

**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

**STRATEGY FOR
BOSNIA AND HERZEGOVINA**

As approved by the Board of Directors on 29 April 2003

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LIST OF ABBREVIATIONS

BAS	Business Advisory Services
BiH	Bosnia and Herzegovina, federal state comprising two entities
CEI	Central European Initiative
CPC	Commission for Public Corporations, established under Annex 9 of Dayton Agreement
DFID	UK Department for International Development
DIF	Direct Investment Facility
EIB	European Investment Bank
EC	European Commission
EU	European Union
FBH, Federation	Federation of Bosnia-Herzegovina, Entity, capital Sarajevo
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit GmbH
IAGP	International Advisory Privatisation Group, comprising WB, EC, USAID, GTZ, EBRD, etc.
IFC	International Finance Corporation
IFIs	International Financial Institutions
MEB	Micro-Enterprise -Bank
OHR	Office of the High Representative, with the mandate to oversee the civilian implementation of Dayton Agreement
RS	Republika Srpska, entity, capital Banja Luka
SEED	South Eastern Europe Development
SDR	Special Drawing Rights
TAM	Turn-Around Management
TFP	Trade Facilitation Programme
TMG	Turn-Around Management Group
USAID	United States Agency for International Development
WB	World Bank
Currencies	
EUR	Euro
KM	Konvertibilna Marka, Convertible Mark, the lawful currency of BiH
USD	United States Dollar
NOK	Norwegian Crown
GBP	British Pound
CHF	Swiss Franc
Exchange Rates	
1 Euro	1.95583 KM

I. EXECUTIVE SUMMARY

Bosnia and Herzegovina (BiH) respects the principles specified in Article 1 of the Agreement Establishing the Bank. The October 2002 elections were free and fair and, for the first time since the signing of the Dayton Agreement in 1995, organised by the BiH authorities without international assistance. The partial return to power of parties based on ethnic allegiances both at the level of the State and of the two entities of the Federation of Bosnia and Herzegovina (FBH) and the Republika Srpska (RS) has not altered the international community's approach to governance issues in BiH. The push for reforms to make BiH a fully functioning state, based on the rule of law and a sustainable economy, not least through further integration into European structure via the Stabilisation and Association process, must be based to the fullest extent possible on a partnership between the local authorities and the international community, led by the High Representative (and EU Special Representative) Paddy Ashdown. The international community is also encouraging BiH in the constructive role it is playing in regional co-operation, including through active participation in the Stability Pact for South-Eastern Europe and the signing of free-trade agreements with other South-East European countries.

BiH has made considerable progress in macroeconomic stabilisation and some progress in transition in the past two years. Inflation is low, fiscal discipline has improved and economic growth stands at around 4 per cent per annum, which is however a slow-down compared to the post-war reconstruction years, reflecting the lack of new sources of investment. Small-scale privatisation is almost complete in both Entities, but large-scale enterprise privatisation is lagging behind. The privatisation of the banking sector is nearing completion, and in the Federation, a sound banking system has taken roots. Progress has been made towards privatisation of telecommunications in the RS, while a sound regulatory framework has been developed at State level.

However, much remains to be done and BiH stands at a crossroads in 2003. The economy is still very fragile, GDP per capita at around USD 1,400 is among the lowest in Europe, and unemployment and poverty are widespread. After a particularly difficult history over the past ten years, the population has become disillusioned and impatient with the slow pace of reform, as witnessed in recent elections. The structure of the State is complex and administrative obstacles to doing business are significant. The investment climate is poor and the rule of law is not yet fully entrenched. Organised crime, with roots in the war time 1992-95, remains a serious problem. Negotiations on a Stabilisation and Association Agreement with the EU have not started yet (the launch of a feasibility study is expected this year). As foreign assistance and post-war reconstruction aid will continue to decline, the country will increasingly be obliged to take control of its own destiny. The international community expects the new governments at State and Entity levels, which have taken power for a four-year mandate (as opposed to two years previously), to seize this unique opportunity to implement a new reform drive seriously. This is the clear condition for the EBRD to be able to implement successfully the proposed Country Strategy.

The main transition challenges for Bosnia and Herzegovina are:

- To strengthen the capacity of the political authorities and the public administration to develop and implement a true strategic vision for the State. Despite the size and considerable cost of the public administration, this is not yet the case.

- To implement the action plans for creation of a single economic space across the whole country (two Entities and the District of Brcko) including a single customs administration, the introduction of State level VAT, and State-level planning, operation and regulation of all infrastructure sectors.
- To improve radically the investment climate and bring about a stronger and better enforced legal framework, while seriously fighting corruption, organised crime, fraud and poor governance at all levels. This must go hand-in-hand with a focus on private enterprise development and kick-starting large scale privatisations.
- To implement essential improvements to all physical infrastructure, move ahead with utility restructuring and privatisation and strengthen the ability of local authorities to finance and implement municipal infrastructure projects.
- To further consolidate the banking sector and improve the legal framework for non-banking financial activities with the aim of better serving the needs and channelling more funds to the small and medium size enterprise sector.

With 30 projects representing EUR 229 million committed to date and several institutional building initiatives, the Bank is starting to have a significant impact in the country. Going forward, the Bank remains fully committed to providing direct and proactive support to the country and will work together with the governments in addressing the above challenges. The Bank will focus on the following operational priorities:

Enterprise Sector: The Bank's first priority will be to concentrate and intensify its efforts on the development and strengthening of the private sector at all levels in order to build up a track record and create a strong demonstration effect. The Bank will work with the authorities to accelerate the privatisation process and will seek to provide support for selected large enterprise privatisations in the form of post-privatisation financing with strategic investors. The Bank will also give consideration to medium sized locally or regionally based private companies with a clear capacity to be successful in the regional markets, for which long term debt (including smaller size transactions) or equity (through the Bank's Direct Investment Facility) will be envisaged. The TAM and multi-donor CEI BAS programmes will actively continue to provide assistance to SMEs and local consultancies. These actions will be associated with targeted policy dialogue with the governments, through existing fora including investors, chambers of commerce, IFIs and international donors.

Infrastructure: The Bank will focus on new projects at State level, associated with state-wide operational and regulatory institutions, as well as at the local level, while taking into account affordability and sovereign borrowing constraints. In the **transport sector**, the Bank will explore, jointly with other IFIs and donors, the possibility of a new road project. This would include regional links and address cost recovery issues in the sector. The Bank will also explore the possibility of developing a second air navigation project. The Bank will seek to enter the **municipal infrastructure sector** with the objective to conclude new projects that will include important institutional strengthening components, aiming where possible at structures relying on sub-sovereign support. In the **energy and telecom sectors**, the focus will primarily be on the implementation of existing projects and associated sector reforms, with a possibility for follow-on investments. The Bank's priority will be the implementation of the Electric Power Reconstruction Project and the Thermal Power Upgrade Project, with a focus on the reform and restructuring components in order to bring the sector in line with European standards and prepare the ground for privatisation. This will require strong political will and determination from the authorities in order to avoid further implementation delays. In telecom, the priority will be the implementation of the Telekom Srpske pre-

privatisation project, with a readiness to consider similar projects in the Federation, subject to the authorities' co-operation and commitment.

Financial Sector: The Bank will build on its track record in the sector with the objective to strengthen the SME finance mechanisms and channel more funding through local commercial banks (aiming to include also RS banks), facilitate bank consolidation and diversify the range of financial products available, including the development of the non-bank financial sector.

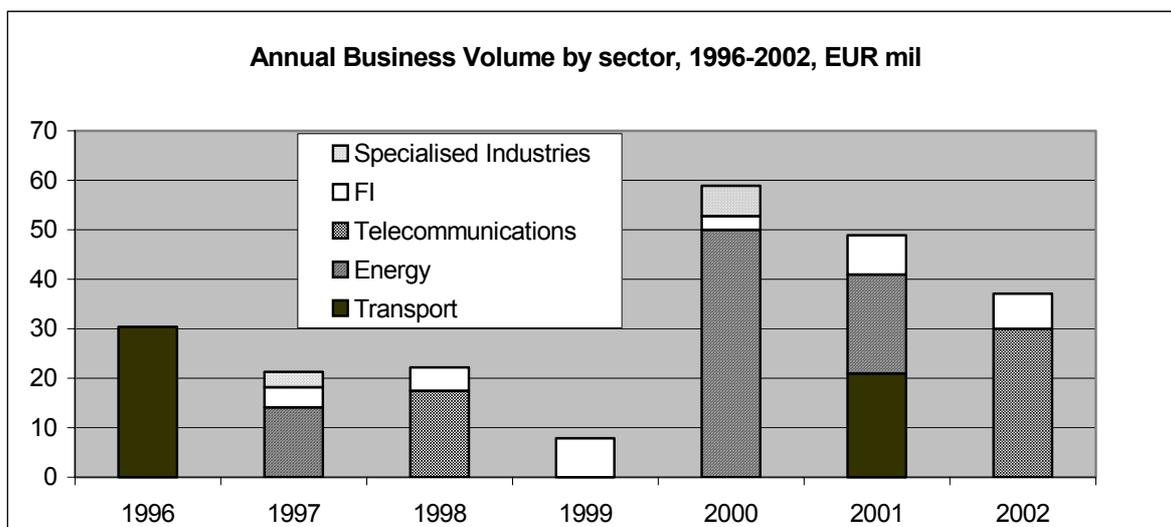
In carrying out the above priorities, the Bank will continue to co-ordinate very closely, and where possible, co-finance projects, with the EU, the Office of the High Representative, the other IFIs and the international donor community.

II. COUNTRY STRATEGY

1. THE BANK'S OPERATIONS TO DATE AND PORTFOLIO

1.1. Overview of Activities to Date

The Bank has supported actively BiH post-war reconstruction and transition process with average annual commitments of EUR 32 million since the start of its operations in 1996. The Bank initially concentrated on financing emergency reconstruction in areas such as power, telecommunications, roads, bridges, airports and air navigation and gradually expanded its activities to supporting the development of financial sector, SMEs and the private corporate sector.



As of 28 February 2003, the Bank has signed 30 projects in the power, telecom, transport, financial and agribusiness sectors. The cumulative business volume amounts to EUR 229 million for a total project cost of EUR 894.1 million, with an outstanding portfolio of EUR 212.8 million (95 per cent in the form of debt). The gross disbursed funds amount to EUR 87.1 million (38 per cent) and operating assets to EUR 75.6 million. The low disbursement level reflects the high share of public sector infrastructure projects committed over the past 2.5 years (which are still in the implementation period) as well as difficulties resulting from the complex structure of the country. The Bank's efforts in 2003 will place a special focus on implementation of current projects. The procurement process is well advanced for key components of the recently signed infrastructure projects (in the energy, railways and telecom sectors).

The Bank has implemented 67 Technical Co-operation projects for an aggregate value of EUR 18.2 million¹. Under the TAM and BAS programmes, TMG delivered respectively 10 and 106 individual advisory service projects directly to enterprises. The largest contributors of technical co-operation funds were Austria, Italy, Norway, Canada, Denmark, Germany, Ireland, Holland, Sweden, United Kingdom, United States of America, Japan, the European Commission and the Central European Initiative. The significant amount of TC relative to the cumulative business volume is a reflection of the important needs to support the post-war emergency infrastructure reconstruction projects

¹ In addition, donors committed to 35 Investment Cooperation projects for EUR 30.1 million (grant co-financing of EBRD investment projects).

(design, procurement, institutional and regulatory frameworks) and was made possible by the large donor contributions to the country during this period. Going forward, it is expected that TC flows will gradually decrease. New TC priorities during the forthcoming strategy period will focus on the road and municipal sectors and on the banking sector (support to SME programmes mainly), in line with the operational priorities defined in Section 4.

The breakdown of cumulative commitments and current portfolio by sectors and types is presented in Table 1.

Table 1: Bank's Cumulative Commitments and Current Portfolio as of 28 February 2003

Sector	Cumulative Commitments				Current Portfolio		
	No. of Projects	Total Project Value (EUR m)	EBRD Finance (EUR m)	% of total EBRD finance	No. of Projects	Portfolio (EUR m)	Operating Assets (EUR m)
Agribusiness	2	20.1	9.2	46%	1	5.7	3.7
Telecoms	2	169.9	47.5	28%	2	46.6	17.1
Financial Institutions	21	73.9	37.5	50%	20	36.2	22
Power and Energy	3	453.4	84.1	19%	3	83.4	13.9
Transport	2	176.7	51.4	29%	2	40.9	18.9
Total	30	894	229.7	26%	28	212.8	75.6
Debt			217.9	95%		201.9	95%
Equity			11.8	5%		10.9	5%
Private			46.7	20.3%		41.9	19.7%
State			183	79.7%		170.9	80.3%
Non-sovereign			76.7	33.4%		71.9	33.8%
Sovereign			153	66.6%		140.9	66.2%

The equity share of the portfolio is low at 5% reflecting the transition stage of the country.

The overall performance of the Bank's portfolio in BiH has been satisfactory: out of 30 signed projects, two are completed (one very successful exit, one pre-payment), 23 are performing according to expectations, five have not started disbursement yet (three recently signed and two due to delays in meeting conditions precedent, public procurement and implementation of policy reform covenants), and one is impaired. Overall, 96% of operating assets are performing. The portfolio risk rating at the end of 2002 was 6.97. Significant capital gains have been realised through a partial and a full exit of equity investments (Zagrebacka Banka and Raiffeisen Bank).

Total project costs associated with the EBRD investments amount to EUR 894 million, resulting in a cumulative mobilisation ratio of 3.9. The Bank's role has been critical to mobilise co-financing from both external and local sources. The Bank has been closely working with all IFIs present in Bosnia and Herzegovina and co-financed projects with all of them.

Going forward, the pipeline of projects is strong and stands at over EUR 80 million.

1.2. Portfolio Ratio

As of 28 February 2003, the Bank's cumulative portfolio ratio in Bosnia and Herzegovina stands at 80% state and 20 % private (81.2% state based on the current portfolio).

On the basis of the existing portfolio, but assuming Telekom Srpske's privatisation (planned in the next 24 months), the private sector share would become 33 per cent (effectively representing the current non-sovereign share). The Bank's clear objective is to develop the private sector portfolio over the strategy period. However, with several public sector projects in the pipeline, the portfolio ratio is not expected to improve significantly during the strategy period.

1.3. Assessment of the Last Strategy Period

Since the last Country Strategy (approved on 23 February 2001), 10 operations have been signed for EUR 88.4 million (excluding TFPs), representing an increase of 48% of the portfolio.

The main operational focus of the last Strategy for Bosnia and Herzegovina (BDS/BH/00-1(F)) concentrated on three areas: (i) participation in the privatisation process and support to new or existing private companies; (ii) focus on bank privatisation and consolidation, the strengthening of SME finance mechanisms and the diversification of financial products; (iii) finance infrastructure projects that will support state-wide institutions and/or regional linkages with neighbouring countries.

The assumption was that the elected governments of 2000 led by the non-ethnic "Alliance for Change" would bring a new momentum for reform in the country. The governments both at State and Entity levels however, failed to undertake decisive market reforms and create a better investment climate. Privatisation of large enterprises in particular was significantly delayed while Bosnia and Herzegovina remained a highly challenging environment for private investors (see Section 3.1. on Private Sector Development) and corporate governance often a significant problem in local enterprises (see 1.5. Lessons Learnt below). This has significantly reduced the ability of the Bank to support the private sector and the privatisation process in particular, outside the ongoing credit lines to SMEs and the Bank supported private equity fund. Despite intense business development efforts with local or foreign sponsored companies, no private sector industrial project was therefore signed over the last Strategy Period.

Implementation of SME Credit Lines with local commercial banks has been successful with the signing of 5 credit lines, either on a standalone basis or in the context of the approved SME Frameworks, for a total amount of EUR 15 million (with Raiffeisen Bank, Universal Bank, UPI Banka and Volksbank). The Bank also supported further strengthening in the banking sector through an equity participation in UPI Banka and a capital increase in the Micro-Enterprise Bank (jointly, EUR 2.7 million). The scope of the Trade Facilitation Programme was extended to two more banks in the Federation, while detailed discussions have started on the provision of mortgage financing. Support, however, remained limited to banks based in the Federation (and which sometimes expanded in the RS). In 2001, the EBRD investigated possible support for banks based in the RS, but no viable investment opportunity could be identified, as privatisation (and/or restructuring) of banks in the RS moved forward only towards the end of the last Strategy Period. Due diligence on banks in the RS has since re-started.

In the public sector, the Bank has been very active with support for the Railways Recovery Project (EUR 21 million) and continued support to the energy sector through the Thermal Power Upgrade project (EUR 20 million). Both projects support the integration of BiH in the region and include significant institutional measures to strengthen the sector at State or inter-Entity levels (see below 1.4. Transition Impact). In

the telecommunication sector, the pre-privatisation loan to Telekom Srpske (EUR 30 million), the first non-sovereign project in the RS and the largest non-sovereign project to date in the country, is noteworthy. The project will finance priority investments ahead of the sale to a strategic investor and represents a successful graduation from the previous EBRD financed sovereign Telecom Emergency Reconstruction Project. The project is rated “Excellent” for transition impact potential (see below 1.4. Transition Impact) and represents a milestone reform commitment on the part of the RS government, fully in line with the State Telecommunications Sector Policy, which was developed with the EBRD’s support (Legal Transition team). The Bank also started developing projects in the sub-sovereign sector with municipalities, that are expected to be concretised during the forthcoming Strategy Period.

1.4. Transition Impact of the Bank’s Portfolio

The Bank’s investments have had a significant transition impact, especially in the financial, telecommunications and power sectors (the latter currently under implementation) and, to a lesser extent, in the transport sector. Among countries with low transition indicators, the transition impact of the Bank’s activities in Bosnia and Herzegovina was evaluated favourably in the EBRD *Transition Impact Retrospective (2001)*.

Through its investments in infrastructure projects, the Bank has significantly contributed to the development of regulatory frameworks and the creation of State-wide regulatory agencies and inter-Entity operations. In the telecommunications sector, the Bank has played a crucial role in supporting the development of adequate sector regulations (e.g. drafting and award of international and fixed-line licenses, interconnection agreements, universal service policy), the establishment of an independent State-level regulatory agency and the elaboration of a sector policy paper. In its telecom operations, the Bank has been able to move from sovereign guaranteed operations (the Telecom Emergency Reconstruction Project) to non sovereign operations (Telekom Srpske) and thereby foster the RS authorities' commitment to privatisation. The role of the Bank during the pre-privatisation transition period is to support Telekom Srpske’s modernisation efforts (expansion of the fixed and mobile networks, improvement of the quality of service, MIS) and ensure that the privatisation process will be conducted openly and transparently in accordance with standard international practices. The Bank’s involvement will accelerate the introduction of commercial management principles within Telekom Srpske, foster liberalisation with the participation of international investors and the introduction of new telecommunications services. In the transport sector, the Railways Recovery Project achieved integration of the two railways in the Federation and is currently implemented under the umbrella of a BiH Public Railway Corporation (the first corporation organised under the Commission for Public Corporations of BiH, as per Annex 9 of the Dayton Peace Agreement), where the EBRD plays a key role. The project will improve market efficiency by supporting the development of a viable international freight operation throughout BiH, a labour restructuring plan and commercial business planning processes.

Through its early investment in the emerging banking sector and its close involvement at board level of its investee banks, the Bank has effectively kick-started the development of a sound banking sector in the Federation by supporting local banks, attracting foreign banks and improving corporate governance practices. The Bank’s projects with Market Banka and Hrvatska Banka (now respectively Raiffeisen and Zagrebacka) were highly successful in this respect. In parallel, the Bank has engaged in a constructive policy dialogue with the authorities. The Bank has been instrumental in promoting the

integration of the two Entities banking sectors. The Bank's policy dialogue with the Central Bank and the Entities regulatory authorities helped the Micro-Enterprise-Bank (MEB) to become the first bank to operate with branches across both entities (started in the Federation and expanded to the RS).

The Bank has also had significant impact in channelling funds to small enterprises in an environment of high perceived risk and very difficult access to financing for small businesses and entrepreneurs. The Bank has signed 8 SME credit lines to local banks for a total amount of EUR 25 million which have provided finance to more than 80 individual SME investment projects to date. At the small and micro lending end of the spectrum, the Bank's investment in MEB Bosnia has had a significant impact. To date, MEB has made nearly 16,500 loans for a total of USD 83.4m to micro and small businesses in BiH. In 2003, amongst other developments, MEB will launch an agricultural lending programme and plans to introduce a leasing product.

1.5. Lessons Learnt

Over the past years, the Bank has drawn valuable lessons related to poor corporate governance in the corporate sector, political and administrative difficulties in public sector projects resulting from the country's complex set-up and the sensitivities in developing State-level approaches, weak institutional capacity, difficulties in coordinating a wide range donor actions in a post-war reconstruction context and difficulties in promoting a commercial approach in a donor supported economy.

- *Public sector projects in BiH are complicated by the complex administrative structure of the state.* The central state is still weak and the two entities are the key players in implementation of the projects. Resistance to change and to building of strong State institutions, institutional weaknesses and inefficient management are slowing down implementation. Infrastructure projects require a careful preparation (supported with adequate technical cooperation) of the institutional project components followed by very close co-ordination between all IFIs, donors and the OHR in order to maximise leverage towards implementation. Despite this co-ordination such projects are still difficult to implement. A recent example is the Electric Power Reconstruction Project (Power III) which has the potential for excellent transition impact in terms of the institutional reform of the sector, but is facing significant obstacles from various stakeholders (political, management, trade unions) in terms of setting-up the relevant state institutions (creation of a State regulatory agency, establishment of a joint-stock electricity transmission company across both Entities) and preparing the existing, entity controlled, monopolies for future privatisation.
- *Overflows of donor money and grants can hinder market discipline.* BiH benefited from large amounts of grants after the war. These grants, either subsidised lending schemes for SMEs or reconstruction grants to local authorities, can sometimes create a disincentive for recipients to adopt a proper commercial approach to their investment needs and can make it more difficult for commercial financiers to develop their operations. Although the level of aid funds is decreasing, certain authorities (municipal public utilities for example) have developed an aid dependence and prefer to wait for new grants than to act commercially. Where possible the Bank will seek to work with donors to blend its commercial financing with grants or concessional financing schemes in order to instil the required commercial discipline and market driven reforms, while easing affordability constraints of investments where necessary (municipal environmental infrastructure for example).

- *Corporate governance in local companies is challenging.* Company privatisation to date was conducted mostly through voucher based schemes by privatisation investment funds and/or management-employee buy-out schemes. Many such companies have been suffering from weak management (often compounded by the absence of proper management information systems), lack of serious restructuring (incl. shedding non-core assets and unprofitable lines of business) and strained financial situations due to the absence of real cash injections. A thorough due diligence on shareholders and management strength and their insight into the need for reform, transparency and good governance, as well as, when necessary, credible plans for attracting foreign strategic partners, are essential conditions for the success of EBRD operations with local companies. To allow for adequate monitoring, such companies must also have in place information and accounting systems of sufficient standard. There are some encouraging signs appearing. TMG activities with TAM and particularly with the BAS Programmes show an active and demand-driven enterprise culture evolving. The assistance provisions to date, with focus on improvements to market performance and to management and quality, signal the emergence of a more customer driven market economy.
- *TC Projects.* The Bank has invested considerable resources (see Annex 7) in TC projects to support the institutional development of public and private clients. Recent experience, especially from the telecommunications sector, confirms that donor visibility should be increased, the terms of reference should be agreed with the beneficiaries and key institutional objectives should be implemented through conditions for effectiveness in follow-up loan operations (more leverage than through affirmative covenants). Active monitoring and involvement by the Bank staff is required to ensure the success of TC operations. -The Resident Office staff, jointly with HQ counterparts, is now more directly involved in the monitoring of current TC operations (e.g. in the Railways Recovery Project).

2. OPERATIONAL ENVIRONMENT

2.1. The General Reform Environment

Political Developments

Bosnia and Herzegovina is a weak state, with the High Representative, acting on behalf of the international community playing an important role. It consists of two Entities - the Federation of Bosnia and Herzegovina (controlled by the Bosniak Muslims and the Croats) - and the Republika Srpska (controlled by the Serbs). There is also, between the RS and the FBH, Brcko, a strategic town on the Sava River in the north, hotly fought over during the 1992-1995 war and now a 'self-governing neutral district' under an internationally appointed supervisor authorised to address such issues as taxation, law enforcement, district management and composition of the district assembly. BiH has made some progress towards the return of refugees and displaced persons, accountability for war crimes, and constitutional protection of its citizens regardless of their ethnic allegiance but, by common consent, much more needs to be done to make BiH a functioning democratic state based on the rule of law. Its already complex political structure established by the 1995 Dayton Accords was made even more complex by the recent constitutional reform. The reform, enacted in March 2002, gave the three major ethnic groups the status of constituent peoples on the whole of the territory of Bosnia and Herzegovina. The reforms, made in the interests of justice and fairness at the prompting of the international community, established mechanisms for the protection of the vital

interests of each constituent people (education, religion, language, promotion of tradition and cultural heritage), and a public information system. In addition, they provided for ethnically balanced representation in the two Entity parliaments and highest courts, based on the 1991 census held prior to changes in the ethnic composition that had resulted from the war. For example, in the Republika Srpska, which is currently 95% ethnically Serb, Bosniaks and Croats will have to be represented at all levels of government in much larger proportion. The reform has created the need for political coalitions cutting across ethnic lines of division. These coalitions require not only willingness to compromise but also time to build.

The new leadership of BiH and its Entities took office in February 2003 following the elections in October 2002. The elections were for all levels of government: the BiH state presidency and parliament, the assemblies in the Federation of Bosnia and Herzegovina (controlled by the Bosniaks and the Croats) and the Republika Srpska (controlled by the Serbs), and the cantons in the Federation. The elections were for a four-year term – instead of a two-year one as up to now. Ethnically-based Bosniak, Croat and Serb parties did relatively well in the parliamentary elections, and their candidates were elected to the three-member BiH presidency. The results were widely seen as a setback for the international community, which had invested a lot of effort in encouraging support for non-ethnic parties. However, there are signs of pragmatism on both sides: the ethnically-based parties are showing willingness to go along with the reforms insisted upon by the international community while Paddy Ashdown, the High Representative, has demonstrated readiness to work with all politicians who are ready to implement the proposed reforms.

Regional Co-operation

In line with provisions of the 1995 Dayton Accords, BiH's two Entities have, within the framework of normal inter-state relations, a special constitutional relationship (including an economic component), with their two most immediate neighbours, Croatia and Serbia & Montenegro (formerly the Federal Republic of Yugoslavia), which were also signatories of the Dayton Accords. Republika Srpska's special relationship is with Serbia & Montenegro, while that of the Federation of Bosnia and Herzegovina is with Croatia. However, the currently expanding business activities of companies from Croatia and Serbia & Montenegro are by no means confined to one or the other of the two Entities, but increasingly cover the whole of BiH. Free-trade agreements have been concluded by BiH both with Croatia and Serbia & Montenegro as well as with Slovenia, which is also emerging as an important partner in terms of trade and investment. Austria, and more recently, Hungary and Italy have shown interest in increasing their economic involvement in BiH. In 2002 BiH became a member of the Council of Europe and has applied for WTO membership.

Labour Issues

Unemployment is one of the biggest problems facing Bosnia and Herzegovina. According to official figures, the unemployment rate is close to 40%, one of the highest rates among all transition countries. However, although there is no formal labour market survey in BiH, there are a number of indications that this figure is exaggerated and that many of the officially unemployed are in fact working full-time or part-time in the large, informal sector. According to unofficial World Bank estimates, the true rate of unemployment is closer to 16%, still a high level but not as bad as the official statistics indicate. Job creation measures are a priority in the OHR agenda for the country ("first

justice, then jobs through reform”). New labour laws were passed through both entity parliaments during 2000, and important amendments were imposed by the OHR in late-2000. These laws provide for internationally accepted labour practices, but wage arrears still occur from time to time in state- and socially-owned companies. BiH is a signatory to some but not all of the International Labour Organisation’s conventions on labour rights.

The right to union membership is guaranteed in the Constitutions of the Federation and of the RS without regard to national or religious practice. In practice, union membership in RS is overwhelmingly Bosnian Serb and in the Federation overwhelmingly Bosniak. Bosnian Croats have informal labour organisation in areas where they are the dominant ethnic group but generally they are represented by the Federation union. Union membership is mandatory for officially employed workers in the RS; in the Federation approximately 70% of the workforce is unionised. Officially, the unions are independent but in practice they are highly politicised. There are no restrictions on forming new unions. In practice, one union confederation in each Entity represents all workers. A joint multi-ethnic union was established in the district of Brcko in 2000. Strikes are legal and take place but are usually of short duration.

Social Conditions

Poverty and inequality have worsened dramatically in the past decade as a result of the conflict from 1992-95, and the current level of poverty is deeper than in other countries of former Yugoslavia. In late-2001, the BiH authorities and the World Bank conducted a Living Standards Measurement Survey, the first representative welfare survey at the household level in BiH. According to this survey, 19% of the total population are living below the general poverty line of KM 1,843 (€940) per annum. A further 30% are living only just above this poverty line, and are therefore highly vulnerable to adverse economic shocks. The situation is particularly acute in the RS, where an estimated 25% are living below the general poverty line, compared to 16% in the Federation. The survey also shows that the groups that are most vulnerable to poverty are young children, displaced persons and returnees, the unemployed, and those with relatively low education.

To address these problems, the BiH authorities, in close co-operation with the international community are preparing a comprehensive Poverty Reduction Strategy. A first full draft of the strategy was circulated among the international community in late-2002, and a revised version is now being put together. The Bank has played an active role in the process through participation in donor workshops and the provision of detailed comments on sections of the draft strategy, particularly those relating to private sector development, infrastructure and financial sector activities. However, tackling poverty in BiH is a formidable task, not least because of the constraints on spending and the need to reduce spending by governments at all levels.

Legal Environment

The commercial laws of Bosnia and Herzegovina are quite complex due to the country’s constitutional arrangements. Despite efforts by the State and the Entities to promulgate a wide range of new laws with the assistance of the international community, commercial legislation is still mostly based on laws inherited from the former Socialist Federal Republic of Yugoslavia, which are largely irrelevant in a modern market economy. Commercial transactions are further hampered by the fact that Bosnia and Herzegovina consists of two independent entities, each with its own separate legal system and

judiciary. This situation is compounded in Republika Srpska (RS) and in the Croat Cantons of the Federation by the influence of legal practices and standards of Serbia and Montenegro and the Republic of Croatia, respectively.

New commercial laws are being prepared, such as the new Law on Obligations which is currently under discussion. For example, implementation of the registered pledge law adopted by RS and the semi-independent District of Brčko in 2000 has stalled mainly due to the lack of funding for setting up and running the pledge registers, although there are now signs that this may take place.

The main legal impediments to investments by the Bank and other private sector investors in Bosnia and Herzegovina remain: (i) overly complex and often inconsistent legal rules coupled with insufficient implementation; (ii) the absence of an efficient non-possessory pledge registration and enforcement system; and (iii) slow and inefficient judiciary which has proven almost completely unsuccessful in resolving business disputes.

Integrity Issues

Corruption affects all transition countries but international observers note that in BiH it is endemic and widespread at all levels. Until 2003, almost nothing has been done to date to combat it. The judiciary is independent but slow and inefficient. A new unit in the court system has been set up to tackle crime and corruption and the number of public office holders entitled to immunity from prosecution has been drastically reduced.

As part of the overall anti-corruption campaign started by the OHR, audits of public utilities are being carried out by the Organisation for Security and Co-operation in Europe (OSCE) auditors in Bosnia and Herzegovina (BiH). The audits of the three power utilities were completed in mid-February, whereas the audit of the telecoms companies is still going on. The findings and recommendations of the reports point at significant economic losses due to mismanagement and poor governance, calling for corrective actions and improved transparency at each of the utilities. In addition to the need for better management and improved internal controls, the reports also point at corruption and fraud which will have to be investigated. In February and early March, based on the special audit of Elektroprivreda Republika Srpska, the High Representative removed the General Manager and a Board member of the company. The General Manager of Elektroprivreda Hrvatske Zajednice Herceg Bosne (Mostar) resigned. The EBRD is in close contact with the OHR and the WB regarding any possible support we may provide to improve the situation. The EU is providing expert help to the authorities in improving the functioning of the customs service and raising its professional standards.

Trafficking in women and children is a serious problem. The country is vulnerable to trafficking in persons, because of weak laws, porous borders and corrupt police. Over 90% of trafficked women in the country come from Moldova, Romania and Ukraine. Most enter the country through Serbia-Montenegro and a significant number transit on to Western Europe - mostly through Croatia. The new BiH Criminal Code, which came into force in early 2003, contains a provision aimed specifically at human trafficking. The Code mandates up to 10 years in prison for violators. The Code is expected to be replicated in both Entities in future. Based on a National Action Plan adopted in 2001, a BiH-level commission was established in 2002 to coordinate anti-trafficking efforts. The Council of Ministers has endorsed a budget for anti-trafficking activities under the BiH Ministry of Human Rights and Refugees.

Environment

The promulgation, approval and implementation of environmental regulations in Bosnia and Herzegovina is complex and fragmented. Recognising the potential implementation problems, an Inter-Entity Environmental Steering Committee with a role to co-ordinate environmental policy and harmonising environmental laws between the Entities was established in 1998. In addition, in 2001, the European Commission (EU PHARE) have developed a draft environmental framework legislation for all the constitutional entities within BiH, with specific framework laws related to water protection, air protection, nature protection, waste management and integrated pollution prevention and control. Currently though, taking into account the status of the country following the war, intermediate standards, which are not directly compatible with EU standards, are in place for some sectors.

The Bank's environmental approach for Bosnia and Herzegovina reflects the country's stage of economic development and the Bank's project portfolio. All Bank operations in Bosnia and Herzegovina are subject to the Bank's Environmental Procedures and incorporate, where appropriate, Environmental Action Plans. In past operations, the Bank has worked on mitigating environmental issues in particular with industrial clients (Tuzla brewery) and the power sector. The Bank also provided environmental due diligence training to local banks implementing SME credit lines.

2.2. The Economic Environment

Macro-economic conditions

Economic growth has slowed down in recent years to an annual rate of approximately 4 per cent, reflecting the lack of new sources of investment and the patchy commitment to reform. The real sector in the RS has performed particularly badly recently, with little sign of any increase in industrial production in 2002 (after a big dip in 2001), compared to fairly rapid growth in the Federation. However, macroeconomic stabilisation efforts have been successful, with price stability underpinned by the currency board, and fiscal discipline has improved significantly in 2002, with the consolidated fiscal deficit (including grants) narrowing to below 5 per cent of GDP. Annual inflation is close to zero per cent in both entities and the authorities have recently affirmed the continuance of the currency board arrangement. The Central Bank law states that, from August 2003, the governor must be a BiH national. The present governor of the Central Bank, Peter Nicholl, an expatriate appointed by the IMF, has been given BiH citizenship and will, therefore, be able to continue as governor for the time being. His continued presence in the Central Bank is further reassurance of the authorities' commitment to strict monetary prudence and low inflation.

On the external side, the official trade and current account deficits remain exceptionally large (the latter is close to 20 per cent of GDP) but unofficial current transactions (including unrecorded remittances) and official capital inflows remain strong and cover the current account deficit fully. Nevertheless, the size of the current account deficit is a source of concern and highlights the need for BiH to accelerate enterprise restructuring in companies that have export potential. To date, BiH's export performance has been disappointing, although official data miss out on a considerable amount of unrecorded trade and smuggling. However, new free trade agreements with neighbouring countries in SEE and the bilateral trade arrangements with the EU which grant duty-free access to EU

markets for almost all exports from BiH, should help to boost trade, and the strengthening of the state border service in recent years will ensure that illicit trade flows are reduced.

Debt sustainability is an issue that needs to be addressed carefully. Official reserves were boosted considerably in 2001/2002 by the Euro conversion and have reached close to 6 months of imports. Inflows of FDI (4 per cent of GDP) remain limited but the external debt is moderate (around 50 per cent of GDP) and annual external debt service is low at less than 10 per cent of exports of goods and services. As a result, BiH should be able to service its external debt without too much difficulty until the end of the present decade, provided growth and reforms accelerate somewhat and provided the country remains within strict IMF limits on new external borrowing. However, the size of total public debt (external plus domestic) is a major source of concern, due to the large stock of outstanding war-related claims for damages, and frozen foreign currency deposits. The authorities are currently formulating a comprehensive plan, scheduled for completion by June 2003, first to measure the size of the debt, and then to put in place a credible schedule of re-payments. The Bank will continue to coordinate closely with the authorities and the IMF on debt sustainability issues and the scope for future sovereign borrowing.

Projections for future growth are still largely guesswork, given the very poor state of data collection and lack of coverage of the huge informal economy. Recent official figures on agricultural and industrial growth (in the Federation at least) are mildly encouraging and may help the economy to achieve growth of about 4 per cent per annum over the next two years. However, significant downside risks remain. Official aid flows are declining steadily, and private foreign investors are unlikely to arrive in significant numbers unless and until the pace of reform, including large-scale privatisation, accelerates.

Investment Climate

The investment climate in the country is poor. Although some improvement of FDI was seen during last two years, cumulative foreign direct investments in BiH during the years 1998-2002 amount only to about USD 700 million. In addition to a complex political and administrative structure, poor law enforcement, inadequate corporate and public governance practices and run-down infrastructure are the main obstacles to attracting investors. Lengthy procedures and unreliable enforceability of contracts are among the negative factors that deter investors. Progress is, however, under way. BiH is an active member of the Stability Pact initiative on the "Investment Compact", sponsored by the OECD and, within the framework of the Investment Compact, has committed to a number of targeted, specific measures to improve the investment climate.

The key issue for the authorities is to push for a single economic space. On 21 October 2002, the High Representative proclaimed 12 economic laws, which the BiH and/or Entities parliaments had discussed but failed to adopt before the elections, including laws on banks, land and legal entities registration. Significantly, the High Representative has also recently set-up a "bulldozer committee" (comprised of representatives of business community and international organisations) aimed at reviewing and streamlining those obstacles and cumbersome administrative procedures that impede businesses. The first 50 measures that the governments (at all levels) must implement were announced in early March and another 100 measures are in the pipeline in the next two months.

However, the OHR's proposals for a state-wide customs service and state-wide VAT are meeting with political resistance, particularly from the RS. Under the 1995 Dayton

Accords each Entity could have its own regulations, regulatory authorities, standards, taxation systems, laws and procedures. Customs policy is officially the responsibility of the State but revenues are collected and retained by each Entity, which leads to widespread fraud. Smuggling (both of goods and of people) is rampant because BiH does not exercise full control over its borders despite the creation of more border posts with the help of the UN. Annual losses to the exchequer are estimated at EUR 250 million. In early-2003, the OHR set up a special tax commission to prepare for a new customs service and VAT, headed by a senior EC representative. The EC has conditioned BiH progress towards Stabilisation and Accession Agreement upon a satisfactory conclusion of the discussions on these matters.

Another high priority for the Office of the High Representative is the creation of a functioning state-wide judicial system. The aims of the various reforms are the reduction of the dominance of political structures over the judiciary and the raising of its professional standards. The High Judicial and Prosecutions Council has been established and a new State Court became operational on 1 January 2003 (hitherto, only the Constitutional Court has operated at a state level, all other cases being dealt with by the separate judiciary systems at the Entity levels). A new state-level criminal code has been in place since March 1, 2003 and the OHR is currently finalising the harmonisation of entity laws with this new code. In addition, for the first time since Dayton, a new Ministry of Justice at state level has been established. The responsibility for the international police passed at the end of 2002 from the UN to the European Union. The training of special police units capable of taking on organised crimes has started and a single State Information Protection Agency is being set up.

Access to capital

BiH private sector is dominated by SMEs and micro businesses. The recent decrease in interest rates, due to high competition in the banking sector, especially in FBH, has contributed to private sector credit growth, including consumer lending. Nevertheless, banking intermediation to private sector remains very low. Access to long-term financing remains a significant problem. Local investment is constrained by a low savings rate, itself a reflection of lack of confidence in the banking sector, while potential foreign investors are wary of the volatile political climate and the poor investment climate.

The country's investment requirements are considerable, especially in infrastructure (roads, railways and municipal utilities). The country has no access to international capital markets. IFI funding, including IDA terms from the World Bank, and bilateral donor support are therefore expected to continue to have a significant impact on future levels of external financing for public investment.

3. PROGRESS IN TRANSITION AND REMAINING CHALLENGES

BiH was a latecomer to the transition. Recent years have seen some progress, but the country continues to lag behind most others in the region, as measured by EBRD transition indicators. As Table 2 demonstrates, BiH has made some progress in "early" reforms such as price liberalisation, relaxation of controls on trade and foreign exchange, and small-scale privatisation. In the area of institutional reform, however, BiH lags well behind other non-accession countries in SEE, with the exception of Serbia and Montenegro which entered the transition process even later than BiH did. More than seven years after the Dayton Peace Agreement was signed, the low values of the

transition scores show that major transition challenges have been ducked by previous regimes and remain to be faced by the new governments that have recently entered office. These challenges include large-scale privatisation, infrastructure reform, and deepening of financial intermediation.

Table 2: Transition indicators for selected SEE countries

	BiH	Albania	FYR Macedonia	Serbia and Montenegro
Price liberalisation	3	3	3	3
Trade & forex	3	4+	4	3+
Competition policy	1	2-	2	1
Large-scale privatisation	2+	2+	3	2
Small-scale privatisation	3	4	4	3
Governance & enterprise restructuring	2-	2	2+	2
Banking reform	2+	2+	3	2+
Non-bank financial institutions	2-	2-	2-	2-

Note: Transition scores range from 1 to 4+, where 1 indicates little or no progress in reform, and 4+ indicates the standards of a well-functioning market economy. See EBRD *Transition Report 2002* for more details.

3.1. Private Sector Development

BiH is lagging behind most transition countries in private sector development. The poor quality of statistical data in the country makes it difficult to estimate the share of the private sector in GDP, but it is roughly estimated to be around 40-45 per cent. This is mainly due to a very slow privatisation process in both Entities, especially for the large scale “strategic” enterprises and a still under-developed SME sector, though this is showing signs of change. In parallel, the size of the government remains excessive, reflecting the complex, multi-layered structure of the public sector, especially in the Federation with its cantonal structure. Long-term fiscal sustainability requires a significant reduction in the size of government, but this in turn requires a vigorous response from the private sector. Micro, small and medium sized enterprises have been growing, but not enough to absorb significant unemployment and bring a new export-led impetus to the economy. More efforts to facilitate the growth of this sector, both through cutting red tape and channelling more funding, are needed.

Privatisation is conducted by each Entity, according to their respective privatisation law, by their privatisation agency (down to cantonal level in FBH). Progress in this area has been mixed, with considerable progress in small-scale privatisation (by end-2002, 70% sold in the Federation and 47% in the RS), but less so in large-scale privatisation. In the FBH, out of 1,064 large enterprises (assets above EUR 250,000 or more than 50 employees), 260 had been fully privatised by end-2002, while in the RS, 271 out of 648 had been fully sold by the same time. While voucher privatisation has proceeded in both Entities, this process had very little impact on the economy. Many smaller companies were acquired by Private Investment Funds (PIFs), management and employees, and in most cases did not bring any fresh long term cash, new markets or know-how. There is a need for restructuring PIFs so that they could have positive impact on strengthening corporate governance in privatised enterprises.

Advisors for tender privatisation of strategic enterprises have been supported by donors, who coordinate within the International Advisory Privatisation Group (IAGP). USAID and GTZ programmes are almost completed with limited follow-on support, while the EU programme and the World Bank Privatisation Technical Assistance Credit are on-going. The World Bank is providing the largest support, with advisers for 27 companies in the

FBH and 18 companies in RS, including key industrial assets (Aluminium Mostar - where an arbitration on ownership issues is due to start soon) or utilities such as Telekom Srpske.

In spite of the support from the international community, only a minority of strategic companies have been sold to foreign investors, (e.g. cement plants): by year-end 2002 – 17 out of 56 in the Federation and 4 out of 52 in the RS. There were however, especially in the RS, several high profile failures (Banja Luka Brewery, Fruktona fruit juice processing company), mainly due to the rigidity of the existing legislation, the lack of experience of the privatisation agencies and the lack of political willingness to accommodate legitimate requests coming from potential investors. Going forward, a limited number of key assets –enterprises and utilities- have the potential to attract large investors. However this will happen only if the authorities show serious commitment to a transparent and professionally run process. In effect, given the urgent need to reform the real economy to move the country towards self-sustainability, the acceleration of privatisation is going to be one of the most important test to show the commitment of the new entity governments to reform.

3.2. Infrastructure sector

While most of the war damages have been fixed (part of which was funded through the Bank's projects), all infrastructure sectors are still in need of significant investments in modernisation and rehabilitation. Nevertheless, significant progress has been made in infrastructure reform, with the assistance of the international community, and BiH's infrastructure transition indicators compare favourably with other countries in the region, notably in the areas of telecommunications, power and railways (see Table 3). These ratings reflect substantial progress in recent years on commercialisation, regulation and tariff reform. Further improvements in these ratings, however, depends on progress in reforms that are currently stalled in some of these sectors.

Table 3: Infrastructure indicators for selected SEE countries

	BiH	Albania	FYR Macedonia	Serbia and Montenegro
Telecommunications	3+	3+	2	2
Electric power	3	2+	2+	2
Railways	3	2	2	2+
Roads	2	2	2+	2+
Water and waste water	1	1	2	2

Note: Transition scores range from 1 to 4+, where 1 indicates little or no progress in reform, and 4+ indicates the standards of a well-functioning market economy. See EBRD *Transition Report 2002, Annex 2.1* for more details.

Transport Sector

A number of IFIs (including the EBRD) and bilateral donors have provided financing for the sector, but there are still many areas that need intervention. The sector is in need of major rehabilitation and modernisation, particularly in the context of the Pan European transport corridor Vc (North-South). As a quasi-landlocked country, BiH's access to the main road corridors (Zagreb to Belgrade axis to the North and the Adriatic ports to the South) is vital. Institutional and administrative strengthening as well as higher budget allocations are needed for road repair and maintenance. Transparent financing in both Entities and an increased role of the State in the sector are needed to ensure that priorities

are well-established and projects which are sustainable and have the highest economic impact are implemented.

BiH is the only state in Europe that does not have an air traffic control facility for its own airspace and which has to rely on its neighbours to manage the important air corridors (North-South routes) that cross the country. Upper airspace is controlled in the north by Croatia and in the south by Serbia. Lower airspace control has, for the time being, been delegated by BiH to Croatia Control Limited. A solution to the current division of the upper airspace will be provided in the framework of the Central European Air Traffic Services project, managed by Eurocontrol, that will see the establishment of a common facility in Vienna to control the upper air space of eight countries. With respect to BiH lower airspace setting up of a national air traffic control facility could be an important step in the state building process.

Municipal Infrastructure

BiH has tremendous needs in all sectors of municipal infrastructure. The institutional capacity in this sector is particularly weak and the legal framework is unclear and inadequate. The complex political set up of the country resulted in a more centralised structure in RS (strong Entity Government and 63 weak municipalities) and a less centralised structure in the FBH (where the ten cantonal governments and 82 local municipalities are, from a budgetary perspective, more independent). The ability of municipalities to raise direct revenues is very limited both in the RS and in the FBH (where cantons, however, have more direct revenue sources). Municipal (and cantonal) income is mostly constituted from a re-allocation of Entity revenue. A further difficulty is the lack of commercial approach among some local authorities more accustomed to subsidised or grant financing than commercial lending.

Municipal infrastructure has been suffering from chronic under-investment and some war damages. A number of municipalities are unable to provide 24-hour drinking water to their population and/or experience water quality problems. The country does not have any modern waste-water treatment facilities. Tariff collection rates are often low (with some exceptions however), also relative to other neighbouring countries. Limited amounts of grants and other IFIs financing did help on several projects but the overall situation in the municipal infrastructure remains critical. Solid waste collection and management is very limited; a legal framework for this sector is currently being developed with the support of the EU.

Energy Sector

The current Power III project (supported by the EBRD and other IFIs) will, when operational, finance most of the investment needs in the power sector. However additional investments are needed to improve efficiency and reduce losses in distribution networks. Following the post-war reconstruction projects, total electricity production has been restored to 84 per cent of pre-war level. The sources of power are balanced between hydro and thermal (52 and 48 per cent respectively). Regionally, BiH is a modest energy exporter. Possible increases in the generation capacity may be contemplated provided such investments are economically viable and justified within the context of the region. On the sector's restructuring, BiH has signed the Athens Memorandum of Understanding on the Regional Electricity Market in South East Europe and its integration into the European Union's internal electricity market. The Law on Electricity, Transmission, Regulator and System Operator of 21 March 2002 forms the legal basis for the

establishment of an institutional structure at state level, comprising a state regulatory commission for electricity transmission, the Independent System Operator and the Transmission Company. The two Entities adopted action plans for the restructuring, unbundling and privatisation of the sector, but both plans will need to be agreed with IFIs and require further revisions to be fully compliant with IFI requirements. The implementation of the Power III project has been slow due to lack of political co-operation between the Entities and opposition from certain political parties and trade unions.

Implementation will remain a difficult challenge due to both political and commercial reasons, as described in Section 1.4. Lessons Learnt. The legal reform is comprehensive and includes the establishment of independent regulatory bodies. The objective of these action plans is to dismantle the three ethnically-oriented vertical monopolies and create state-wide transmission and independent service operator companies. It is proposed that the new distribution and generation companies which will be created, will be privatised in a co-ordinated manner by the two entities, so that opportunities will be given to the private sector to set up cross inter-entity border companies. This remains subject however to favourable market conditions and interest by strategic investors. Due to the global industry-wide difficulties, it will very be challenging to attract strategic investors in the utilities sector in the short term, even if the legal and regulatory environment significantly improves. The priority therefore will be to prepare for large-scale privatisations which are expected to take place in the medium term. The IFIs will continue to have a role to play in the preparation of privatisation,

Telecom Sector

The Bank has already played a key role in developing the telecom infrastructure through its sovereign guaranteed Telecommunications Emergency Reconstruction Project (signed in 1998) to all three telecom operators, followed by the pre-privatisation loan to Telekom Srpske in 2002. In parallel to these projects, the Bank provided TC assistance to develop the legal and regulatory framework for the sector. At State level, a modern Telecom Policy Paper, which calls for liberalisation in line with the EU standards by end of 2005 was adopted in March 2002. The Government of RS decided in July 2002 to privatise Telekom Srpske by the end of 2004. Unfortunately the FBH Government did not take yet any step towards commencing privatisation of BiH Telekom and completing the privatisation process of HPT Mostar. The situation in the Federation is further complicated by the political dispute on the third GSM license, to be granted to an existing private mobile operator Eronet. A decision on privatisation in FBH and implementation of the privatisation process in both Entities will be key tests to demonstrate the commitment of new Governments to structural reform.

3.3. Financial Sector

The Bank has played a significant role in the banking sector, mainly in the Federation, both through support to commercial banks and the establishment of a micro-enterprise bank (see Section 1.3 Transition Impact). The significant progress in financial sector reform including the amendments to the banking law in FBH and the new banking law in RS, the entry of new foreign banks, have been reflected in increased confidence in the banking sector in the last two years. The banking system overall is quite developed relative to the region. With many foreign banks present in the country, competition is strong and banks are starting to offer an extended product range (credit cards, consumer loans, mortgages). However, the level of bank intermediation remains low, due to the

slow privatisation and restructuring process in the rest of the economy. Small and medium sized enterprises are still experiencing difficulties in accessing long term credit. These problems are compounded by inadequate secured transaction regulations and an inefficient court system, making collateral foreclosure difficult. The number of banks in the country is still too large and further consolidation is ongoing (in the light of the new minimum capital requirement of € 7.5 million as of 31 December 2002) and will continue.

There are a number of banks which remain to be privatised (or, for those under administration, liquidated), although it is unclear if there is sufficient investor appetite to do so, based upon previous experience. The successful sale of Central Profit Banka, the third largest in the country, to a strategic investor is particularly important for the sector. Non-bank financial institutions are in their infancy. The leasing and insurance sector in particular require development and improved regulatory frameworks. The EU supported the preparation of modern insurance legislation which was submitted to State and Entity Parliaments but is not yet enacted. The IFC-SEED programme co-ordinates the efforts of the international community to work on updating the leasing legal framework. The pension system is largely unreformed and a multi-pillar system with private pensions is not yet in place.

4. STRATEGIC ORIENTATIONS

4.1. Bank's Priorities for the Strategy Period

The Bank is well-positioned to help BiH meet the transition challenges outlined above over the strategy period. This is assuming that the new governments at State and Entity levels which are taking power for a four-year mandate will seize the opportunity to demonstrate consensus and resolute action to implement a new reform drive, including the creation of a single economic space, the promotion of private sector development and privatisation, the enhancement of the investment climate for domestic and foreign investment and the restructuring of certain infrastructure sectors.

The Bank will focus on the enterprise, infrastructure and financial sectors. In order to maximise transition impact, these actions will be accompanied by a close policy dialogue with the governments at all levels on key topics such as investment climate and infrastructure regulatory frameworks at State and local levels. To this effect the Bank will deepen its dialogue with the governments and intensify its cooperation with existing structures such as Foreign Investors' Association, the International Advisory Group for Privatisation and the Economic Task Force. Priority will be also given to speedy and successful implementation of existing projects, especially those with a regional dimension under the Stability Pact for South-Eastern Europe (power, transport).

4.2. Enterprise Sector

The Bank will concentrate and intensify its efforts on the development and strengthening of the private sector at all levels in order to build up a track record for the country and create a strong demonstration effect both nationally and internationally. The Bank's approach will be fourfold:

- The Bank will follow-up on the work of the World Bank and EU financed privatisation advisers for strategic enterprises. The Bank will seek to provide support for selected large enterprise privatisations in the form of post-privatisation financing

with strategic investors. The Bank will actively follow-up on some already identified potential foreign investors and will explore in particular possibilities coming from regional investors (Slovenia, Croatia and Serbia). The Bank will focus on those sectors where BiH based enterprises can have strong products with a competitive advantage, e.g. (but not exclusively) simple manufacturing, food processing, construction materials, etc.

- The Bank will also give consideration to well managed medium sized local private companies with a clear capacity to be successful either through a strong position in the domestic market or through profitable exports, primarily in the regional markets. For such enterprises, long term debt, which might be at the lower end of the Bank's usual financing range, or equity (through DIF) will be envisaged. Exploratory work on development of a pipeline of SMEs suitable for investment through DIF was carried out in March 2003, and the results were promising having regard for the country's challenging conditions. In particular, a number of opportunities to assist through capital investment in the re-introduction of domestic enterprises to regional and European markets were identified. BiH is and will remain a priority country for DIF.
- The Bank will also continue to work very closely with local financial institutions to channel more funding to SMEs. These actions will be associated with targeted policy dialogue with the governments, through existing forums including investors, IFIs and international donors. The policy dialogue will seek to enhance the legislative framework for privatisation, to improve the corporate governance, especially in public utilities, and the business climate. In particular, the Bank will, in coordination with USAID, help the implementation of the legal framework for secured transactions. The Bank's input in this project remains limited and based on internal resources only.
- Direct technical assistance will be provided to small and medium enterprises via the continued multi-donor CEI BAS Programme, which also develops the competence and skills of local consultants, thus strengthening the development of an enterprise culture. This approach has proven effective in the last year, and demand for the assistance is increasing. Medium and larger enterprises, including those committed to privatisation, may be eligible under the TAM Programme for technical assistance to restructure and revitalise their businesses. Additionally, the CEI Enterprise Initiative, (through the BAS operation in the country), has started to develop effective 'match-making' arrangements with commercial and institutional counterparts in neighbouring countries, including the EU Member States. These actions will go in parallel with policy dialogue and the development of links with Chambers of Commerce.

4.3. Infrastructure Sector

Spending on infrastructure will have to be accommodated in the overall total public spending envelope and will therefore have to be highly prioritised. The Bank will focus on new investment projects primarily in the transport sector, a national priority (where the EBRD is already present) and in the municipal sector, a new area for the Bank in Bosnia and Herzegovina. In the energy and telecom sectors, the focus will primarily be on the implementation of existing projects with associated sector reforms, with a possibility for follow-on investments at a later stage.

Transport

In the road sector, the Bank will focus on upgrading the main road network, provided projects are economically justified, realistically designed and financially affordable. The sections being considered include the upgrading of parts of the Pan European Corridor Vc (Budapest-Sarajevo-Port of Ploce in Croatia): Sarajevo by-pass and a portion of the road from Sarajevo to Zenica. In parallel, the upgrading (or construction along a new alignment) of the road from Banja Luka to Gradiska (Croatian border), which is linking Banja Luka to the Pan European Corridor X (Zagreb-Belgrade), will also be considered; coordination with Croatia for this component will be essential. These sections, on which some works have already started, are a top priority with the respective Entity authorities as well as with the State and represent the highest traffic links in the country. The final definition of an EBRD project(s) will be subject to detailed cost estimates and the capacity of the State to absorb additional sovereign debt in the context of an overall tight external debt management.

The project(s) will build on the work undertaken on road financing under the first transport project, through the implementation of measures aimed at enhancing road sector cost recovery. The project(s) will aim to achieve an excellent transition impact supporting the authorities in developing a coherent approach to road infrastructure development. The transition impact will stem from increased transparency in the funding and management of the Entity Road Directorates and strengthened inter-Entity co-operation through joint planning and implementation of a State-wide transport policy. This is consistent with the EBRD's Operational Approach to Road Infrastructure (13 June 2002).

The project(s) will be developed in close co-operation with the EIB which may consider co-financing, and in coordination with the EU and the WB, who are key players in the transport sector, and the Stability Pact for South Eastern Europe, due to the regional dimension.

The Bank may also consider developing a second Air Navigation System project which is in line with regional priorities in this sector and will build on the work undertaken under the Bank's first loan in the transport sector.

Finally, the Bank will focus on the finalisation of the implementation of the Emergency Transport Reconstruction Project (to be fully completed in 2003) and of the Railways Recovery Project, with a possibility to examine a follow-on project for rolling stock towards the end of the strategy period. Institutionally, the Bank is actively involved in the work of the Commission for Public Corporations (CPC) set up in accordance with Annex IX of the Dayton Peace Agreement. The CPC is currently playing a leading role in the regulatory reform of railways sectors. More broadly, the international community representatives in the CPC (the Principal Deputy High Representative and the WB director, appointed by the EBRD President) expect that the CPC will be given a further impetus by the newly elected authorities to accelerate the regulatory reform in all infrastructure sectors.

Municipal and Environmental Infrastructure

Because the needs are important, but also because, in the country's specific context, local authorities are an important balancing factor to Entities and the State, the Bank will explore the possibility to work with municipalities. The Bank will seek to develop

municipal infrastructure projects which will respond to the critical need to improve services for the population and which are financially and economically sustainable. The Bank will engage in a policy dialogue with the authorities in order to promote a stronger regulatory and financial framework for municipalities. Potential municipal infrastructure projects have been identified in Tuzla and Banja Luka. The emergency investment needs in Tuzla concern a new water purification plant which will ensure safe supply of quality drinking water to the city. Currently most of the population has running water available six hours a day. In Banja Luka the priority investments required are needed for security of supply of water, including in one part of the city which does not benefit currently of running water. The Bank will have to work with the authorities to identify the best way to structure municipal utilities projects and explore whether projects can be structured with sub-sovereign support (from Entity or Canton) rather than through a full State-level guarantee.

Energy

The Bank's priority will be the implementation of the Electric Power Reconstruction Project and the Thermal Power Upgrade Project, which are part of the Power III Project. In close co-ordination with all IFIs and donors involved, the Bank will promote active policy dialogue to accelerate the implementation of the restructuring and unbundling in the sector and will support the preparation of future privatisation plans in the sector, subject to market appetite. Following the implementation of these plans, the Bank might explore, towards the end of the strategy period, further financing aimed at increased efficiency and reduction of losses in the distribution companies. Financing new generation capacities might be considered only provided there is a strong rationale in the context of the regional power market.

Telecommunications

The Bank's priority will be the implementation of the Pre-Privatisation Convertible Loan to support and facilitate the privatisation of Telekom Srpske. The Bank will continue the policy dialogue with the FBH on the privatisation process for the Federation based telecommunications operators and will consider new opportunities in the private sector. The Bank stands ready to consider providing appropriate technical assistance as well as new investment financing where there is sufficient demonstrated commitment by the respective authorities to implement the reforms necessary to advance the restructuring and privatisation process.

4.4. Financial Sector

The first SME Framework Facility of EUR 15 million (one-third financed by the Italian Ministry of Treasury), complemented with a TC component of EUR 1.6 million, is currently nearing full utilisation. The project is successful, with five local participating banks having on-lent to more than 75 enterprises in the country. The Bank will continue to use these well-established SME finance mechanisms. Following the success of the first Framework the Board approved an Extended Framework in November 2002. A first credit line under the Extended Framework for SME in BiH has already been signed. The Bank will try to include new participating banks in the Extended Framework, including banks from Republika Srpska. In addition, an SME credit line with Volksbank BiH (under a separate framework with Volksbank Austria) was recently signed.

The Bank will also seek opportunities to diversify its banking financial products in BiH. New instruments (mortgage lines, term lending enhancement facilities and subordinated debt) will be offered to the strongest local banks with foreign sponsors. The Bank remains prepared to explore possibilities for projects to support the consolidation in the banking sector (through capital increases). The Bank will intensify the policy dialogue to accelerate the harmonisation and co-ordination of rules and practices of the two Entities' banking supervisory agencies with the aim to achieve their final integration into one central agency.

The Bank will also continue its policy dialogue with the authorities to advocate improvements to the legal frameworks for insurance, leasing and other non-banking financial sectors. Subject to progress in the legal environment, investment opportunities in these sectors may be pursued going forward.

5. OTHER IFIs AND MULTILATERAL DONORS

Co-operation with donors and other IFIs is particularly good in BiH. Joint financing opportunities are regularly discussed and evaluated and to date the Bank has implemented joint operations with all IFIs and is working closely with the EU and the OHR. Given that grant and aid support to BiH is decreasing there is a need for enhanced donor co-ordination in order to maximise the impact of the assistance to the country.

In order to achieve the successful implementation of its strategy, the Bank will pursue the proposed operational objectives in close co-operation with the EU, the other IFI's (EIB, World Bank) and bilateral donors such as USAID. The reform of telecom and power sectors will in particular be closely co-ordinated with the World Bank, IMF and the EU as well as other entities actively involved, within the context of the Stability Pact for South-Eastern Europe, while maintaining a close policy dialogue with BiH's authorities. The Bank will maintain its close relationship with the Office of the High Representative as the highest authority in charge with the implementation of the Dayton Peace Accords. The Bank is actively participating in all international community working groups which are relevant to EBRD activities in BiH, such as the OHR Economic Task Force, the International Advisory Group for Privatisation, Commission for Public Corporation or the Working Group for Power Sector Reform.

III. ANNEXES

ANNEX 1: POLITICAL ASSESSMENT

Ever since the end of the war in BiH in 1995, the international community had been hoping that the successive elections would reduce the influence of the nationalist parties associated with the war and ‘ethnic cleansing’ and bring to power non-ethnic-based ones looking towards the future rather than the past. A welcome development appeared to occur towards the end of 2000 when the Social Democratic Party (SDP) won the most votes and came to power at the head of the non-ethnic Alliance for Change. However, the Alliance’s (and the SDP’s) political triumph proved short-lived. The Alliance’s parliamentary majority was too small to ensure effective government and it disintegrated along ethnic lines in 2002 as leaders of the coalition parties fell out and internal divisions within the SDP emerged. The SDP fared badly in the October 2002 election, as did its political partners. The SDP’s share of vote nearly halved to 16.2%. In contrast, representatives of the ethnic-centred SDA (Bosniak Moslem), HDZ (Croat) and SDS (Serb) parties fared better and captured their respective seats in the three-member BiH Presidency. At the State level, the SDA increased its vote by 5%, while the vote for the HDZ and the SDS dropped slightly compared with the 2000 elections. Turnout was 55% compared with 64% in 2000. Many young people did not vote.

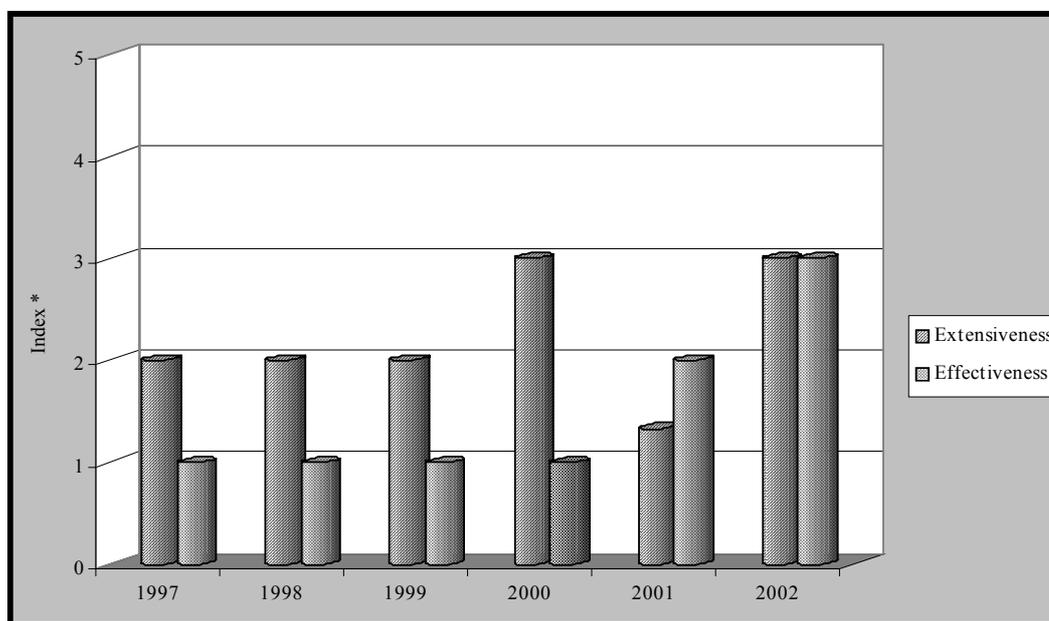
After negotiations lasting several months - and a vetting by the Office of High Representative of prospective Ministers and other senior officials – coalition governments among different parties were formed in February 2003 at Entity levels. The process of forming the newly enlarged and strengthened Council of Ministers at State level has also been completed. Paddy Ashdown, in office as High Representative since May 2002, has reaffirmed his continuing support for the priorities of his predecessor, Wolfgang Petritsch – accelerated refugee return, institution building and economic reform – but has declared that the fight against organised crime and regeneration of the BiH economy would be his main areas of focus. Ashdown has chosen to interpret the results of the October 2002 election not as a vote for the nationalist agenda but, rather, as a protest vote against the slow pace of reforms under the SDP-led Alliance for Change government from 2000 to 2002. The international community has reiterated its continuing support for a reforming, single Bosnia and Herzegovina. Occasional calls from various quarters for Bosnia’s partition along ethnic lines – including suggestions that Serbia might be compensated for an eventual loss of Kosovo by the annexation of the Republika Srpska - have been repeatedly rejected, notably by the heads of Balkan states at their summit meeting in Sarajevo in July 2002. Ashdown has demonstrated by his own actions, such as the much publicised appointment of the ‘Bulldozer Committee’ to identify and help clear obstacles to investment, that work on the reform programme, summarised in the slogan ‘first justice, then jobs through reform’, will continue. The key governing institutions, especially the State-level Cabinet, relying on central BiH Ministries of the Interior, Finance and others, will continue to be strengthened. A modern civil service is to be built up from scratch. A State-level customs service is to be set up and a State-wide VAT tax system introduced. Ashdown has warned that international funding for Bosnia will be conditional on the implementation of the reform programme. Bosnia joined the Council of Europe in April 2002 but the prospects of Bosnia opening talks for a Stabilisation and Association Agreement (SAA) with the European Union in the near future depend on the green light for a feasibility study as a preliminary step. This may occur in the course of this year.

The strongest opposition to the strengthening of State-level institutions comes from the RS. The Office of High Representative has appointed a special commission under a former senior EU official to work out the details of the customs and VAT reform in cooperation with RS and FBH authorities. The recent revelations about illegal arms exports from RS and widespread espionage activities by RS military intelligence directed against S-FOR, the Federation authorities and Croatia have led to the resignation of Mirko Sarovic, the recently elected member of the BiH Presidency and former President of RS and Commander-in-Chief of its armed forces. Among the other measures taken by the OHR in the wake of those scandals were: the abolition of the Supreme Defence Council of Republika Srpska; the removal of all references to statehood, independence and sovereignty from the Constitution of the RS and RS Laws on Defence and the Army; and the appointment of a Commission, with the OSCE, to identify constitutional and legal barriers to effective State-level command and control; and the decision instructing the Entities to submit by 30 April 2003 plans for bringing their weapons industry under proper control. Ashdown stated that those decisions 'will strengthen State-level command and control of BiH's armed forces'. On the Croat side, the secessionists have been weakened by the arrival to power in Croatia in 2000 of a government that, unlike the previous Tudjman one, respects BiH's unity and territorial integrity.

COMPARATIVE ASSESSMENT OF BOSNIA & HERZEGOVINA'S COMMERCIAL LAW

I. ASSESSMENT OVER TIME

Extensiveness and Effectiveness of Bosnia & Herzegovina's Commercial Laws ²



Source: OGC Legal Indicator Surveys; 1997 - 2002

*Note: Indicators along the y axis range from 1 (little progress) to 5 (substantial progress)

Despite important progress since the Dayton Peace Accords, the commercial laws of Bosnia & Herzegovina are still a far cry away from what is considered to be internationally acceptable. The effective development and implementation of commercial laws are hampered by the all-pervasive Socialist Federal Republic of Yugoslavia heritage and the inability of the entities to reach common terms with respect to cross-entity issues. Under the auspices of the Office of the High Representative and often with the assistance of the international community, the State and the entities have enacted laws that individually are satisfactory but collectively lack overall consistency with existing legislation.

The 2002 EBRD Legal Indicator Survey rates the commercial laws of Bosnia & Herzegovina as moderate in terms of extensiveness and in terms of effectiveness. According to the Survey, Bosnia & Herzegovina and the Entities made progress in both categories since the previous year. This may indicate respondents' favourable perception of the new pieces of legislation enacted (bankruptcy, secured transactions) (see above graph).

² The EBRD conducts a Legal Indicator Survey each year to measure the progress in legal reform in Central and Eastern Europe, the Baltic States and the Commonwealth of Independent States, as viewed by local lawyers and academics. The results of such survey are based on responses to the questionnaire sent out to lawyers practising in any given country. The survey represents their perception of the country's legal system and, in particular, the degree to which key commercial and financial laws have reached internationally acceptable standards (extensiveness) and to which extend these laws are implemented and enforced (effectiveness). The survey is based purely on local lawyers' perception of their own country legislation and does not represent EBRD's own view on these legal systems. In addition, it must be noted that each respondent is asked to answer the questionnaire for his/her country only, and not on a comparative basis

II. ASSESSMENT IN OTHER TRANSITION COUNTRIES

Similar to those of a number of other transition countries, the commercial laws of Bosnia & Herzegovina are deemed barely adequate. The 2002 EBRD Legal Indicator Survey puts Bosnia & Herzegovina roughly on a par with Albania. A detailed analysis of the Survey results tends to indicate that the commercial laws of other former republics of the Socialist Federal Republic of Yugoslavia (in particular Croatia and FYR Macedonia) are perceived as slightly more advanced than those of Bosnia & Herzegovina.

LEGAL SECTOR ASSESSMENT

The legal regime of Bosnia & Herzegovina in key areas of commercial law is extremely complex due to the constitutional situation of the country. Pursuant to the country's Constitution as established by the Dayton Agreement, the State of Bosnia & Herzegovina is only responsible for a limited number of areas (particularly international relations, monetary policy and foreign trade). Consequently, key legal areas of commercial laws are under the responsibility of the entities: the Federation of Bosnia & Herzegovina (FBiH) and the Republika Srpska (RS). In addition, the District of Brčko has a specific status which enables it to adopt its own regulations. This means that all legal sectors which are key to EBRD operations are governed by at least two separate (and often different) laws.

BANKRUPTCY

The bankruptcy legal regime is within the competence of the two entities. Currently, the Law on Bankruptcy and Liquidation of May 1998 applies in FBiH (Official Gazette of FBiH 23/98). Although the law is fairly new, it is going to be entirely revised along the lines of the new RS Law on Bankruptcy Proceedings (Official Gazette of RS 67/02) and the new RS Law on Liquidation Proceedings (Official Journal of RS 64/02) adopted in the RS in 2002, which entered into force in January 2003.

The principal innovation offered by the new legislation in the RS is to permit the insolvent debtor's reorganisation: the insolvent debtor can submit a reorganisation plan together with the proposal for the opening of bankruptcy proceedings or thereafter, and the plan is being approved or rejected by the bankruptcy court. It is the court's responsibility to ensure the protection of creditors. The law also gives a sense of urgency to the proceedings, so that a decision on the future of the insolvent debtor can be taken quickly. In terms of priority ranking, certain creditors are given the right to separate settlement: they include in particular holders of mortgages and land charges.

It remains to be seen how the laws will effectively work in practice, but one must welcome the efforts to harmonise the legal regimes for bankruptcy in both entities. Ultimately, with assistance of the Gesellschaft für Technische Zusammenarbeit (GTZ), the World Bank and other donors, the country has taken significant steps towards reforming and improving its bankruptcy legal framework.

CAPITAL MARKETS

The main legislation governing the capital markets of Bosnia & Herzegovina consists of the Law on Securities Commission, the Law on Securities and the Law on Register of Securities, all of which were promulgated on 15 October 1998 and amended on 6 September 1999. There are two stock exchanges in Bosnia & Herzegovina: the first one is

in Banja Luka; the other is in Sarajevo, which is an online market opened in 2002. The development of the capital markets in Bosnia & Herzegovina is still in its early stage. Banking reform remains a priority and focus of the Government.

CONCESSIONS

Concessions are governed by a fairly complex combination of different level laws that include the following principal laws: the State Concessions Law, the FBiH Law on Concessions, the RS Law on Concessions (the three laws have only recently entered into force), the District of Brčko Concessions Law, and the individual cantons' concessions legislation. Such complex legal framework reflects the current political situation and composition of the country.

Overall, concessions can be granted on different levels: State, entities, municipal (district or canton), subject to the nature and particulars of a given concession. Accordingly, decisions on awarding concessions are taken by the Government of Bosnia & Herzegovina, the Government of the FBiH, the Government of RS, the Government of the District of Brčko or a canton, upon the proposal of the relevant Concessions Commission and are to be approved by the respective Parliament.

According to the State Law, concessions may be granted to domestic and foreign legal persons in the area of infrastructure and services and to exploit natural resources. This includes the ability to finance, construct, rehabilitate, maintain and/or operate such infrastructure facilities and services in sectors that are in the constitutional competence of Bosnia & Herzegovina. The Law, however, does not list these sectors. The Law is also applicable when the object of the concession is located in both the FBiH and RS.

The State Law regulates the tendering process and provides for requirements for concession agreements. It lacks the so-called 'stability clause' allowing to apply more favourable rules in the event laws are worsened after signing of a concession agreement. For dispute resolution, the law provides for a choice of arbitration or the court system. However, it is not clear from the text of the law whether foreign arbitration is possible.

Despite noticeable efforts to improve concession legislation in Bosnia & Herzegovina, its legal framework remains overly complex. The implementation of the recently enacted laws is yet to be tested. In an attempt to delegate authority to grant concessions to municipalities the law entitles cantons to adopt their own concessions legislation for certain sectors. The majority of cantons still need to develop such rules.

Ultimately, in the event the current overly complex system does not prove to work in practice a more comprehensive and simple scheme for concessions in Bosnia & Herzegovina will need to be contemplated.

CORPORATE GOVERNANCE

In June 1999, the FBH promulgated a Law on Business Companies (the "BCL"). Pursuant to the BCL, businesses in the Federation may take one of the four different forms: general partnership, limited partnership, limited liability company and joint stock company. The corporate governance structure for joint stock companies is based on the two-tier system -- a management board and a supervisory board. The management board is empowered to direct business operations and is responsible for day-to-day operations of a business; the supervisory board is responsible for appointing and dismissing

members of the management board and has the authority to convene a general assembly. In addition, the supervisory board is responsible for the supervision of business affairs, adopting reports to the shareholders, approving large transactions, and for the election of the management board. Although the language of the BCL suggests a hierarchical relation between a supervisory board and management board, the precise relationship between the two bodies is nebulous. Also, there are no provisions that mandate employee representatives in a supervisory board. Reforms may be needed in the following areas: (1) shareholders should be allowed to elect and remove directors and supervisors by following regular assembly meeting procedures; and (2) the mechanisms for minority shareholder protection should be enhanced, e.g., the right to compulsory repurchase by the company of disapproving shares in cases of unfavourable amendment to the articles of incorporation, allowing derivative suits to be instituted by shareholders and allowing cumulative voting rights.

In the Republika Srpska, the Law on Enterprises enables entrepreneurs to establish their business in one of the following five different forms: sole entrepreneur, partnership, limited partnership, limited liability company, or joint stock company. As in the FBiH, corporate governance in RS is generally based on the two-tier model. Authority is divided among a supervisory board, a management board, and an assembly of shareholders. The Law on Enterprises creates an exception to the two-tier system for companies with fewer than 100 employees by offering the option to elect either a supervisory board or a management board. As in the FBiH, no employee representatives sit at the supervisory board. The supervisory board appears to act as an assurance that management will conduct business properly and acts as a filter through which shareholders are indirectly represented in management decisions. Areas for improvement include (1) that the ability of a shareholder to initiate a derivative action needs to be clarified; and (2) that the relevant provision governing competition behaviour of companies lacks specificity and may pose an unnecessary burden on the affected parties.

While it may not be politically feasible to formulate and promulgate a single piece of legislation governing companies within the whole of Bosnia & Herzegovina, the two laws mentioned above should be harmonised. Amendments must be made to ensure effective means of governance by the board of directors and to guarantee shareholder rights - especially for minority shareholders.

SECURED TRANSACTIONS

Legal regime of security over movable assets in Bosnia & Herzegovina is currently quite complex as reform has been on-going now for a number of years in both entities (FBiH and RS), as well in the semi-independent District of Brčko.

The current situation is that a Law on Registered Pledges on Movable and Shares was adopted in the RS and in the District of Brčko in 2000, whereas the FBiH Law was voted in April 2002. However, lack of funding and other problems stopped progress in the implementation side and none of these laws are actually in force and operating. However, as adoption of the law was part of conditionality of a World Bank Business Environment Adjustment Credit to the country, together with full implementation of the laws in all entities and the creation of a single pledge registry, one would expect progress in this area.

A USAID project is now working on the ground with all three entities. Their consultant's objectives are:

- 1) To review the laws, which contain some major shortcomings (in particular on the registration procedure, priorities, types of collateral, and enforcement procedures);
- 2) To harmonise the laws as much as possible in order to avoid further complexity by transport of the assets from one entity to the other;
- 3) To create a single, central database in which security rights would be publicised.

At present, secured transactions are thus still effectively governed by articles 966 - 996 of the Law on Obligations (inherited from the Former Yugoslavia), articles 66 - 74 of the Law on Ownership Relations, and articles 140 - 186 and 244 - 251 of the Law on Enforcement Procedure. Under the Law on Obligations, only a possessory charge (i.e. the debtor having to transfer possession of the collateral to the creditor) can be granted. The legal basis for non-possessory charges can be found in the Law on Enforcement Procedure, where it is provided that such contract is valid if it is registered with the competent court. However, courts do not keep any database of such contracts, so third parties have no way to check whether the same asset was previously pledged and the interests of lenders are not protected. Currently, enforcement of security, or indeed any commercial contract, before the court is an inefficient, unpredictable and lengthy process. In addition to complicated and restrictive procedures for public auctions and the lack of adequate enforcement mechanisms, the creditor cannot claim ownership of the asset, even if it fails to sell for the prescribed minimum price at the third auction. For this reason, banks avoid enforcement through courts wherever possible and use various other means, such as publishing the names of defaulting borrowers in the press, to recover bad debts. No specialised courts exist and judges are expected to deal with commercial, civil and criminal cases indiscriminately. They are also overburdened with the sheer volume of cases.

TELECOMMUNICATIONS

Since 1995, the pace of sector telecommunications regulatory framework development in Bosnia & Herzegovina has been driven by a combination of factors, foremost of which has been a complex legislative framework. This framework, bequeathed by the Dayton Peace Accord, and accompanying State Constitution of Bosnia & Herzegovina, provided for responsibility for the telecommunications sector to be divided between the Entities and the State. That division of responsibilities has been far from clear and led to endless discussion and debate, resulting in fragmented sector development. In addition, the dearth of political progress at both State and Entity level, allied to conflicting commercial and political agendas among the various players prevented meaningful progress.

Though the telecommunications regulatory framework remains somewhat complex, the past two years have seen some progress. This progress has come in the form of revision of the law, i.e. adoption of the State Communications Law 2002 (the '2002 Law')³, and some advancement of framework implementation. In addition, an updated telecommunications sector policy envisaging privatisation of the publicly owned operators and setting a timetable for full liberalisation (adopted by the State Council of Ministers in March 2002) has given the sector some badly needed direction. The 2002 Law clarifies the allocation of authority and responsibilities in the sector between the State and the Entities and includes many international standard practices for the sector. Adoption and implementation of these practices will bring the regulatory framework in the country much closer to European Union telecommunication regulatory standards.

³ Imposed by the High Representative in October 2002

Other developments include the establishment of a new regulatory agency in 2001 through the combination of the Telecommunications Regulatory Agency (the telecommunications regulator originally established with ERBD assistance) and the Independent Media Commission (the broadcast transmission and content regulator) to produce the State level Communications Regulatory Agency (CRA). Whilst the inclusion of content regulation within the brief of a communications regulator runs somewhat contrary to current European practice, the CRA has made commendable inroads in implementing a workable state-wide regime for telecommunications in Bosnia & Herzegovina.

While progress has been and continues to be made, many important issues remain to be addressed. More particularly, while the 2002 Law centralises much authority for the sector at State level, there will remain much reliance upon the Entities to make appropriate decisions and take concrete steps to implement the framework of privatisation and liberalisation envisaged by sector policy and legislation. The Entities will need to constructively engage with State level for meaningful and effective implementation of sector objectives. In addition, among other critical issues for the sector is tariff re-balancing ahead of privatisation and full liberalisation. Whilst the EBRD will provide some assistance with respect to the issue of tariffing, this is a matter requiring immediate attention from both State and Entity authorities.

LEGAL TRANSITION ASSISTANCE

Telecommunications Regulatory Development Programme

Following the Dayton Peace Accords, the EBRD was asked by the international community to take a lead role in the re-construction of the telecommunications network in Bosnia & Herzegovina. In response, the EBRD has provided financial support through its *Telecommunications Emergency Reconstruction Programme* to the three telecommunications operators and has launched a series of technical assistance projects designed to create a modern regulatory framework that would enable the development of the sector. The first EBRD regulatory project, launched in 1996, led to the adoption of a Memorandum of Understanding among the two Entities and the representatives of the three constituent peoples of Bosnia & Herzegovina and opened up a dialogue among the various parties. The second regulatory project, initiated in 1998, led to the adoption of the 1999 State Telecommunications Law, the establishment of the Independent Regulatory Agency, the drafting and award of the international licences as well as the drafting and adoption of the tariff policy. A third and current regulatory project was launched in spring 2000 and has allowed the EBRD to continue providing significant assistance within the sector in Bosnia & Herzegovina. Through the current project EBRD has provided assistance with the adoption of a licensing framework allowing the licensing of the three ethnically based fixed-line operators to compete on a state-wide basis (i.e. in each others' erstwhile markets). In addition, the EBRD has also provided input to the 2002 law and advice with respect to the update of sector policy and assistance with the adoption and implementation of a universal service policy and a framework for interconnection. Assistance pursuant to this project continues with the provision of advice with respect to tariffing issues.

Secured transactions reform

EBRD (OGC Legal Transition Team and Small Business Group) is providing ad hoc advice and support, using in-house resources, to the USAID team in charge of the reform of secured transactions on movable property. In particular, it tries to ensure that the new

system, once in place, will bring clarity and certainty to the taking of security over movable assets, at a cost (both financial and transactional) that would not deter small businesses and micro-businesses from benefiting from the reform.

ANNEX 3: SELECTED ECONOMIC INDICATORS

Bosnia and Herzegovina

	1995	1996	1997	1998	1999	2000	2001	2002	2003
								<i>Estimate</i>	<i>Projection</i>
Output and expenditure									
	<i>(Percentage change in real terms)</i>								
GDP	20.8	86.0	37.0	15.6	9.6	5.6	4.5	3.9	4.0
Total consumption	4.8	52.5	15.0	7.6	na	na	na	na	na
Gross fixed investment	67.1	175.1	61.3	5.2	na	na	na	na	na
Industrial gross output	33.0	38.1	33.0	25.1	6.9	7.9	5.0	5.0	na
Agricultural gross output	-9.7	28.4	22.8	8.6	na	na	na	na	na
Employment									
	<i>(Percentage change)</i>								
Labour force (end-year)	-12.5	-12.5	4.1	-2.7	1.3	-0.6	0.2	na	na
Employment (end-year) ¹	na	na	na	0.0	0.6	-0.9	-1.4	na	na
	<i>(In per cent of labour force)</i>								
Unemployment (end-year)	na	na	na	38.0	38.5	39.7	39.7	na	na
Prices and wages									
	<i>(Percentage change)</i>								
Consumer prices (annual average)									
Federation (KM based)	-4.4	-24.5	14.0	5.1	-0.3	1.9	3.3	-0.3	na
Republika Srpska (KM based)	12.9	16.9	-7.3	2.0	14.0	14.7	11.0	2.4	na
Consumer prices (end-year)									
Federation (KM based)	na	7.7	13.6	1.8	-1.0	4.0	2.4	-0.7	na
Republika Srpska (KM based)	na	-17.7	-10.0	5.6	14.0	16.0	6.2	2.3	na
Gross average monthly earnings in economy (annual average)									
Federation	na	289.5	66.6	6.3	17.2	8.3	-3.7	na	na
Republika Srpska	na	41.7	62.4	52.2	60.0	39.9	46.7	na	na
Government sector									
	<i>(In per cent of GDP)</i>								
General government balance	-0.3	-4.4	-0.5	-8.0	-9.1	-9.9	-6.0	-4.6	-4.5
General government expenditure	39.3	52.7	39.7	65.3	69.5	65.0	58.1	55.0	na
Monetary sector									
	<i>(Percentage change)</i>								
Broad money (M2, end-year)	8.5	96.2	52.0	31.3	39.9	13.9	89.3	11.4	na
Domestic credit (end-year)	-9.0	4.3	-22.8	24.2	-1.3	10.1	5.2	na	na
	<i>(In per cent of GDP)</i>								
Broad money (M2, end-year)	14.8	18.8	19.3	21.1	25.2	25.6	44.5	47.7	na
Exchange rates									
	<i>(Dinar/KM per DM)</i>								
Exchange rate (annual average) ²	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	na
External sector									
	<i>(In millions of US dollars)</i>								
Current account	-193	-748	-1,060	-676	-944	-958	-1,126	-1,166	-1,120
Trade balance	-930	-1,546	-1,758	-1,881	-1,852	-1,678	-1,793	-1,828	-1,794
Merchandise exports	152	336	575	702	744	932	957	1,038	1,194
Merchandise imports	1,082	1,882	2,333	2,583	2,542	2,610	2,750	2,866	2,988
Foreign direct investment, net ³	0	0	0	100	90	150	130	240	320
Gross reserves (end-year), excluding gold	na	235	80	175	455	488	1,253	1,203	na
External debt stock	3,361	3,620	4,076	2,985	3,095	2,969	2,500	2,700	na
	<i>(In months of imports of goods and services)</i>								
Gross reserves (end-year), excluding gold	0.6	1.2	0.4	0.8	2.0	2.1	5.1	4.7	na
	<i>(In per cent of exports of goods and services)</i>								
Debt service	134.6	87.1	38.4	10.4	12.3	11.2	5.8	9.2	na
Memorandum items									
	<i>(Denominations as indicated)</i>								
Population (end-year, millions) ⁴	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	na
GDP (in millions of markas)	2,676	4,125	6,116	7,336	8,604	9,629	10,493	10,902	11,000
GDP per capita (in US dollars)	491	721	901	1,097	1,233	1,191	1,261	1,379	na
Share of industry in GDP (in per cent)	23.9	21.4	22.6	22.5	na	na	na	na	na
Share of agriculture in GDP (in per cent)	24.6	20.5	17.5	16.0	na	na	na	na	na
Current account/GDP (in per cent)	-10.3	-27.3	-31.0	-16.2	-20.1	-21.2	-23.5	-22.3	-18.6
External debt - reserves, in US\$ millions	3,154	3,162	3,996	2,810	2,640	2,481	1,247	1,497	na
External debt/GDP (in per cent)	180.0	132.1	119.1	71.6	66.0	65.6	52.2	51.5	na
External debt/exports of goods and services (in per cent)	882.2	550.2	406.8	236.0	238.8	213.3	179.7	185.2	na

¹ Bosniak-majority area prior to September 1996, state thereafter. Before September 1996, data include personnel who were not actually working but for whom contributions (pension, health) were paid.

² Pre-1997 refers to Bosnian dinar in units of 100. Since August 1997, Bosnia and Herzegovina has a common Central Bank. The new currency, the Konvertible Marka (KM), is pegged to the Deutschmark at 1:1 under currency board rules (approximately 1.96 per euro).

³ Excludes capital transfers for reconstruction.

⁴ Excludes refugees abroad.

ANNEX 4: CUMULATIVE BUSINESS VOLUME

Operation Name	Total Project Value	EBRD Finance	EBRD Signed Equity	Signing Date	Gross Disbursement
Completed					
Equity Investment in Zagrebacka Banka, Mostar	1.0	1.0	1.0	15 May 97	1.0
Sarajevska Pivara	10.8	3.1	0.0	27 Nov 97	3.1
Total Completed	11.8	4.1	1.0		4.1
Repaying					
Telecommunications emergency Reconstruction Project	74.9	17.5	0.0	03 Jun 98	17.5
Emergency Transport Reconstruction Project	111.7	30.4	0.0	05 Dec 96	28.4
Emergency Power System Reconstruction Project	231.9	14.1	0.0	27 Nov 97	14.1
Raiffeisen Bank Bosnia (formerly Market) (portage equity)	2.6	2.6	2.6	04 Nov 97	2.7
Pivara Tuzla	9.4	6.1	0.0	28 Jun 00	4.1
BiH SME FW - UPI BANKA CREDIT LINE	4.0	1.3	0.0	17 Dec 99	0.0
BiH SME FW - Raiffeisen Bank Credit Line	2.5	1.7	0.0	14 Dec 99	0.0
Raiffeisen Bank dd - Credit Line - 2	5.0	5.0	0.0	21 Dec 01	2.3
BiH SME FW - Raiffeisen Bank HPB d.d.	2.5	2.5	0.0	20 Dec 01	2.9
Total Repaying	444.5	81.2	2.6		72.0
Disbursing					
Micro-Enterprise Bank (MEB)	8.3	0.5	0.5	30 Sep 97	0.5
Horizonte Bosnia & Herzegovina Enterprise Fund	18.5	4.7	4.7	10 Mar 98	2.8
BiH SME FW - Zagrebacka Banka	5.0	2.8	0.0	13 Dec 99	0.0
MEB Bosnia & Herzegovina	6.6	0.3	0.3	06 Apr 99	0.3
Railways Recovery Project	65.0	21.0	0.0	11 Jun 01	1.0
Electric Power Reconstruction Project	201.5	50.0	0.0	02 Nov 00	0.5
Micro-Enterprise Bank Bosnia (loan)	2.7	2.7	0.0	02 Oct 00	2.7
Micro-Enterprise Bank (MEB) Capital Increase	2.3	0.4	0.4	28 Feb 01	0.4
BiH SME FW - Universal Banka d.d.	3.3	2.5	0.0	06 Feb 02	0.0
UPI Banka Equity Participation	2.4	2.4	2.3	27 Nov 02	2.3
Pre-privatisation Convertible Loan to Telekom Srpske	95.0	30.0	0.0	19 Dec 02	0.5
Total Disbursing	410.6	117.3	8.2		11.0
Signed					
Regional TFP: UPI Banka d.d.	0.1	0.1	0.0	04 Apr 00	0.0
Regional TFP: Raiffeisen Bank d.d.BiH (former Market)	2.1	2.0	0.0	14 Dec 99	0.0
Regional TFP: Zagrebacka Banka (former Hrvatska)	0.0	0.0	0.0	20 Jul 00	0.0
Regional TFP: Universal Banka d.d.	0.0	0.0	0.0	28 Sep 01	0.0
UPI Banka - Credit Line II	2.5	2.5	0.0	20 Dec 02	0.0
THERMAL POWER UPGRADE	20.0	20.0	0.0	05 Dec 01	0.0
Regional TFP: Raiffeisen Bank HPB	0.0	0.0	0.0	28 Feb 02	0.0
Volksbank Credit Line	2.5	2.5	0.0	21 Feb 03	0.0
Total Signed	27.2	27.1	0.0		0.0
Grand Total	894.1	229.7	11.8		87.1
Board Approved Frameworks					
Extension of Framework for SME Financing (BiH)	12.5	12.5	0.0		0.0

ANNEX 5: CURRENT PORTFOLIO STOCK

As of 1 March 2003

Operation Name	Portfolio	Undrawn Commitment	Operating Assets	Impaired Assets	Performing Assets
Telecommunications emergency Reconstruction Project	16.6	0.0	16.6	0.0	16.6
Emergency Transport Reconstruction Project	19.9	2.0	17.9	0.0	17.9
Emergency Power System Reconstruction Project	13.4	0.0	13.4	0.0	13.4
Micro-Enterprise Bank (MEB)	0.5	0.0	0.5	0.0	0.5
Horizonte Bosnia & Herzegovina Enterprise Fund	4.7	1.9	2.8	2.8	0.0
Raiffeisen Bank Bosnia (formerly Market) (portage equity)	2.7	0.0	2.7	0.0	2.7
Pivara Tuzla	5.7	2.0	3.7	0.0	3.7
BiH SME FW - Zagrebacka Banka	2.8	0.3	2.5	0.0	2.5
MEB Bosnia & Herzegovina	0.3	0.0	0.3	0.0	0.3
BiH SME FW - UPI BANKA CREDIT LINE	1.3	0.0	1.3	0.0	1.3
BiH SME FW - Raiffeisen Bank Credit Line	1.7	0.3	1.3	0.0	1.3
Regional TFP: UPI Banka d.d.	0.1	0.1	0.0	0.0	0.0
Regional TFP: Raiffeisen Bank d.d.BiH (former Market)	2.0	2.0	0.0	0.0	0.0
Railways Recovery Project	21.0	20.0	1.0	0.0	1.0
Electric Power Reconstruction Project	50.0	49.5	0.5	0.0	0.5
Micro-Enterprise Bank Bosnia (loan)	2.7	0.0	2.7	0.0	2.7
Raiffeisen Bank dd - Credit Line - 2	4.6	2.7	1.9	0.0	1.9
Micro-Enterprise Bank (MEB) Capital Increase	0.4	0.0	0.4	0.0	0.4
BiH SME FW - Universal Banka d.d.	2.5	0.4	2.1	0.0	2.1
BiH SME FW - Raiffeisen Bank HPB d.d.	2.5	1.3	1.2	0.0	1.2
UPI Banka - Credit Line II	2.5	2.5	0.0	0.0	0.0
THERMAL POWER UPGRADE	20.0	20.0	0.0	0.0	0.0
UPI Banka Equity Participation	2.3	0.0	2.3	0.0	2.3
Pre-privatisation Convertible Loan to Telekom Srpske	30.0	29.6	0.5	0.0	0.5
Volksbank Credit Line	2.5	2.5	0.0	0.0	0.0
Regional TFP: Zagrebacka Banka	0.0	0.0	0.0	0.0	0.0
Regional TFP: Raiffeisen Bank HPB	0.0	0.0	0.0	0.0	0.0
Regional TFP: Universal Banka	0.0	0.0	0.0	0.0	0.0
TOTAL	212.8	137.2	75.6	2.8	72.6

ANNEX 6: LIST OF TECHNICAL CO-OPERATION PROJECTS

TC COMMITMENTS

Source of Funding	Commitment No	Commitment Name	Commitment Stage	Sector Name	EUR Committed	EUR Disbursed
Bosnia - SME Fund-Italy	BOSSME-1999-10-01	BiH SME PIU	Disbursing	Finance, Business	1,600,000	1,399,600
Canada	CAN-1996-08-02	Air navigation services upgrading project	Closed	Transport, Storage	50,128	50,128
Canada	CAN-1997-04-03	Implementation of air navigation system	Closed	Transport, Storage	51,697	51,697
Canada	CAN-1998-02-02	Air navigation services upgrading project (extension)	Closed	Transport, Storage	13,351	13,351
Canada	CAN-1999-03-02	Secretary General of the Commission on Public Corporations	Closed	Community/ Social Services	124,479	124,479
Canada-SEE	CANSE-2001-01-01	Railways Recovery Project - Accounts Strengthening and Business Planning	Disbursing	Transport, Storage	500,000	67,661
Canada-SEE	CANSE-2001-02-02	Bosnia & Herzegovina Railways Recovery Project	Committed	Transport, Storage	1,220,000	0
Denmark	DEN-1996-11-03	Emergency transport reconstruction project - provision of technical support services	Closed	Construction	189,425	189,425
Denmark	DEN-1998-09-06	TurnAround Management Programme - standard	Closed	Manufacturing	47,383	47,383
Denmark	DEN-1998-11-08	TurnAround Management Programme - Borja	Closed	Manufacturing	39,858	39,858
Denmark	DEN-2000-12-04	TurnAround Management Programme (TAM) - Standard Furniture II	Committed	Manufacturing	48,400	36,759
Denmark	DEN-2001-05-06	JKP Toplane Sarajevo - Emergency District Heating Rehabilitation Programme	Closed	Energy	24,587	24,587
EU	ECP96-96-11-22	Power sector management and operation - assistance in the establishment of accounting systems	Closed	Energy	586,756	586,756
EU	ECP96-97-02-40	Twinning for Hrvatska Banka	Closed	Finance, Business	1,492,258	1,492,258
EU	ECP96-97-06-57	Market Banka	Closed	Finance, Business	1,265,642	1,265,642
EU	ECP96-98-07-72	Emergency power reconstruction project	Closed	Energy	82,986	82,986
EU	ECP96-98-07-73	Emergency power reconstruction project	Closed	Energy	76,114	76,114
EU	ECP98-2000-01-60	Twinning for Hrvatska Banka	Closed	Finance, Business	68,859	68,859
EU	ECP98-2000-02-62	Bosnia Power Sector Management Operation	Closed	Energy	219,652	219,652
EU	ECP98-2000-04-65	Market Banka Twinning	Closed	Finance, Business	398,648	398,648
EU	ECP99-99-09-12	Bosnia and Herzegovina: Telecommunications regulatory development	Disbursing	Telecommunications	249,806	201,585
EU-MEB	EUTME-98-07-01	Micro Enterprise Bank -management services (federation assignment)	Closed	Finance, Business	980,977	980,977
EU-MEB	EUTME-98-07-02	Micro Enterprise Bank -management services (Federation of BiH)	Closed	Finance, Business	433,668	433,668
France	FRA-1997-06-02	Financial Audit of Market Banka dd	Closed	Finance, Business	7,622	7,622
Germany	GER-1996-09-05	Railway advisory programme	Closed	Manufacturing	6,220	6,220
Germany	GER-1997-02-02	Electricity tariff study and social protection scheme	Closed	Energy	368,206	368,206
Germany	GER-1997-02-03	Training of operators and engineers on health and safety	Closed	Energy	406,355	406,355
Germany	GERK-1999-09-06	Technical advisory services for project implementation (extension)	Closed	Telecommunications	320,081	320,081
Ireland	IRL-1997-03-01	Telecoms sector policy (extension)	Closed	Telecommunications	2,820	2,820
Ireland	IRL-1997-10-03	Electricity tariffs and social protection study (framework contract)	Closed	Energy	54,034	54,034
Ireland	IRL-1998-02-01	Telecommunications sector policy development III	Closed	Telecommunications	9,462	9,462
Italy	ITA-2000-03-01	TurnAround Management Programme (TAM) -	Closed	Manufacturing	48,028	48,028

		UNICO		g		
Italy	ITA-2002-05-02	TAM Programme- Pobjeda	Disbursing	Manufacturing	48,400	27,512
Italy-CEI	CEI-1997-09-04	Emergency power system reconstruction project	Closed	Energy	76,218	76,218
Italy-CEI	CEI-1997-09-05	Emergency power system reconstruction project	Closed	Energy	133,581	133,581
Italy-CEI	CEI-1998-03-08	Project screening for Bosnia-Herzegovina	Closed	Transport, Storage	62,683	62,683
Italy-CEI	CEI-1998-04-09	Sarajevo Airport Masterplan study	Closed	Transport, Storage	167,412	167,412
Italy-CEI	CEI-1999-07-01	Sarajevo International Airport - Lighting & Equipment	Closed	Transport, Storage	409,971	409,971
Italy-CEI	CEI-1999-07-02	Sarajevo International Airport - equipment / training	Closed	Transport, Storage	30,000	30,000
Japan	JAP-1997-12-46	Technical advisory service - telecommunications emergency reconstruction	Closed	Telecommunications	480,000	480,000
Japan	JAP-1997-12-47	Finance, accounting and billing advisory services - telecommunications emergency programme	Closed	Telecommunications	469,980	469,980
Japan	JAP-1999-11-20	Telecommunications Emergency Reconstruction Project - Finance, accounting and billing advisory services (extension)	Disbursing	Telecommunications	599,650	599,550
Multi=BRSF	BRSF-2002-10-09	Bosnia Railways Recovery Project	Committed	Transport, Storage	160,000	0
Netherlands	HOL-96-08-11PS	Sarajevo Airport - final design study	Closed	Transport, Storage	1,156,344	1,156,344
Netherlands	HOL-1996-02-02	Telecommunications sector policy development	Closed	Telecommunications	5,766	5,766
Netherlands	HOL-1996-04-06	Sarajevo airport preliminary design study	Closed	Transport, Storage	133,832	133,832
Netherlands	HOL-1996-04-09	Equity investment in SAB Banka	Closed	Finance, Business	80,197	80,197
Netherlands	HOL-1996-11-14	Equity investment in Market Banka dd - financial audit, due diligence and business strategy	Closed	Construction	123,020	123,020
Netherlands	HOL-1998-12-04	Road user charges study	Closed	Construction	192,913	192,913
Netherlands-Transition	NLT-1998-09-02	Sarajevo Airport & Strengthening of Aviation Sector	Closed	Transport, Storage	113,445	113,445
Sweden	SWE-1996-02-01	Technical and economic advisory services for telecommunications reconstruction and development	Closed	Telecommunications	187,095	187,095
Sweden	SWE-1996-06-04	Technical and economical advisory services (extension)	Closed	Telecommunications	158,729	158,729
Sweden	SWE-2000-06-06	Bosnia and Herzegovina - Project Scoping for Railway Rehabilitation Project	Closed	Transport, Storage	199,000	199,000
Switzerland	SWI-1996-07-02	War damage review and preparation of a long-term development strategy	Closed	Energy	515,076	515,076
Taipei China	TAI-1996-09-09	Equity investment in SAB Banka	Closed	Finance, Business	21,239	21,239
TC Special	TCS-1997-05-03	TC for Financial Audit of Market Banka d.d	Closed	Finance, Business	20,591	20,591
UKC	UKC-1996-02-03	Sector policy development - technical, economic and policy advisory services for Telecom reconstruction and development	Closed	Telecommunications	69,222	69,222
UKC	UKC-1996-07-17	Sector policy development (extension)	Closed	Telecommunications	131,721	131,721
UKC	UKC-1996-07-19	Equity investment in Hrvatska Banka	Closed	Finance, Business	155,808	155,808
UKC	UKC-1997-11-11	Telecommunications sector policy development Phase III	Closed	Telecommunications	211,348	211,348
UKC	UKC-1998-09-06	TurnAround Management Programme - Standard	Closed	Manufacturing	13,331	13,331
UKC	UKC-1998-11-09	TurnAround Management Programme - Borja	Closed	Manufacturing	10,859	10,859
UKC	UKC-1999-07-08	Telecommunications Regulatory Development	Closed	Telecommunications	18,740	18,740
UKE	UKE-2000-03-05	TurnAround Management Programme (TAM) - UNICO	Closed	Manufacturing	11,512	11,512
USA	USA-1998-06-05	Sarajevo Airport and strengthening of aviation sector	Closed	Transport, Storage	51,753	51,753
USSP	USSP-2001-08-06	Bosnia & Herzegovina Micro Enterprise Bank (MEB)	Disbursing	Finance, Business	345,387	333,234

USTD	USTD-2001-04-01	Bosnian Railways: Assistance with Project Implementation	Disbursing	Transport, Storage	631,368	230,038
Total	TOTAL		67		18,183,690	

TAM PROGRAMME

Enterprise Name	Industry Sector	Commitment Number
Klas	Food Manufacturing	ECP96-97-08-64/01
Fering Cranes	Industrial Machinery	ECP96-97-08-64/07
Pivara Tuzla	Food Manufacturing	ECP96-97-08-64/06
Standard Furniture	Furniture and Related Products	DEN-98-09-06
		UKC-98-09-06
Borja Furniture	Furniture and Related Products	UKC-98-11-09
		DEN-98-11-08
Proleks	Leather and Hide Tanning	ECP97-97-13-50/66
Borja II	Furniture and Related Products	ECP97-97-13-50/65
Unico Filter DD Tesanj	Motor Vehicles and Components Manufacturing	UKE-2000-03-05
		ITA-2000-03-01
Standard Furniture II	Furniture and Related Products	UKF-2000-09-02/03
		DEN-2000-12-04
Pobjeda D.D.	Motor Vehicles and Components Manufacturing	ITA-2002-05-02
		SWI-2002-06-10/01

BAS PROGRAMME

Commitment Number	Grant Agreement (GA) Number	Client	Industry	Type of Advisory Services
ECP 99-99-09-11/21	BAS-BiH-ECP 001/01	Infosoft d.o.o.	Services	Quality Management
ECP 99-99-09-11/21	BAS-BiH-ECP 002-01	Lasva-Komerc d.o.o.	Services	Quality Management
ECP 99-99-09-11/21	BAS-BiH-ECP 003-01	Vigmelt d.o.o.	Metals & Machinery	Feasibility studies
ECP 99-99-09-11/21	BAS-BiH-ECP 004-01	Primus d.o.o.	Other Manufacturing	Quality Management
ECP 99-99-09-11/21	BAS-BiH-ECP 005-01	Ans Drive d.o.o.	Wood Processing & Furniture	Quality Management
ECP 99-99-09-11/21	BAS-BiH-ECP 007-01	Pharmamed d.o.o.	Other Manufacturing	Computerised financial/MI Systems
ECP 99-99-09-11/21	BAS-BiH-ECP 008-01	Finalist d.o.o.	Other Manufacturing	Computerised financial/MI Systems
ECP 99-99-09-11/21	BAS-BiH-ECP 009-01	ACM Soko d.o.o.	Metals & Machinery	Quality Management
ECP 99-99-09-11/21	BAS-BiH-ECP 010-01	Atlantik BB	Other Manufacturing	Quality Management
ECP 99-99-09-11/21	BAS-BiH-ECP 011-01	AD Termomontaza	Metals & Machinery	Engineering Studies
ECP 99-99-09-11/21	BAS-BiH-ECP 012-01	Barpeh d.o.o.	Food & Beverages	Quality Management
ECP 99-99-09-11/21	BAS-BiH-ECP 013-01	Saraj-Milk d.o.o.	Food & Beverages	Engineering Studies
ECP 99-99-09-11/21	BAS-BiH-ECP 014-01	ECOS d.o.o.	Services	Quality Management
ECP 99-99-09-11/21	BAS-BiH-ECP 015-01	INTAL Milici	Wood Processing & Furniture	Computerised financial/MI Systems
ECP 99-99-09-11/21	BAS-BiH-ECP 016-01	ZRAK AEO dd	Metals & Machinery	Quality Management
ECP 99-99-09-11/21	BAS-BiH-ECP 017-01	Unis-Fagas d.o.o.	Metals & Machinery	Development planning
ECP 99-99-09-11/21	BAS-BiH-ECP 018-01	Metal-Export d.o.o.	Services	Quality Management
ECP 99-99-09-11/21	BAS-BiH-ECP 019-01	Tropic Ribarstvo d.o.o.	Food & Beverages	Quality Management

ECP 11/21	99-99-09-	BAS-BiH-ECP 020-02	Papir Servis d.d.	Services	Development planning
ECP 11/21	99-99-09-	BAS-BiH-ECP 021-02	NBI Curic d.o.o.	Services	Other
ECP 11/21	99-99-09-	BAS-BiH-ECP 023-02	Bjeslanica d.d.	Wood Processing & Furniture	Development planning
UKF 01/01	2000-09-	BAS-BiH-UKF 024-02	Grizelj d.d.	Metals & Machinery	Computerised Manufacturing Systems
ECP 11/21	99-99-09-	BAS-BiH-ECP 025-02	Razvitak d.d.	Wood Processing & Furniture	Development planning
ECP 11/21	99-99-09-	BAS-BiH-ECP 026-02	Exclusive Commerce	Textiles, Apparel, and Footwear	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 027-02	Unis-Adria d.o.o.	Food & Beverages	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 028-02	Blicdruk d.o.o.	Other Manufacturing	Development planning
ECP 11/21	99-99-09-	BAS-BiH-ECP 029-02	Komotin d.o.o.	Other Manufacturing	Feasibility studies
ECP 11/21	99-99-09-	BAS-BiH-ECP 030-02	Remontmontaza d.o.o.	Metals & Machinery	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 031-02	Koteks d.o.o.	Textiles, Apparel, and Footwear	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 032-02	Dukat d.o.o.	Food & Beverages	Computerised financial/MI Systems
ECP 11/21	99-99-09-	BAS-BiH-ECP 033-02	Medena d.o.o.	Metals & Machinery	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 034-02	Euro-Hem d.o.o.	Other Manufacturing	Market analysis & planning
ECP 11/21	99-99-09-	BAS-BiH-ECP 035-02	Kaldera Company d.o.o.	Other Manufacturing	Feasibility studies
ECP 11/21	99-99-09-	BAS-BiH-ECP 036-02	Adi-Mark d.o.o.	Food & Beverages	Computerised financial/MI Systems
ECP 11/21	99-99-09-	BAS-BiH-ECP 037-02	Favorit d.o.o.	Services	Computerised financial/MI Systems
ECP 11/21	99-99-09-	BAS-BiH-ECP 038-02	Laser d.o.o.	Services	Market analysis & planning
UKF 01/01	2000-09-	BAS-BiH-UKF 039-02	Alfa-Therm d.o.o.	Services	Reorganisation/restructuring
ECP 11/21	99-99-09-	BAS-BiH-ECP 040-02	Unicop-trade	Services	Computerised financial/MI Systems
ECP 11/21	99-99-09-	BAS-BiH-ECP 041-02	Famok A.D.	Metals & Machinery	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 042-02	Mermer A.D.	Other Manufacturing	Engineering Studies
UKF 01/01	2000-09-	BAS-BiH-UKF 043-02	Klimavent d.d.	Metals & Machinery	Computerised financial/MI Systems
ECP 11/21	99-99-09-	BAS-BiH-ECP 044-02	Helios d.d.	Metals & Machinery	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 045-02	Sirbegovic d.o.o.	Other Manufacturing	Development planning
ECP 11/21	99-99-09-	BAS-BiH-ECP 046-02	Vatrostalna d.o.o.	Services	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 047-02	Prominvest d.o.o.	Other Manufacturing	Quality Management
UKF 01/01	2000-09-	BAS-BiH-UKF 048-02	Golubic d.o.o.	Services	Feasibility studies
CEI 2001-10-04/02		BAS-BiH-CEI 049-02	Economic d.o.o.	Services	Development planning
CEI 2001-10-04/02		BAS-BiH-CEI 050-02	Sana Linea a.d.	Textiles, Apparel, and Footwear	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 051-02	Bosnaplast d.o.o.	Other Manufacturing	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 052-02	Ferplast d.o.o.	Other Manufacturing	Reorganisation/restructuring
ECP 11/21	99-99-09-	BAS-BiH-ECP 053-02	Sirano d.o.o.	Services	Feasibility studies
CEI 2001-10-04/02		BAS-BiH-CEI 054-02	MALCom d.o.o.	Services	Computerised financial/MI Systems
UKF 01/01	2000-09-	BAS-BiH-UKF 055-02	Krehic d.o.o.	Food & Beverages	Market analysis & planning
ECP 11/21	99-99-09-	BAS-BiH-ECP 056-02	Jajce Alloy Wheels d.o.o.	Metals & Machinery	Reorganisation/restructuring
ECP 11/21	99-99-09-	BAS-BiH-ECP 057-02	Kes d.o.o.	Metals & Machinery	Quality Management
UKF 01/01	2000-09-	BAS-BiH-UKF 022-02	Omerbasic	Food & Beverages	Quality Management

ECP 11/21	99-99-09-	BAS-BiH-ECP 058-02	Elker a.d.	Other Manufacturing	Quality Management
CEI 2001-10-04/02		BAS-BiH-CEI 059-02	Mira a.d.	Food & Beverages	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 060-02	Unis Tvornica Zakovica	Metals & Machinery	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 061-02	Frimont d.o.o.	Metals & Machinery	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 062-02	Proming d.o.o.	Services	Feasibility studies
ECP 11/21	99-99-09-	BAS-BiH-ECP 063-02	Orah a.d.	Wood Processing & Furniture	Development planning
UKF 01/01	2000-09-	BAS-BiH-UKF 064-02	Unis Kovina d.d.	Metals & Machinery	Computerised Manufacturing Systems
CEI 2001-10-04/02		BAS-BiH-CEI 065-02	Hering d.o.o	Services	Reorganisation/restructuring
ECP 11/21	99-99-09-	BAS-BiH-ECP 066-02	Tekstilna Industrija d.d.	Textiles, Apparel, and Footwear	Feasibility studies
ECP 11/21	99-99-09-	BAS-BiH-ECP 067-02	Nova sirovina a.d	Services	Development planning
ECP 11/21	99-99-09-	BAS-BiH-ECP 068-02	Pobjeda d.d.	Metals & Machinery	Reorganisation/restructuring
ECP 11/21	99-99-09-	BAS-BiH-ECP 069-02	Pero d.o.o.	Services	Reorganisation/restructuring
ECP 11/21	99-99-09-	BAS-BiH-ECP 070-02	Standard A.D.	Other Manufacturing	Reorganisation/restructuring
CEI 2001-10-04/02		BAS-BiH-CEI 072-02	Farmavita d.o.o.	Services	Computerised financial/MI Systems
UKF 01/01	2000-09-	BAS-BiH-UKF 073-02	Pharma jez d.o.o.	Other Manufacturing	Reorganisation/restructuring
CEI 2001-10-04/02		BAS-BiH-CEI 074-02	Topling d.o.o.	Metals & Machinery	Quality Management
CEI 2001-10-04/02		BAS-BiH-CEI 075-02	MTK Metalotehna a.d.	Metals & Machinery	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 076-02	Vicom d.o.o.	Services/Wood processing	Engineering Studies
UKF 01/01	2000-09-	BAS-BiH-UKF 077-02	Kokaprodukt d.d.	Food & Beverages	Quality Management
CEI 2001-10-04/02		BAS-BiH-CEI 078-02	1 Maj A.D.	Services	Development planning
CEI 2001-10-04/02		BAS-BiH-CEI 079-02	Hano d.o.o.	Services	Quality Management
CEI 2001-10-04/02		BAS-BiH-CEI 080-02	Rama - glas d.o.o.	Other Manufacturing	Quality Management
CEI 2001-10-04/02		BAS-BiH-CEI 081-02	Koko-dzada d.o.o.	Food & Beverages	Computerised financial/MI Systems
CEI 2001-10-04/02		BAS-BiH-CEI 082-02	Soko izgradnja objekata d.d.	Metals & Machinery	Feasibility studies
CEI 2001-10-04/02		BAS-BiH-CEI 083-02	Delibasic-Poliuretani d.o.o.	Other Manufacturing	Quality Management
CEI 2001-10-04/02		BAS-BiH-CEI 084-02	Kalin d.d.	Services	Feasibility studies
CEI 2001-10-04/02		BAS-BiH-CEI 085-02	Eurofarm - centar d.o.o.	Services	Computerised Manufacturing Systems
UKF 01/01	2000-09-	BAS-BiH-UKF 086-02	Vegafruit d.o.o.	Food & Beverages	Computerised financial/MI Systems
ECP 11/21	99-99-09-	BAS-BiH-ECP 087-03	Sprind d.d.	Food & Beverages	Computerised financial/MI Systems
ECP 11/21	99-99-09-	BAS-BiH-ECP 088-03	Vispak d.d.	Food & Beverages	Reorganisation/restructuring
ECP 11/21	99-99-09-	BAS-BiH-ECP 089-03	Golden Metro d.o.o.	Food & Beverages	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 090-03	Kontinental d.o.o.	Wood Processing & Furniture	Computerised financial/MI Systems
ECP 11/21	99-99-09-	BAS-BiH-ECP 091-03	Nobil d.o.o.	Textiles, Apparel, and Footwear	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 092-03	Kristal d.o.o.	Other Manufacturing	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 093-03	Unipromet d.d.	Services	Market analysis & planning
ECP 11/21	99-99-09-	BAS-BiH-ECP 094-03	Filing d.o.o.	Metals & Machinery	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 095-03	Mir d.o.o.	Wood Processing & Furniture	Engineering Studies
ECP 11/21	99-99-09-	BAS-BiH-ECP 096-03	Ping d.o.o.	Services	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 097-03	FAIN d.o.o.	Services	Quality Management

ECP 11/21	99-99-09-	BAS-BiH-ECP 098-03	Energoinvest - SUE	Other Manufacturing	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 099-03	Fagus d.o.o.	Wood Processing & Furniture	Reorganisation/restructuring
ECP 11/21	99-99-09-	BAS-BiH-ECP 100-03	Miral d.o.o.	Other Manufacturing	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 101-03	Livnica A.D.	Metals & Machinery	Engineering Studies
ECP 11/21	99-99-09-	BAS-BiH-ECP 102-03	Opal Commerce d.o.o.o	Services	Computerised financial/MI Systems
ECP 11/21	99-99-09-	BAS-BiH-ECP 103-03	BEPRO d.o.o.	Other Manufacturing	Computerised financial/MI Systems
ECP 11/21	99-99-09-	BAS-BiH-ECP 104-03	Pivara Tuzla	Food & Beverages	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 105-03	TEO d.d.	Metals & Machinery	Quality Management
ECP 11/21	99-99-09-	BAS-BiH-ECP 106-03	Ferimpex d.o.o.	Food & Beverages	Market analysis & planning
ECP 11/21	99-99-09-	BAS-BiH-ECP 107-03	Elan Ros	Textiles, Apparel, and Footwear	Engineering Studies

The following are the main IFIs, multilateral and bilateral donors present and actively working in Bosnia and Herzegovina:

MULTILATERAL ORGANISATIONS

European Commission (EC)

The Humanitarian Aid Office of EC provided EUR 1,032 million in humanitarian assistance to BiH from 1991-2000. In 1996 following the signing of Dayton Agreement the EC began to deliver non-humanitarian assistance to BiH through PHARE and OBNOVA programmes. A total of EUR 890 million were allocated in the period 1996 to 2000, out of which almost 90% had been contracted by July 2001. The Council of EU approved in May 1999 an amount of EUR 60 million for balance of payments support. The implementation of this first macro-financial assistance operation was concluded in December 2001, when the third (grant) tranche of EUR 15 million was disbursed. In November 2002, the Council approved further Community macro-financial assistance of up to EUR 60 million to BiH, and the Commission disbursed the first tranche of EUR 15 million grant in February 2003. In 2001 EUR 63.5 million were committed for democratic stabilisation, economic development, justice and home affairs and civil aviation department.

The EC is currently working under a five years CARDS program that sets out the strategic framework for financial support to BiH. Within this framework the EC, in partnership with the BiH authorities, has designed a detailed program for three years (2002-2004) with a financial allocation of EUR 192.9 million. The 2002 program allocation was EUR 71.9 million and 2003 is EUR 63 million. The EC identified five areas of support: Democratic stabilisation – supporting the return of refugees and internally displaced persons and media reform; Administrative capacity building – focusing on reform of state institutions and taxation and customs; Economic and social development – supporting economic reform and development (national economic integration, sustainable local development and trade development) and social cohesion and development; Environment and Natural Resources – supporting BiH in upgrading its environmental legislation and enforcement capacity; Justice and home affairs – strengthening administration of justice and police, implementation of asylum and migration policies and supporting an integrated border management.

EBRD is working with the EC on the Micro-Enterprise-Bank and on upgrading of environmental legislation. The EBRD will also continue working with the EC on exploring possibilities of support schemes for SME financing.

European Investment Bank (EIB)

EIB started its operations in BiH in 2000 and signed four projects amounting to EUR 185 million. EIB is working closely with EBRD on a number of projects: Roads, Electric Power Reconstruction and Railways.

The Bank and EIB are discussing a new roads rehabilitation project which might include some motorway sections on Pan-European corridor Vc and a link from Banja Luka to Corridor 10 (Zagreb-Belgrade).

World Bank (WB)

BiH became a member of the WB in 1996. Initially the WB concentrated on the rebuilding of economic and social infrastructure. As BiH moved into a second phase of post-conflict development centred on nation building the WB 2000-2002 country strategy focused on structural reforms, institution building and community-based development programs. The interim strategic objectives up to December 2003 focus on: (a) strengthening institutions and governance, (b) fostering private sector-led growth and (c) building social sustainability. By financial year 2005 IDA base-case allocation is expected to be USD 33 million per year. Up to now the WB has committed USD 961 million (IDA terms) and managed additional funds of USD 359 million for 43 projects, with a total cost of USD 2.48 billion. There are fourteen MIGA operations in BiH.

The EBRD has a number of joint operations with the WB e.g. Emergency Power Reconstruction Project, Third Electric Power Reconstruction Project, Emergency Transport Reconstruction Project.

International Financial Corporation (IFC)

IFC strategy in BiH is to support post-war reconstruction by assisting enterprises that can generate employment opportunities. Critical sectors of focus in this effort include SMEs, financial institutions and related infrastructure, and wood processing. IFC invested USD 64 million in eleven projects from 1997 to date.

IFC is managing the Southeast Europe Enterprise Development (SEED), based in Sarajevo, a multi-donor SME assistance programme (USD 25 million funded by Austria, Canada, Greece, the Netherlands, Norway, Slovenia, Sweden, Switzerland, the United Kingdom and IFC) to strengthen small and medium enterprises in Bosnia and Herzegovina, Albania, FYR Macedonia and Serbia and Montenegro. SEED works along three service lines: enterprise-level investment services; capacity building of enterprises and of local service providers such as business associations, chambers of commerce, training / economic institutions and consultants who serve SME's needs; and improvement of the business enabling environment. During fiscal year 2002 and in BiH only, SEED investment services delivered 12 Internal Enhancement Plans and 10 Investment Plans. SEED also completed 20 capacity building projects (to business development service providers or SMEs/group of SMEs). Finally, SEED has undertaken 11 "business enabling environment initiatives", which included surveys/studies, publications and input into donor / government strategies on SME development and poverty reduction.

IFC has also provided Advisory Services (including Foreign Investment Advisory Services) and Technical Assistance to twelve projects in BiH.

The Bank was working with IFC in the Sarajevska Pivara project and we are co-shareholders in MEB and Horizonte venture capital fund. The BAS and TAM programmes are liaising with SEED.

International Monetary Fund (IMF)

BiH became member of IMF as a successor of ex-Yugoslavia in December 1992. A 15-month Stand-by Arrangement of SDR 67.5 million (USD 85.4 million) with the IMF is in place for the period August 2002 to November 2003. Good progress has been made under the programme in terms of macro-economic targets. There were slippages under the programme (ceilings on gross borrowings by FBH cantons and municipalities and RS

extra budgetary funds were breached) but corrective actions have been taken. IMF is currently discussing the budgets for 2003 with the new authorities of BiH.

BILATERAL DONORS (in alphabetical order)

Austria

Austria provided overall technical assistance to BiH of EUR 52 million.

Canada

Canada has undertaken more than 100 projects valued at over CAN \$ 100 million since 1995 in areas such as health, policing, mine action, human rights, independent media and refugee return. Canada is supporting the Railways Reconstruction Project (CAN \$ 2.4 million) and the Third Electric Power Reconstruction Project (CAN \$ 1.5 million).

France

France overall assistance to BiH since 1996 amounts to EUR 42.7 million. This year France will contribute another EUR 1.4 million.

Germany

From the end of the war to date Germany has provided bilateral assistance of EUR 232 million. In 2002 Germany provided EUR 13.6 million including credit lines for water supply and SME financing. Plans for 2003 include EUR 3 million for Technical Assistance and EUR 9 million loans.

Italy

Italian Development Co-operation has been active in Bosnia Herzegovina (BiH) since 1992, when the first emergency programmes started, aimed at tackling the most urgent health and social problems caused by the war.

In total, Italy's direct contributions to support the recovery and development of BiH have now reached EUR 179 million. Of these, Euro 46 million regard initiatives approved in the period 2001-2002.

Japan

During the conflict in the former Yugoslavia, Japan extended assistance to BiH valued at approximately USD 180 million, mainly in the areas of humanitarian/ refugee assistance. Total disbursements of Japanese assistance reached USD 177.3 million at the end of 2000. This consisted of USD 165.7 million (93%) of grant aid and USD 11.6 million (7%) of technical assistance. Among bilateral donors to Bosnia and Herzegovina, Japan ranked fifth in 1997 and third in 1998.

In September 1998, Japan made a commitment to provide JPY 4.11 billion in loans for the rehabilitation of the power sector. This project was co-financed by the World Bank.

The sectors/ projects to which Japanese grant aid was extended include the following (year of commitment given):

- Public transport rehabilitation in Sarajevo (1996 and 1997)
- Power transmission rehabilitation (1996)
- Democratisation (1996)
- Primary health care (1997 and 1998)
- Donation of medical equipment (1997)
- Public transport rehabilitation in Banja Luka (1998)

- Road construction machinery (1998)
- Public transport rehabilitation in Moftar City (2000)
- Minesweeping equipment (2000)
- various grass-root projects

Netherlands

Total assistance of the Netherlands to BiH until 31 December 2002 was EUR 592 million.

Norway

So far, Norwegian assistance to BiH was approximately NOK 1.9 billion in development aid, through bilateral donations and international organisations, excluding costs of military presence. In 2003 it is expected that NOK 100 million will be used for institutional building, economic development, some infrastructure projects and mine clearance.

Portugal

Portugal assistance to date has been EUR 2.4 million for schools and railways rolling stock. Another EUR 2 million will be used in 2003 for the same purpose.

Slovenia

During the time period between 1992 and 1999 Slovenia provide to BiH approximately USD 135 million for humanitarian aid. Technical assistance in years 2001 and 2002 was EUR 1.46 million. Support is being provided in the areas of SME business development and co-operation, training programs, research programs and trough Center of Excellence in Finance. TC projects are mostly co-ordinated within CEI initiative. Figures for 2001 and 2002 include also financing of IT for Sarajevo Stock Exchange transaction system in co-operation with USAID.

Sweden

SIDA assistance from 1991 to 2000 amounted to USD 169 million. The 2001-2002 assistance programme accounted for USD 57 million. Sweden has provided SEK 1.85 billion (approx. EUR 205 million) in bilateral assistance for BiH since 1996. This does not include the costs for UNPROFOR/IFOR/SFOR troops which are estimated at SEK 2.73 billion (EUR 303 million) during the same period, nor support channeled through the UN. The Swedish priorities have been reconstruction of private homes and local economy (return of refugees and internally displaced persons), human rights and democracy as well as support to institutional building and the private sector. The preliminary budget for 2003 is around SEK 250 million (EUR 27.5 million), mostly for local return (reconstruction), institutional strengthening and democracy building.

Switzerland

Swiss assistance from 1993 to 2002 was CHF 215 million. This year the planned amount is CHF 17 million.

United Kingdom

Since 1995, DFID have been active bilaterally in BiH post conflict and transitional development assistance. In the immediate post conflict period to 1999, DFID provided bilateral aid totalling GBP 69 million. In the early years this concentrated on humanitarian assistance moving to reconstruction assistance. The assistance varied between providing basic food and supplies, to work designed to reconstruct the basic electricity supply grid. In the later 1990's DFID started to elaborate a transitional

development response, helping to build institutional capacity with mainly technical assistance. Between 1997-99, for instance, DFID worked with the entity health systems to create annual Health Finance accounts, and supported (1998-2001), with other donors, the creation of capital markets to under-pin the privatisation programme. Since 2000 DFID bilateral assistance has concentrated on technical assistance to various sectors. The value runs at about GBP 6-7 million per annum spread between support to social policy development, independent media, economic reform, public administration reform (particularly in the RS), and justice sector reform. DFID will be reviewing its programme for 2004-06 in the last half of 2003. DFID continues to work closely with multi-lateral partners, particularly the World Bank. In addition to the bilateral programme, DFID contributes a significant of development assistance via the European Commission.

United States of America

The United States Government has provided nearly USD 1 billion to date for the reconstruction of BiH. The assistance is helping to create a multi-ethnic, stable, democratic BiH with a functioning free-market economy and is focused on: economic transformation, democratic reform and re-establishment of a multi-ethnic society. Other US support is being provided in the areas of counter-terrorism, human rights, customs, the state border service and advice and assistance to the Treasuries. In addition the US Government has delivered over USD 1 billion in humanitarian assistance to former Yugoslav republics since 1991.