western Balkans</li> <li>- IFC ECA Water and Energy Advisory</li> <li>- Digital Balkans</li> <li>- Balkans Digital Highway</li> <li>- Global Cyber Security Capacity Program</li> </ul>
<b>FOCUS AREA 3: BUILDING RESILIENCE TO NATURAL SHOCKS</b>				
<b>CPF OBJECTIVE 3A PREVENT THE DEGRADATION OF NATURAL RESOURCES</b>				
<b>CPF Objective Indicators</b>	<b>Progress to date</b>	<b>Supplementary Progress Indicators</b>	<b>Progress to date</b>	<b>WBG Program</b>
<p><i>Indicator 1:</i> Adoption of a plan for management of hot spots in BiH</p> <p><b>Baseline:</b> No plan for management of hot spots in BiH</p> <p><b>Target:</b> Adoption of a plan for management of hot spots in BiH in the period covered by the CPF.</p>	<p><b>On track</b> - RS has adopted a Waste Management Strategy (with support under the WB SSWMP). FBH is currently working to update their SWM Strategy and Plan. Both are expected to be finalized by 2020. Both will utilize the Sector Assessment Report and Reform Outline prepared by the World Bank.</p>	<p><i>Indicator 1:</i> Area restored or re-afforested Baseline: 117 ha Target: 1000 ha</p> <p><i>Indicator 2:</i> Number of engineered regional landfills <b>Baseline:</b> 6 <b>Target:</b> 11</p>	<p><b>On track</b> – 862 ha (FBH 488, RS 374).</p> <p><b>Partially achieved</b> – 8 regional sanitary landfills.</p>	<p><b>Completed lending:</b></p> <ul style="list-style-type: none"> <li>- Solid Waste II</li> </ul> <p><b>Ongoing lending:</b></p> <ul style="list-style-type: none"> <li>- Sustainable forest and landscape management (I1)</li> </ul> <p><b>Completed ASA:</b></p> <ul style="list-style-type: none"> <li>-ECA Deep Dive: Leveraging Turn Down the Heat ESW for ECA</li> <li>-Climate Resilient and Green Growth</li> </ul>

<p><i>Indicator 2:</i> Collection rate and disposal capacity of engineered landfills expanded to reach minimum EU sector standards  <b>Baseline:</b> 50% of generated solid waste appropriately disposed per year  <b>Target:</b> 65% of generated solid waste appropriately disposed per year</p> <p><i>Indicator 3:</i> Increased area where sustainable land management practices were adopted  <b>Baseline:</b> 117 ha (2016)  <b>Target:</b> 3000 ha (2020)</p>	<p><b>Achieved</b> - 66% of generate solid waste appropriately disposed.</p> <p><b>Achieved</b> – 3,178 ha</p>			<p><b>Ongoing ASA:</b>  - BiH: Solid Waste Management AA</p>
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**CPF OBJECTIVE 3B BUILD RESILIENCE TO FLOODS**

<b>CPF Objective Indicators</b>	<b>Progress to date</b>	<b>Supplementary Progress Indicators</b>	<b>Progress to date</b>	<b>WBG Program</b>
<p><i>Indicator 1:</i> People in flood affected/prone areas benefiting from goods received and infrastructure rehabilitated with projects' support  <b>Baseline:</b> 0  <b>Target:</b> 300,000</p> <p><i>Indicator 2:</i> Strengthened capacity in water resources management, including flood management, forecasting and warning, in Drina and Sava River basins</p>	<p><b>Achieved</b> - 715,165 people in flood affected areas benefited from emergency disaster recovery goods, and rehabilitated regional and local infrastructure.</p> <p><b>On track</b> -  As of March 2018, Sava River Basin (including BiH) system for forecasting and early warning on floods was set for</p>	<p><i>Indicator 1:</i> Area provided with flood protection (rural and urban land)  <b>Baseline:</b> 0 ha  <b>Target:</b> 8554 ha</p> <p><i>Indicator 2:</i> Public service infrastructure facilities recovered to pre-floods condition with projects' support  <b>Baseline:</b> 0</p>	<p><b>On track</b> - 56ha of semi urban and urban area protected from floods, and 161 ha of rural/agricultural land protected from floods. Targets to be revised.</p> <p><b>Achieved</b> – 343 infrastructure facilities recovered</p>	<p><b>Ongoing lending:</b>  - Drina Flood Protection Project  - Floods Emergency Recovery Project  - Irrigation Development Project  - West Balkans Drina River Basin Management</p> <p><b>Completed ASA:</b>  - Support to Water Resources Management in Drina River Basin</p>

<p><b>Baseline:</b> no plans; no forecasting and warning systems, fragmented hydrological models</p> <p><b>Target:</b> 2 RBM plans developed and agreed by key counterparts; forecasting and warning system and hydrological model for Sava basin in BiH established</p>	<p>testing. Sava River Basin plans are developed and agreed in the FBH and the RS. Procurement of the Drina Water Resource study, Drina hydrological and hydraulic modelling has been initiated.</p>	<p><b>Target:</b> 200</p> <p><i>Indicator 3:</i> Number of public officials who successfully completed capacity building activity on disaster risk management</p> <p><b>Baseline:</b> 0 <b>Target:</b> 30</p> <p><i>Indicator 4:</i> Water users provided with Improved irrigation services (number)</p> <p><b>Baseline:</b> 1,810 <b>Target:</b> 18,000</p>	<p><b>Achieved</b> – 107 public officials successfully completed capacity building training on disaster risk management</p> <p><b>On track</b> – 9,109 as of June 2018.</p>	<p><b>Ongoing ASA:</b></p> <ul style="list-style-type: none"> <li>- Joint Flood Management in Sava River Basin</li> </ul>
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				<ul style="list-style-type: none"> <li>- BiH Public Sector Employment and Labor Markets</li> <li>- Western Balkans Urbanization Review</li> <li>- Western Balkans Pension Reform TA FY19</li> <li>- Public Sector Accounting and Reporting (PULSAR)</li> <li>- Western Balkans - Strengthening Fiscal Institutions to Build Resilience</li> </ul>
<b>CPF OBJECTIVE 1B: STRENGTHEN THE GOVERNANCE AND REDUCE THE FISCAL BURDEN OF SOEs</b>				
<b>CPF Objective Indicators</b>	<b>Proposed change</b>	<b>Supplementary Progress Indicators</b>	<b>Proposed change</b>	<b>WBG Program</b>
<p><i>Indicator 1:</i> Reduction in financing transfer to the pension system in FBH excluding transfers for unpaid past pension contribution.</p> <p><b>Baseline:</b> 1.3 percent of GDP (2015)</p> <p><b>Target:</b> 1.1 percent of GDP (2020)</p> <p><i>Indicator 2:</i> Improving financial sustainability of the railways in Republika Srpska by reducing working ratio in Public Company RS Railways.</p> <p><b>Baseline:</b> RS Railways working ratio 1.7 (2015)</p>	<p><b>Indicator on fiscal burden of SOEs dropped.</b> New indicator introduced which is related to SOEs – see below.</p> <p><b>New indicator introduced</b></p>	<p><i>Indicator 1:</i> Adopt a plan for SOE restructuring.</p> <p><i>Indicator 2:</i> Legal framework for missing pensions contributions formulated.</p> <p><i>Indicator 3:</i> 80% of SOEs attending governance trainings implement changes and report improved performance (e.g. operational, organizational, financial).</p> <p><i>Indicator 4:</i> RS Railways labor productivity improved</p>	<p><b>No change</b></p> <p><b>No change</b></p> <p><b>No change</b></p> <p><b>New supplemental indicator</b></p>	<p><b>Ongoing lending:</b></p> <ul style="list-style-type: none"> <li>- RS Railways Restructuring</li> </ul> <p><b>Ongoing ASA:</b></p> <ul style="list-style-type: none"> <li>- Western Balkans poverty program FY18-19</li> </ul> <p><b>Planned ASA:</b></p> <ul style="list-style-type: none"> <li>- Western Balkans Pension Reform TA FY19</li> <li>- Strengthening Legislative Scrutiny in the Western Balkans (SAFE TF)</li> </ul>

<b>Target:</b> 1.0 (2020)		(thousand traffic units per employee) <b>Baseline:</b> 146 (2017) <b>Target:</b> 155 (2019)		
<b>CPF OBJECTIVE 1C: IMPROVE PUBLIC SERVICE DELIVERY</b>				
<b>CPF Objective Indicators</b>	<b>Proposed change</b>	<b>Supplementary Progress Indicators</b>	<b>Proposed change</b>	<b>WBG Program</b>
<p><i>Indicator 1:</i> Tobacco excise taxes are aligned with EU standards. <b>Baseline:</b> min. 51 EUR per 1000 cigarettes (2015) <b>Target:</b> min. 75 EUR per 1000 cigarettes (2020)</p> <p><i>Indicator 2:</i> Reduce expenditures on outpatient drugs: Baseline: KM 72 million (2015) Target: 10 percent reduction (2020)</p> <p><i>Indicator 3:</i> Improved services of water and wastewater. <b>Baseline:</b> 3% of collected waste water is treated (2015) <b>Target:</b> 30% of collected waste water is treated (2020)</p>	<p><b>Revised</b> – years added to baseline and target values. End target revised to reflect realistically achievable target (ie. 75 EUR per 1000 cigarettes).</p> <p><b>Revised</b> – indicator is revised to align with the Bank intervention, and to track the data that is monitored by the Drugs Agency.</p> <p><b>Revised</b> – years added to baseline and target values, and baseline value added.</p>	<p><i>Indicator 1:</i> Minimal excise duty amounts to 70 EUR by December 2019.</p>	<p><b>Supplemental indicator related to autonomy and accountability of public hospitals is dropped</b> due to uncertainty over engagement in this sector. New supplemental indicator introduced and aligned with the CPF indicator</p> <p><b>Supplemental indicator related to spending on preventive and public health services is dropped</b> due to uncertainty of engagement in health sector in this CPF cycle.</p> <p><b>Indicator on scope for water and waste water is dropped.</b> Planned Water and Sanitation Services Modernization project will consider pursuing this activity in cooperation with IFC, but indicator not achievable in this CPF cycle.</p> <p><b>Indicator related to legal and regulatory framework and</b></p>	<p><b>Ongoing lending:</b> - Reducing Health Risk Factors (Swiss TF)</p> <p><b>Planned lending:</b> -Water and Sanitation Services Modernization</p> <p><b>Ongoing ASA:</b> - Danube Water Programme - BiH: Solid Waste Management - Urban Partnership Program - Western Balkans poverty program FY18-19</p> <p><b>Planned ASA:</b> - BiH Functional Review of Health System Performance - BiH Functional Review of Education Service Delivery - Western Balkans Urbanization Review</p>

			<p><i>institutional capacity of civil servants to undertake PPPs is dropped.</i> Planned Water and Sanitation Services Modernization project will consider pursuing this activity in cooperation with IFC, but indicator not achievable in this CPF cycle.</p>	
<b>FOCUS AREA 2: CREATING CONDITIONS FOR ACCELERATED PRIVATE SECTOR GROWTH</b>				
<b>CPF OBJECTIVE 2A: SUPPORT A COMPETITIVE BUSINESS ENVIRONMENT AND ACCESS TO FINANCE</b>				
<b>CPF Objective Indicators</b>	<b>Proposed change</b>	<b>Supplementary Progress Indicators</b>	<b>Proposed change</b>	<b>WBG Program</b>
<p><i>Indicator 1: Improve Doing Business Distance to Frontier.</i></p> <p><b>Baseline:</b> 60.55 (2015) <b>Target:</b> 63 (2020)</p> <p><i>Indicator 2: New and sustained jobs through real sector investments</i></p> <p><b>Total sustained jobs baseline:</b> 950 (existing 2015) <b>Total sustained jobs target:</b> 1700 (existing + new clients 2020)</p> <p><b>Total new jobs baseline:</b> 0 (existing clients - 2015)</p>	<p><b>Revised</b> – years added to baseline and target values.</p> <p><b>Revised -</b> years added to baseline and target values.</p>	<p><i>Indicator 1:</i> Up to US\$50 million of investment facilitated as a result of improved corporate governance, energy efficiency and regulatory reform interventions.</p> <p><i>Indicator 2:</i> Reduction of administrative burden of licensing in select areas, disaggregated below (using WBG T&amp;C methodology):</p> <p>a. direct costs savings by \$7 million as measured by standard CCS indicator.</p> <p>b. 20% reduction in indirect costs for businesses.</p>	<p><b>No change</b></p> <p><b>No change</b></p>	<p><b>Ongoing lending:</b></p> <ul style="list-style-type: none"> <li>- Real Estate Registration Project</li> <li>- Banking Sector Strengthening</li> </ul> <p><b>Ongoing ASA:</b></p> <ul style="list-style-type: none"> <li>- Tax Transparency and Simplification Program (IFC)</li> <li>- Corporate Governance Program (planned extension)</li> <li>- Microfinance in BIH (IFC)</li> <li>- FinSAC Bank Resolution Framework and Supervision TA (Under Financial Sector Advisory Services Center)</li> <li>- EU REPARIS (Road to Europe - Program of</li> </ul>

<p><b>Total new jobs target: up to 400</b> (existing clients 2020)</p> <p><i>Indicator 3:</i> By FY20 at least double outstanding MSME and housing finance of IFC portfolio clients</p> <p><b>MSME outstanding portfolio baseline:</b> US\$ 58 million (2015)</p> <p><b>MSME outstanding portfolio target:</b> US\$ 124 million (2020)</p> <p><b>Housing finance outstanding portfolio baseline:</b> US\$ 83 million (2015)</p> <p><b>Housing finance outstanding portfolio target:</b> US\$ 147 million (2020)</p>	<p><b>Revised</b> – years added to baseline and target values.</p>	<p>c. up to 2000 firms will benefit from reformed procedures.</p> <p><i>Indicator 3:</i> Cadastral municipalities with harmonized land register and cadastral data/established REC in urban areas</p> <p><b>Baseline:</b> 62 (2016) <b>Target:</b> 468 (2020)</p> <p><i>Indicator 4:</i> Additional enterprises reached with financial services</p> <p><b>Baseline:</b> 316 (2015), of which 125 owned by women (owners/stakeholders) <b>Target (2020):</b> 700, of which 200 owned by women.</p> <p><i>Indicator 5:</i> New bank resolution framework enacted (2016).</p> <p><i>Indicator 6:</i> New insolvency laws enacted in both entities (2016).</p>	<p><b>Revised</b> – years added to baseline and target values. Target value revised in line with the new value established during the Real Estate Registration Project restructuring in 2017.</p> <p><b>No change</b></p> <p><b>No change</b></p> <p><b>No change</b></p>	<p>Accounting Reform and Institutional Strengthening)</p> <p><b>MIGA guarantees:</b></p> <ul style="list-style-type: none"> <li>- Cover to foreign banks for expropriation of funds held at the Central Bank of BiH, freeing up capital to support extended lending in BiH</li> </ul> <p><b>Planned ASA:</b></p> <ul style="list-style-type: none"> <li>- Commercial Justice TA in BiH</li> <li>- BiH Remittances and Payments</li> <li>- Improving Governance and Business Model of Development Banks TA</li> <li>- WBS Diversification of Financial Markets - Developing regional capital markets for better economic integration</li> <li>- Western Balkans Competitiveness TA Program</li> </ul>
<b>CPF OBJECTIVE 2B IMPROVE LABOR MARKET FLEXIBILITY AND SOCIAL PROTECTION</b>				
<b>CPF Objective Indicators</b>	<b>Proposed change</b>	<b>Supplementary Progress Indicators</b>	<b>Proposed change</b>	<b>WBG Program</b>
<i>Indicator 1:</i> Decrease the number of inactive persons:	<b>Revised</b> – year added to target values.	<i>Indicator 1:</i> Reform of Public Employment Services,	<b>Revised</b> – supplementary indicator revised to better	<b>Ongoing lending:</b>

<p>men aged 15 to 64, reduce by 10%  <b>Baseline:</b> 346,000 (2015)  <b>Target:</b> 311,400 (2020)</p> <p>women aged 15 to 64, reduce by 10%  <b>Baseline</b> 580,000 (2015)  <b>Target:</b> 522,000 (2020)  (source: LFS)</p> <p><i>Indicator 2:</i> Increase in private sector formal employment:  men by 10%,  <b>Baseline:</b> 390,204 (2015)  <b>Target:</b> 441,000 (2020)</p> <p>women by 10%,  <b>Baseline:</b> 232,083 (2015)  <b>Target:</b> 265,000 (2020)  (source: LFS and administrative data)</p> <p><i>Indicator 3:</i> Improve targeting accuracy of last resort social assistance: percentage of last resort social assistance benefits reaching the poorest quintile.  <b>Baseline:</b> 40 percent (2015)  <b>Target:</b> 65 percent (2020)</p>	<p><b>Revised</b> – baseline value revised to apply the latest data.</p> <p><b>Revised</b> – years added to baseline and target values.</p>	<p>including: (i) improved categorization of registered unemployed, and (ii) improved profiling of unemployed.</p> <p><i>Indicator 2:</i> Reduced number of <b>men</b> who are registered with the Public Employment Services as active job seekers, but are not looking for work because they are informally employed or inactive, by 15 percent, from 152,000 (2014) to 129,000 (2020).  Reduced number of <b>women</b> who are registered with the Public Employment Services as active job seekers, but are not looking for work because they are informally employed or inactive, by 20 percent, from 183,000 (2014) to 146,000 (2020)  (source: LFS)</p> <p><i>Indicator 3:</i> Social assistance framework law and law on benefits for families with children passed/adopted (with improved targeting formula) Centers for Social Work start using an improved targeting formula to calculate cash benefits</p>	<p>reflect the nature of proposed reforms of the Public Employment Services.</p> <p><b>Revised</b> – year added to target values.</p> <p><b>No change</b></p>	<p>- BiH Employment Support Program</p> <p><b>Ongoing ASA:</b></p> <ul style="list-style-type: none"> <li>- Developing Private Employment Services in BiH</li> <li>- Western Balkans poverty program FY18-19</li> </ul> <p><b>Planned ASA:</b></p> <ul style="list-style-type: none"> <li>- Western Balkans Pension Reform TA FY19</li> <li>- BiH Public Sector Employment and Labor Markets</li> </ul>
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CPF OBJECTIVE 2C UPGRADE ECONOMIC INFRASTRUCTURE				
CPF Objective Indicators	Proposed change	Supplementary Progress Indicators	Proposed change	WBG Program
<p><i>Indicator 1:</i> Travel time saving as a measure of connectivity between major economic growth poles. <b>Baseline:</b> 0.0 (2015) <b>Target:</b> 15 percent savings (2020)</p> <p><i>Indicator 2:</i> Increase lifetime energy savings. <b>Baseline:</b> No saving (2015) <b>Target:</b> 650 thousand MWh (2020)</p> <p><i>Indicator 3:</i> Additional Renewable Energy capacity facilitated <b>Baseline:</b> 0 MW (2015) <b>Target:</b> 50 MW (2020)</p>	<p><b>Revised</b> – years added to baseline and target values.</p> <p><b>Revised</b> – years added to baseline and target values.</p> <p><b>Revised</b> – years added to baseline and target values.</p>	<p><i>Indicator 1:</i> Length of main roads improved. <b>Baseline:</b> 0km (2016) <b>Target:</b> 33 km (2020)</p> <p><i>Indicator 2:</i> Value of financing for energy sector facilitated through PPP or advisory support (US\$) <b>Target:</b> 80 million</p> <p><i>Indicator 3:</i> Facilitated increase in RE generation <b>Target:</b> 125,000 MWh</p> <p><i>Indicator 4:</i> GHG emission expected to be avoided (mln tCO<sub>2</sub>/a) <b>Target:</b> 0.2</p>	<p><b>Supplementary indicator on percentage of primary roads improved is dropped and new indicator introduced to better capture Bank's engagement in this area.</b></p> <p><b>No change</b></p> <p><b>No change</b></p> <p><b>No change</b></p>	<p><b>Ongoing lending:</b></p> <ul style="list-style-type: none"> <li>- Energy Efficiency Project</li> <li>- Federation BH Road Sector Modernization</li> <li>- IFC PPP Mandate with FBH Autoceste on Corridor 5c</li> </ul> <p><b>Planned lending:</b></p> <ul style="list-style-type: none"> <li>- Energy Efficiency AF</li> <li>- RS Road Sector Modernization</li> <li>- Regional Integrated Program for Sava-Drina Corridor Development</li> </ul> <p><b>Ongoing ASA:</b></p> <ul style="list-style-type: none"> <li>- Mainstreaming disaster risk management into road network management</li> <li>- Financing of Public Buildings in the Western Balkans</li> <li>- IFC ECA Water and Energy Advisory</li> <li>- Digital Balkans</li> <li>- Balkans Digital Highway</li> <li>- Global Cyber Security Capacity Program</li> </ul> <p><b>Planned ASA:</b></p> <ul style="list-style-type: none"> <li>- Integrated Water and Hydropower Development in the Drina River Basin</li> </ul>

				- Strengthening of the integration of disaster risk management and climate resilience in the Western Balkans
<b>FOCUS AREA 3: BUILDING RESILIENCE TO NATURAL SHOCKS</b>				
<b>CPF OBJECTIVE 3A PREVENT THE DEGRADATION OF NATURAL RESOURCES</b>				
<b>CPF Objective Indicators</b>	<b>Proposed change</b>	<b>Supplementary Progress Indicators</b>	<b>Proposed change</b>	<b>WBG Program</b>
<p><i>Indicator 1:</i> Adoption of a plan for management of hot spots in BiH  <b>Baseline:</b> No plan for management of hot spots in BiH (2015)  <b>Target:</b> Adoption of a plan for management of hot spots in BiH in the period covered by the CPF (2020).</p> <p><i>Indicator 2:</i> Collection rate and disposal capacity of engineered landfills expanded to reach minimum EU sector standards  <b>Baseline:</b> 50% of generated solid waste appropriately disposed per year (2015)  <b>Target:</b> 65% of generated solid waste appropriately disposed per year (2020)</p> <p><i>Indicator 3:</i> Increased area where sustainable land management practices were adopted  <b>Baseline:</b> 117 ha (2015)</p>	<p><b>Revised</b> – years added to baseline and target values.</p> <p><b>Revised</b> – years added to baseline and target values.</p> <p><b>No change</b></p>	<p><i>Indicator 1:</i> Area restored or re-afforested  Baseline: 117 ha (2016)  Target: 1000 ha (2020)</p> <p><i>Indicator 2:</i> Number of engineered regional landfills  <b>Baseline:</b> 6 (2014)  <b>Target:</b> 11 (2018)</p>	<p><b>Revised</b> – years added to baseline and target values.</p> <p><b>Revised</b> – years added to baseline and target values.</p>	<p><b>Ongoing lending:</b>  - Sustainable forest and landscape management</p> <p><b>Ongoing ASA:</b>  - BiH: Solid Waste Management</p> <p><b>Planned ASA:</b>  - Regional Air Quality Management - Western Balkans  - Study for Establishment of the Protection Zones of a Klokot Source (Bihac) Intersected by Interstate Boundary</p>

<b>Target:</b> 3000 ha (2020)				
<b>CPF OBJECTIVE 3B BUILD RESILIENCE TO FLOODS</b>				
<b>CPF Objective Indicators</b>	<b>Proposed change</b>	<b>Supplementary Progress Indicators</b>	<b>Proposed change</b>	<b>WBG Program</b>
<p><i>Indicator 1:</i> People in flood affected/prone areas benefiting from goods received and infrastructure rehabilitated with projects' support</p> <p><b>Baseline:</b> 0 (2015) <b>Target:</b> 300,000 (2020)</p> <p><i>Indicator 2:</i> Strengthened capacity in water resources management, including flood management, forecasting and warning, in Drina and Sava River basins</p> <p><b>Baseline:</b> no plans; no forecasting and warning systems, fragmented hydrological models (2015) <b>Target:</b> 2 RBM plans developed and agreed by key counterparts; forecasting and warning system and hydrological model for Sava basin in BiH established (2020)</p>	<p><b>Revised</b> – years added to baseline and target values.</p> <p><b>Revised</b> – years added to baseline and target values.</p>	<p><i>Indicator 1:</i> Area provided with flood protection (rural and urban land)</p> <p><b>Baseline:</b> 0 ha (2014) <b>Target:</b> 4200 ha (2020)</p> <p><i>Indicator 2:</i> Public service infrastructure facilities recovered to pre-floods condition with projects' support</p> <p><b>Baseline:</b> 0 (2014) <b>Target:</b> 200 (2018)</p> <p><i>Indicator 3:</i> Number of public officials who successfully completed capacity building activity on disaster risk management</p> <p><b>Baseline:</b> 0 (2014) <b>Target:</b> 30 (2018)</p> <p><i>Indicator 4:</i> Water users provided with Improved irrigation services (number)</p> <p><b>Baseline:</b> 1,810 (2016) <b>Target:</b> 18,000 (2020)</p>	<p><b>Revised</b> – years added to baseline and target values. Target revised to align with progress in Drina Flood Protection project.</p> <p><b>Revised</b> – years added to baseline and target values.</p> <p><b>Revised</b> – years added to baseline and target values.</p> <p><b>Revised</b> – years added to baseline and target values.</p>	<p><b>Ongoing lending:</b></p> <ul style="list-style-type: none"> <li>- Drina Flood Protection Project</li> <li>- Floods Emergency Recovery Project</li> <li>- Irrigation Development Project</li> <li>- West Balkans Drina River Basin Management</li> </ul> <p><b>Planned lending:</b></p> <ul style="list-style-type: none"> <li>- Water and Sanitation Services Modernization</li> </ul> <p><b>Ongoing ASA:</b></p> <ul style="list-style-type: none"> <li>- Joint Flood Management in Sava River Basin</li> </ul> <p><b>Planned ASA:</b></p> <ul style="list-style-type: none"> <li>- Integrated Water and Hydropower Development in the Drina River Basin</li> </ul>

### ANNEX 3: Selected Macro-Economic Indicators

<b>BOSNIA AND HERZEGOVINA</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017<sup>f</sup></b>	<b>2018<sup>f</sup></b>	<b>2019<sup>f</sup></b>	<b>2020<sup>f</sup></b>
Real GDP growth (percent)	1.1	3.1	3.1	3.0	3.2	3.4	3.9
<i>Composition (percentage points):</i>							
Consumption	n.a.	n.a	n.a	3.0	3.5	2.6	2.7
Investment	n.a.	n.a	n.a	0.6	0.8	1.0	0.8
Net exports	n.a.	n.a	n.a	-0.8	-1.1	-0.2	0.4
Exports	n.a	n.a	n.a	4.2	1.7	1.7	0.9
Imports (-)	n.a	n.a	n.a	5.1	2.7	2.0	0.2
Consumer price inflation (percent, period average)	-0.9	-1.0	-1.6	0.8	1.1	1.4	1.4
Public revenues (percent of GDP)	44.2	43.2	43.1	43.7	44.5	42.9	42.7
Public expenditures (percent of GDP)	46.3	42.5	42.1	41.4	45.0	42.6	41.5
Of which:							
Wage bill (percent of GDP)	12.1	11.5	11.0	11.0	11.1	10.9	10.6
Social benefits (percent of GDP)	17.2	16.5	15.9	17.8	18.3	17.1	16.7
Capital expenditures (percent of GDP)	4.3	2.0	2.4	2.3	5.0	4.3	4.1
Fiscal balance (percent of GDP)	-2.1	0.7	1.0	2.4	-0.5	0.3	1.2
Primary fiscal balance (percent of GDP)	-1.2	1.6	1.9	3.2	0.5	1.3	2.2
Public debt (percent of GDP)	41.6	41.9	40.5	35.9	35.6	34.2	33.1
Public and publicly guaranteed debt (percent of GDP)	43.4	43.6	42.3	37.5	37.2	35.2	34.1
Of which: External (percent of GDP)	30.0	29.4	28.6	24.9	25.3	23.6	21.8
Goods exports (percent of GDP)	25.0	25.2	25.7	28.5	31.2	33.9	35.2
Goods imports (percent of GDP)	53.8	50.3	49.3	52.3	55.9	59.1	60.8
Net services exports (percent of GDP)	6.1	6.6	6.8	7.1	8.0	8.3	8.4
Trade balance (percent of GDP)	-28.8	-25.2	-23.5	-23.8	-24.7	-25.2	-25.6
Remittance inflows (percent of GDP)	8.4	8.3	8.2	8.3	8.2	8.3	8.4
Current account balance (percent of GDP)	-7.5	-5.4	-4.9	-4.8	-5.3	-5.5	-5.6
Foreign direct investment inflows (percent of GDP)	-2.9	-1.7	-1.6	-2.1	-2.1	-2.2	-2.3
External debt (percent of GDP)	76.3	72.2	71.0	70.9	69.3	68.8	68.8
Real private credit growth (percent, period average)	3.1	1.1	3.1	6.2	6.8	n.a.	n.a
Non-performing loans (percent of gross loans, end of period)	14.2	13.7	11.8	10.0	9.7	n.a.	n.a
Unemployment rate (percent, period average)	27.5	27.7	25.4	20.5	18.4	n.a.	n.a
Youth unemployment rate (percent, period average)	62.9	62.3	54.3	45.8	n.a.	n.a.	n.a
Labor force participation rate (percent, period average)	43.7	44.1	43.1	42.6	42.1	n.a.	n.a
GDP per capita, PPP (current international \$)	11,164	11,526	12,173	12,875	13,200	13,775	14,258

Note: f-forecast

## ANNEX 4: Citizen Engagement

Although international organizations have attempted to encourage citizen participation through educating local communities (known as MZs - mjesne zajednice)<sup>14</sup>, NGOs and local governments, citizens' confidence and motivation to participate is low, and it is generally agreed that the context for citizen engagement in BiH has worsened over the last decade. Lack of communication, information and responsiveness on the part of authorities, and citizens' lack of belief that authorities will take their opinions into account, all contribute to citizens' passiveness and limited participation.<sup>15</sup> In particular, socially marginalized groups are poorly represented.<sup>16</sup>

Since 2014, when the Citizen Engagement (CE) corporate requirements were introduced at the WBG, efforts were stepped up to embed CE in all IPFs in the BiH portfolio. While the country has now reached 100 percent compliance for CE, the portfolio has struggled with quality and with the level of implementation of genuine mechanisms in a number of projects. From FY14 to FY18, eight projects in BiH were subject to the CE corporate requirements. With regards to compliance with the CE requirements, after a lag in FY14, by FY17 (no projects in FY15-16), 100 percent of BiH projects approved by the Board were fully compliant with both CE requirements. A review of the quality of the CE in all IPFs was undertaken in 2016 and updated in 2018 to inform this PLR. Of those projects that have included CE activities, 50 percent enable citizens to provide feedback at least annually (frequency of feedback) and only 25 percent make available more than one CE mechanism (multiple channels for feedback). The portfolio largely relies on rather passive mechanisms (GRMs and satisfaction surveys) which do not provide an opportunity for direct interaction or active engagement (depth of engagement), some which were established for safeguards only (placing restrictions on feedback). Efforts to improve quality of CE results are already underway.

To address some gaps in quality and implementation, Capacity Building Workshops on Citizen Engagement was conducted in Sarajevo and Banja Luka in 2017. Targeted at PIUs and Ministries working on projects in BiH, approximately 25 participants attended in all, from a range of sectors (agriculture, banking, employment, floods, forestry, irrigation, real estate registration, roads/railways, waste water, water).

Of those projects more recently approved, the Employment Support Program, approved in FY17, includes several citizen engagement mechanisms allowing for unrestricted feedback (e.g. consultations with multiple stakeholder groups, yearly client satisfaction surveys as part of its effort to strengthen management systems to monitor employment services efficiency – providing opportunities to use the feedback provided to make adjustments and further improve services). In addition, the survey will focus on monitoring results for different vulnerable categories of job seekers.

During the remainder of the CPF period, specific actions are planned to improve quality and strengthen implementation. To ensure genuine improvement, it will be vital to: (i) shift from passive to active CE tools in the BiH portfolio which encourage more dialogue and a state/non-state interface, (ii) better link the implementation of CE activities to more open and frequent reporting of results, (iii) take corrective action on projects facing challenges in implementation, and to ensure inclusion in CE processes. and (iv) identify CE country priorities in a CE country roadmap linked to CPF objectives (Figure 1. below).

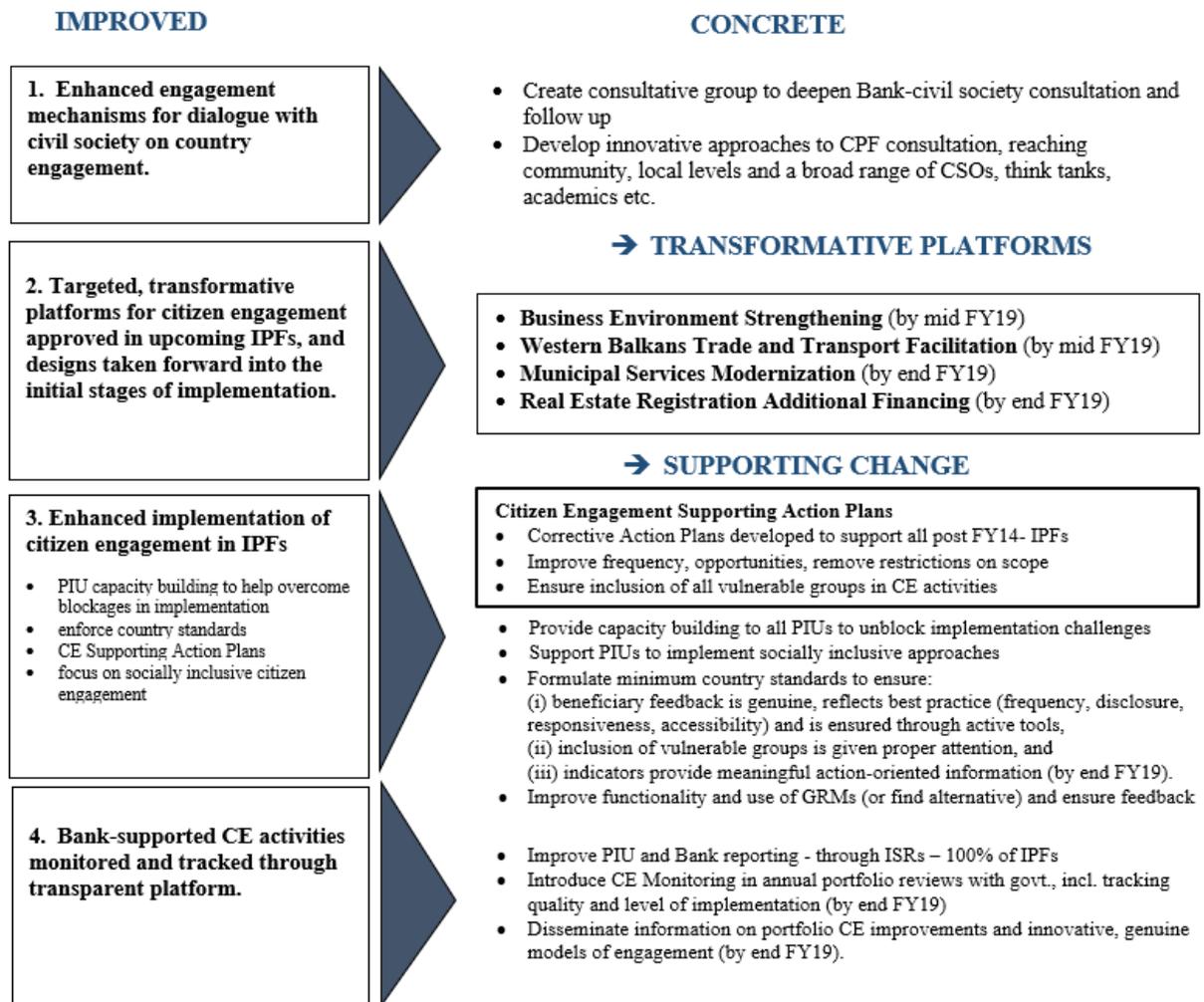
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<sup>14</sup> OSCE BiH. Community Engagement. 2018.

<sup>15</sup> SADC BiH. Citizenship in BiH. Digitalne Priče.Net. 2018.

<sup>16</sup> Bertelsmann Transformation Index (BTI). Bosnia and Herzegovina Country Report. 2018.

Figure 1 BiH Citizen Engagement Country Roadmap FY19-20



## Annex 5: World Bank Active Portfolio

### Bosnia and Herzegovina: Active Portfolio

As of 12/21/2018

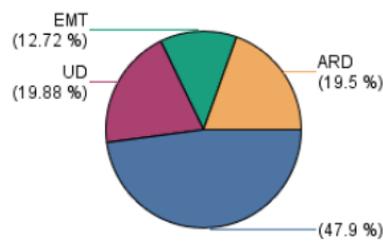
Sector	Resp CC	Prod Line	Project ID	Project Short Name	DO	IP	Board Approval	Closing	# Proj	Net Comm Amt (\$m)	Tot Disb (\$m)	Proj disb ratio	Tot Disb (\$m)	Tot Undisb Begin FY (\$m)	Disb in FY (\$m)	FY Disb Ratio	# Mos since IP/DO	# Proj At Risk	# Mths since last ISR	Proj Age in Yrs
ARD	GSULN	PE	P128950	REAL ESTATE REGISTRATION PROJE	S	S	10/25/2012	01/31/2020	1	\$34.10	\$26.94	79%	\$26.94	\$7.25	\$1.93	27%	0	0	0	6
ARD	GWA03	PE	P115954	IRRIG DEVT	MS	MS	05/03/2012	11/30/2019	1	\$40.00	\$19.82	50%	\$19.82	\$19.58	\$2.83	14%	0	1	0	7
ARD	GWA03	PE	P115954	IRRIG DEVT			05/03/2012	11/30/2019	1											
ARD	GWA03	PE	P143844	Drina Flood Protection Project	MU	MU	05/16/2014	12/31/2019	1	\$24.00	\$7.27	30%	\$7.27	\$14.44	\$0.11	1%	6	1	6	5
ARD	GWA03	PE	P143844	Drina Flood Protection Project			05/16/2014	12/31/2019	1											
EMT	GEE03	PE	P143580	Energy Efficiency Project	MS	MS	03/13/2014	02/29/2024	1	\$64.00	\$25.46	40%	\$25.46	\$5.46	\$2.05	38%	0	0	6	5
UD	GSU09	PE	P151157	BiH Floods Emergency Recovery Project	S	S	06/30/2014	06/30/2019	1	\$100.00	\$77.25	77%	\$77.25	\$19.77	\$6.34	32%	0	0	1	4
	GFCEW	PE	P158387	Banking Sector Strengthening Project	MS	MS	04/28/2017	12/31/2020	1	\$60.00	\$0.16	0%	\$0.16	\$59.85	\$0.00	0%	0	0	1	2
	GSP03	PE	P152347	BIH Employment Support Program	S	S	01/05/2017	10/01/2021	1	\$55.80	\$10.21	18%	\$10.21	\$55.88	\$9.94	18%	0	0	1	2
	GTR03	PE	P152406	Federation Road Sector Modernization	S	MS	08/02/2016	12/31/2021	1	\$64.60	\$4.27	7%	\$4.27	\$62.84	\$2.33	4%	0	0	6	2
	GTR03	PE	P161122	Republika Srpska Railways Restructuring	S	S	12/07/2017	12/31/2021	1	\$60.60	\$30.13	50%	\$30.13	\$59.12	\$29.98	51%	0	0	6	1
<b>Total/Average</b>									<b>11</b>	<b>\$503.10</b>	<b>\$201.50</b>	<b>40%</b>	<b>\$22.39</b>	<b>\$304.20</b>	<b>\$55.52</b>		<b>0.64</b>	<b>2</b>	<b>2.98</b>	<b>3.74</b>

FY Disb Ratio (IL Only) 18.3% Proactivity 100.0%

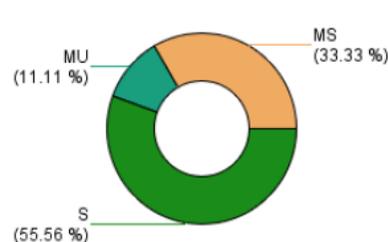
**IEG Evaluations**



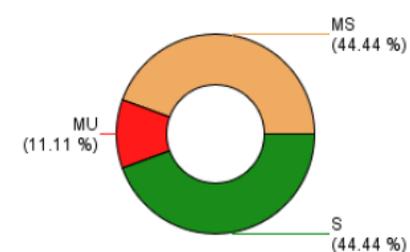
**Commitments by Sector**



**DO Ratings by Project Count**



**IP Ratings by Project Count**



**ANNEX 6: Statement of IFC's Held and Disbursed Portfolio**

**As of December 20, 2018**

**(in US\$ millions)**

 <b>International Finance Corporation</b> <small>WORLD BANK GROUP</small>		<b>Statement of IFC's Committed and Outstanding Portfolio</b> (Amounts in USD Millions)										Run Date : Dec 20, 2018 Run Time: 3:47:41 PM Page : 1 of 1				
Commitment Fiscal Year	Institution Short Name	LN Cmtd - IFC	LN Repayment - IFC	ET Cmtd - IFC	QL + QE Cmtd - IFC	GT Cmtd - IFC	RM Cmtd - IFC	ALL Cmtd - IFC	ALL Cmtd - Part	LN Out - IFC	ET Out - IFC	QL + QE Out - IFC	GT Out - IFC	RM Out - IFC	ALL Out - IFC	ALL Out - Part
2005/2010/2011 /2003/2004/2015	Raiffeisen-BOS	4.35	45.81	0	0	0	0	4.35	0	4.35	0	0	0	0	4.35	0
2013	Bekto Precisa	7.44	1.57	0	0	0	0	7.44	0	7.44	0	0	0	0	7.44	0
2013/2007/2011 /2016	Sisecam Bosnia	18.34	59.38	0	0	0	0.47	18.81	0	18.34	0	0	0	0.47	18.81	0
2016	UniCredit Bosnia	2.33	9.29	0	0	0	0.50	2.83	0	2.33	0	0	0	0.12	2.44	0
2017/2008	Cimos Bosnia	0	0	0	10.01	0	0	10.01	0	0	0	10.01	0	0	10.01	0
	Mercator BH	3.06	0.21	0	0	0	0	3.06	0	3.06	0	0	0	0	3.06	0
<b>Grand Total:</b>		<b>35.52</b>	<b>116.26</b>	<b>0</b>	<b>10.01</b>	<b>0</b>	<b>0.97</b>	<b>46.49</b>	<b>0</b>	<b>35.52</b>	<b>0</b>	<b>10.01</b>	<b>0</b>	<b>0.58</b>	<b>46.10</b>	<b>0</b>

## ANNEX 7: Statement of MIGA's Outstanding Exposure

As of December 25, 2018  
(in US\$)

	FY15	FY16	FY17	FY18	FY19 YTD
Number of Projects	4	3	4	4	4
Number of Guarantees	4	3	4	4	4
Gross Exposure (\$M)	174	144	413	421	421
Adjusted Net Exposure (\$M)	165	134	206	162	168

Note: Exposure data incorporates changes in the US\$ - Euro exchange rate