

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

**STRATEGY FOR  
BOSNIA AND HERZEGOVINA**

As approved by the Board of Directors at its meeting on 4 May 2005

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## **I. EXECUTIVE SUMMARY**

Bosnia and Herzegovina (BiH) continues to meet the principles specified in Article 1 of the Agreement Establishing the Bank. The country is playing a constructive role in regional co-operation throughout south-eastern Europe. Governments at all levels (State, Entity and Cantonal) are working towards fulfilling the conditions set by the European Commission before negotiations can begin on a Stabilisation and Association Agreement (SAA). However, the internal political situation continues to be complex, especially in connection to disputes with the International Criminal Tribunal for former Yugoslavia (ICTY) and the failed negotiations to enter NATO's Partnership for Peace Programme (PfP). Paddy Ashdown, High Representative for the UN and the EU Special Representative since May 2002, is due to be replaced at end of 2005 by a successor whose exact powers are yet to be decided.

BiH continues to make progress in macroeconomic stabilisation and structural reforms, but the pace of progress has sometimes lagged behind expectations. The macroeconomic environment remains very stable, with annual growth of around 4-5 per cent, inflation in low single-digits, and strong reserve coverage underpinning the currency board. There have been significant and necessary reforms in the public sector over the past couple of years, and prospects for fiscal sustainability are improved, following the move in both Entities towards balanced budgets, although the process of building state-level institutions is presenting new fiscal challenges. However, trade and current account deficits remain large, with the latter estimated close to 20 per cent of GDP. Notwithstanding the evident progress of recent years, critical challenges remain to be tackled. On the macroeconomic front, poor data quality hampers consistent policy-making, while the size of the public sector remains too large and needs to be further reduced. Corruption is still prevalent and major fundamental reforms to public administration and the judiciary are required. Living standards are low and unemployment is widespread.

BiH began its transition to a market economy later than most other countries of the region and in exceptionally difficult circumstances in 1996 following the end of the war. An estimated 200,000 people were killed in the war, and around 70 per cent of all physical infrastructure was either destroyed or severely damaged. Significant challenges during post-war reconstruction included: (i) restoring of basic services for the public such as water, heating, electricity, housing and reconstruction of essential roads, bridges, and airports; (ii) a substantial institution-building process at all levels; and (iii) revival of economic activity by starting up many businesses from scratch.

This era of post-war reconstruction, which was supported by a significant aid effort by the international community, is now coming to a successful close. The majority of war damage reconstruction has been completed. Capital transfers for reconstruction continue to fall from the post-war highs of the late-1990s while foreign direct investment is on a rising trend, reflecting a welcome move from aid-dependence to investment-led growth. In the area of structural reforms, progress in a number of areas in the last couple of years is visible, notably in an improved business environment, important regulatory reform in key infrastructure sectors, and substantial advances in the development of a sound banking sector. The country is gradually shifting from the "push" of the Office of High Representative (OHR) to the "pull" of the European Union and is taking its place as an integral part of an emerging south-eastern Europe (SEE).

Cooperation among the countries of SEE has been greatly enhanced in recent years and BiH has played an important and constructive role in various trade, investment and infrastructure initiatives.

The main transition challenges facing the country in the new period ahead are the following:

- Privatisation and restructuring of enterprises and elimination of obstacles to business in order to enhance the flow of private capital, and rely less on donors and remittances.
- Reduction of the size of the public sector and elimination of unnecessary red tape and bureaucracy.
- Structural and institutional reforms in key infrastructure sectors such as transport, energy, telecommunications, and municipal infrastructure as well as the financial sector.
- Strengthening of state institutions and the creation of a single economic space.

The Bank has so far concentrated on two main areas: (i) supporting small and medium-sized enterprises (SMEs) by channelling finance through the local banking sector and providing advisory services via its TurnAround Management and Business Advisory Services (TAM and BAS) programmes; and (ii) playing a key role in the reconstruction of physical infrastructure in BiH. The Bank had a record year in 2004 both in terms of new signings (€97 million) and disbursements (€56 million), bringing its cumulative commitments to €349 million. The Bank has also made its first Direct Investment Facility (DIF) investment in BiH in 2004 through an equity investment in a small local manufacturing company.

In line with BiH's transition challenges above, the Bank's priorities during the new strategy period will be:

- development of private sector activity;
- assistance for structural and institutional reforms; and
- support to BiH's regional integration and its progress towards EU membership.

These priorities will guide Bank activities in various sectors as summarised below:

- **Financial sector and small businesses:** the Bank will build on its previous success in this area and continue funding SMEs through the local banking sector. TAM and BAS Programmes will also continue to provide advisory services to small businesses. In the financial sector the Bank will also seek to diversify its support by considering mortgage lending, leasing, insurance, additional equity investments and an increased use of syndication.
- **Corporate sector:** the Bank will support large enterprise privatizations which have recently been launched by seeking to attract foreign investors and provide financing. The Bank will also provide financial support to medium-sized private local companies when it is additional to the relatively developed and competitive local banking sector.
- **Infrastructure:** the Bank will continue to play a leading role in infrastructure investments. The guiding principles in project selection will be prioritisation of key investments, regional integration, and structural reforms. In *transport*, the focus will be on railway rehabilitation, as demand for freight traffic is rapidly increasing

due to the revival of industry. The Bank will also support air navigation and further investments in the road sector. In *energy and telecoms* the focus will primarily be on the implementation of existing projects and continued policy dialogue on associated sector reforms, privatisations and regional integration. Follow-on investments in areas such as electricity distribution and new telecom projects will be considered. The Bank will seek to enter the *municipal infrastructure* sector, initially under a sovereign guarantee, focusing on sector reform and institutional strengthening at the level of operating companies.

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

## LIST OF ABBREVIATIONS

<b>BAS</b>	Business Advisory Services
<b>BiH</b>	Bosnia and Herzegovina
<b>CEI</b>	Central European Initiative
<b>DFID</b>	UK Department for International Development
<b>DIF</b>	Direct Investment Facility
<b>EIB</b>	European Investment Bank
<b>EC</b>	European Commission
<b>EU</b>	European Union
<b>EUFOR</b>	European Union Forces
<b>EUPM</b>	European Union Police Mission
<b>FBiH</b>	Federation of Bosnia and Herzegovina
<b>FDI</b>	Foreign Direct Investment
<b>ICTY</b>	International Criminal Tribunal for Former Yugoslavia
<b>IFC</b>	International Finance Corporation
<b>IFI</b>	International Financial Institution
<b>ILO</b>	International Labour Organisation
<b>IMF</b>	International Monetary Fund
<b>IPTF</b>	International Police Task Force
<b>MEI</b>	Municipal and Environmental Infrastructure
<b>MTDS</b>	Medium-Term Development Strategy
<b>OHR</b>	Office of the High Representative
<b>PfP</b>	Partnership for Peace
<b>RS</b>	Republika Srpska
<b>SAA</b>	Stabilisation and Association Agreement
<b>SEED</b>	South Eastern Europe Development
<b>SFOR</b>	Stabilisation Forces
<b>SME</b>	Small and Medium-sized Enterprise
<b>TAM</b>	TurnAround Management
<b>TFP</b>	Trade Facilitation Programme
<b>UNDP</b>	United Nations Development Programme
<b>USAID</b>	United States Agency for International Development
<b>WB</b>	World Bank
<b>Currencies</b>	
<b>KM</b>	Konvertibilna Marka (BiH currency)
<b>US\$</b>	United States Dollar
<b>CAD\$</b>	Canadian Dollar
<b>NOK</b>	Norwegian Crown
<b>GBP</b>	British Pound
<b>CHF</b>	Swiss Franc
<b>JPY</b>	Japanese Yen
<b>Exchange Rate</b>	
<b>1 €</b>	1.95583 KM

# 1. THE BANK'S PORTFOLIO

## 1.1 OVERVIEW OF BANK ACTIVITIES TO DATE

*The Bank has actively supported Bosnia and Herzegovina's post-war reconstruction and transition process with average annual commitments of €38 million since the start of its operations in 1996. As of end February 2005, the cumulative business volume has reached €349 million. The percentage of undrawn commitments has been declining steadily from 65 per cent at the end of 2002 to 49 per cent at the end of March 2005. Total disbursements to date stand at €178 million and are expected to increase rapidly during the next two years as the physical implementation of a number of large infrastructure projects (in particular transport and energy) gets underway.*

*In addition to its direct support of projects, the Bank has also played a critical role in mobilising significant co-financing and grants. As a result, the total project costs associated with EBRD investments amount to €938 million<sup>1</sup>, resulting in a cumulative mobilisation ratio of 1.7:1. The Bank has been working closely with all international financial institutions (IFIs) present in Bosnia and Herzegovina and has co-financed projects with several of them. In terms of grants, more than €18 million have been mobilised under 74 technical cooperation projects, and donors have also provided more than €30 million of direct grant co-financing for the Bank's investment projects. The largest contributors of technical co-operation funds were Austria, Canada, Denmark, Germany, Ireland, Italy, Japan, the Netherlands, Norway, Sweden, United Kingdom, United States of America, Central European Initiative and the European Commission (see *Annex 6 - Technical Cooperation Projects* for further details).*

The Bank started its operations soon after the Dayton Peace Agreement was signed at the end of 1995 and initially concentrated on financing *emergency reconstruction of basic infrastructure* which suffered extensive damage, such as power lines, telecommunications links, roads, bridges, airports and air navigation equipment throughout the territory of BiH .

In addition to restoring critical infrastructure, the Bank also had an early focus on the development of the *financial sector* with a view to channelling much-needed funds to *small and medium-sized enterprises* (SMEs) many of which were start-ups following the end of the war. Some 300 SMEs have so far used EBRD sub-loans for investments to expand their businesses (amounting to €40 million to date), while nearly 400 transactions have benefited from the Bank's trade facilitation programme through the local banking system. The average size of sub-loans is €112,000 and tenors range from one to seven years. In parallel, more than 160 individual advisory services were provided directly to enterprises under the Bank's TurnAround Management (TAM) and Business Advisory Services (BAS) Programmes. The BAS office in BiH was opened in 2001 and has since implemented 158 projects, supported by donor funds amounting to €2.25 million. The TAM Programme, on the other hand, has undertaken 10 projects in BiH utilising €0.56 million of donor funding since 1997 (see *Annex 7 - SME Finance and TAM / BAS Programmes* for further details). The Bank also supported micro-lending to entrepreneurs and small businesses through the establishment of a micro enterprise bank as early as 1997.

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<sup>1</sup> This figure goes up to €1.26 billion if adjusted for exchange rate differences and the co-financing mobilised under the Power III project, bringing the mobilisation ratio to 2.6:1.

*The overall performance of the Bank's portfolio in BiH has been satisfactory: three projects have been completed (two successful exits, one pre-payment), three have not yet started disbursing (all signed in December 2004), one is impaired, and the rest are performing according to expectations. Overall, 98 per cent of operating assets are performing. Significant capital gains have been realised through full exit of equity investments such as Hrvatska Banka (now Unicredit Zagrebacka) and Market Banka (now Raiffeisen). The equity share of the portfolio is low at five per cent, reflecting the transition stage of the country.*

The breakdown of cumulative commitments to date by sector and type of financing is provided in Table 1 below (see *Annex 5 – Approved Bank Operations* for the full list of signed operations).

**Table 1: Bank's cumulative commitments as of end-February 2005**

Sector	Cumulative Commitments		
	Total Project Value (€ million)	EBRD Finance (€ million)	Per cent of total EBRD finance
Transport	392	116	34
Power and Energy	175	85	24
Financial Institutions	168	84	23
Telecoms	163	47	14
Agribusiness	39	16	4
General Industry	1	1	<1
<b>Total</b>	<b>938</b>	<b>349</b>	<b>100</b>
Debt		332	95
Equity		18	5
Private		102	29
State		247	71
Non-sovereign		132	38
Sovereign		217	62

## 1.2 IMPLEMENTATION OF PREVIOUS COUNTRY STRATEGY

*The last Country Strategy, approved in April 2003, outlined the following strategic priorities: (i) to participate in the privatisation process and to support new or existing private companies; (ii) to strengthen and diversify the SME finance mechanisms, working with an expanded base of local financial institutions; (iii) to finance regional infrastructure projects, particularly in the road sector, as well as develop local municipal utilities (water); and in parallel (iv) to work on the implementation of the existing energy and telecom projects.*

*Overall, the Bank has achieved most of the operational objectives set out in the previous Country Strategy. The Bank had a record year in 2004 both in terms of new commitments (€97 million – increasing cumulative commitments by 38 per cent) and disbursements (€56 million) which brought the total amount of signed projects to €120 million during the strategy period.*

In line with the strategic priorities listed above, ten new projects have been signed and are under implementation, including nine in the private sector: three corporate projects (Marbo, Grand, and Primus, the first project in the country under the Bank's Direct

Investment Facility), six banking projects (four SME credit lines, one subordinated loan and one senior syndicated loan), and one sovereign project for regional road infrastructure (Sarajevo By-Pass on Corridor Vc and Banja Luka-Gradiska linking BiH to Corridor X).

The Bank has not had a major role in non-FI (industrial) privatisations as yet, as the privatisation process in the country has proceeded very slowly so far. Only in 2004 some important progress was reported and the Bank is in contact with all prospective investors to take an active role in supporting industrial restructuring and investments.

The implementation of the energy and telecom projects has progressed, although slower than planned. Despite the Bank's efforts, no municipal projects were signed during the strategy period, although a protocol was signed with the State and Entity authorities at the end of 2004 which should facilitate developing municipal projects in future (see Section 3.2.3.4 below for more details).

### **1.3 TRANSITION IMPACT OF THE BANK'S PORTFOLIO AND LESSONS LEARNED**

#### ***1.3.1 Transition impact***

The Bank's investments have had a substantial transition impact, especially in the financial, telecommunications and power sectors (the latter currently under implementation), and to a lesser extent, in the transport sector. Almost all projects in BiH have been rated by the Bank's Office of Chief Economist as having good or excellent transition impact potential, although the risks that this potential is not achieved are usually assessed as either medium or high.

Through its investments in infrastructure projects, the Bank has significantly contributed to the development of legal and regulatory frameworks, creation of State-wide regulatory agencies and inter-Entity institutions.

In the *telecoms sector*, the Bank has played a crucial role in supporting the development of adequate sector regulations (for example, drafting and award of fixed-line licenses, interconnection agreements and universal service policy), the establishment of an independent State-level regulatory agency and the elaboration of a sector policy paper.

In the *power sector*, in accordance with the Power III project's conditionality, new state laws have been passed for the establishment of a State-level regulator, a single Transmission Company and a joint Independent System Operator. In addition BiH has signed up to the EC-sponsored Energy Community of South East Europe (ECSEE) process and actively participates in the creation of a future regional energy market. These achievements represent major reforms, as the sector has been fragmented by three separate electric utilities as a result of the war.

In the *transport sector*, the Railways Recovery Project achieved integration of the two railways in the Federation. The implementation will be finalised in early 2006 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 has improved market efficiency of the sector by supporting the development of a viable international freight

operation throughout BiH, a labour restructuring plan and commercial business planning processes.

In the *financial sector*, through its early investments in the 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 BiH and improved corporate governance practices, while engaging in a constructive policy dialogue with the authorities. Building on its pivotal role, the Bank structured the first syndicated loan in BiH during the last strategy period. The €45 million loan was signed in December 2003 and introduced international commercial banks into the country's banking sector.

### **1.3.2 Lessons learned**

Over the past years, the Bank has drawn valuable lessons that will help to guide activities and investments in the new strategy period. The main lessons learned are the following:

*Public sector projects in BiH are extremely complicated by the complex administrative structure of the state.* Despite the increasing efforts of the international community during the past two years, the central state is still weak and the two entities are the key players in implementation of the projects. Resistance to change, institutional weaknesses, inefficient management, and disagreements on new state-level institutions are slowing down project implementation. Infrastructure projects require a careful and often long preparation (supported by adequate technical cooperation) of the institutional project components as well as close co-ordination among all IFIs, donors and the OHR in order to maximise leverage towards implementation. Despite these co-ordination efforts, public sector projects are still difficult to implement. As an example, the implementation of the Electric Power Reconstruction Project (Power III), which has the potential for excellent transition impact in terms of the institutional reform of the sector, was delayed due to obstacles from various stakeholders (for example political, management and trade unions). The coordinated efforts of the international community as well as the increasing willingness of the BiH stakeholders to comply with EU norms have eventually resulted in the adoption of critical laws for setting up state-level institutions (for example creation of a State regulatory agency, establishment of a joint-stock electricity transmission company across both Entities and an independent system operator). However, the efforts to achieve these results were massive, while the timely implementation still remains a challenge and will require continued donor coordination. On a more positive side, the preparation of the Regional Roads Project in 2004, although time-consuming, demonstrated that an improved level of cooperation among the authorities of the two Entities can indeed accelerate project negotiations and implementation. This is a positive development, which was not conceivable only a few years ago. Whether the 2004 road project experience can be seen as a signal of an improved and more effective policy dialogue among all parties involved, however, still needs to be tested for future projects. Learning from these experiences in the country to date, the Bank will be able to better tailor future public sector operations and improve their transition impact.

*Presence 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. This has had an impact in the past on possible projects proposed by the Bank to prospective clients in the country. The Bank has recently developed an alternative approach under a sovereign umbrella, which led to the successful signing of a protocol with the government (as explained below in Section 3.2.3.4). Where possible the Bank will seek to work with donors to blend its 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.

*Small investments that are properly structured and delivered can provide significant benefit in terms of additionality, transition impact and return.* Although an investment is small in monetary terms it can have considerable effects in the industry environment with the right combination of investment, time allocation and appropriate technical collaboration. Active monitoring and involvement by the Resident Office staff, jointly with HQ counterparts, is required to ensure the success of technical assistance and the project. A good example is the Bank’s equity investments as early as 1997 in two small local banks (€1.1 million in each of Hrvatska Banka and Market Banka) which are widely recognised to have played a significant catalyst role in the success of BiH’s banking sector today. The significant technical cooperation support for institution building and management training together with the presence of the Bank as a shareholder have attracted foreign investors which has since turned these banks into the two largest and most successful banks in BiH. This experience, however, still needs to be tested on a wider spectrum of more complicated industrial sector transactions.

#### **1.4 PORTFOLIO RATIO**

As of end February 2005, the portfolio ratio stands at 29 per cent private and 71 per cent public. Although the Bank started its BiH operations in 1996, the share devoted to public sector projects is still high due mainly to two reasons:

First, *extensive war damage* in BiH destroyed more than 60 per cent of all infrastructure in the country and resulted in much higher *investment needs in infrastructure* compared to other EBRD countries of operations. Whereas most transition countries suffered from lack of maintenance and delayed investments in energy, transport, telecoms and municipal infrastructure, in BiH the majority of the roads, bridges, power plants, electricity distribution networks and telecom lines were completely destroyed or severely damaged. This required large investments by the IFIs and bilateral donors simply to restore basic infrastructure for the public.

Second, *local private economic activity started more slowly than in other transition economies* as most entrepreneurs had to start their businesses from scratch and with very limited financial resources. In addition many of the pre-war small and medium companies have also suffered extensive damages to their premises, machinery and equipment due to the war. The *country image* was also severely affected by the war, which *kept away foreign private investors* for an extended period of time.

The Bank’s objective is to do more for the growth of the private sector in BiH, as explained in detail below. Nonetheless, with *several large-scale public sector projects*

in the pipeline (such as the crucial railway investment), the rebalancing with higher private sector share in the portfolio will only be achieved in the medium to longer term and assuming that the authorities will show much more commitment and urgency than previously to large-scale privatisation and a better investment climate for private sector investment and development.

In terms of *number of projects*, however, the majority of the Bank's operations will continue to be in the private sector. To date, 31 out of 39 operations approved by the Bank have been in the private sector. During the last strategy period, the Bank signed 10 operations, out of which only one was in the public sector.

## 2. OPERATIONAL ENVIRONMENT

### 2.1 THE GENERAL REFORM ENVIRONMENT

#### 2.1.1 *Political developments*

*The political scene in BiH continues to be unstable.* The coalitions at state and Entity levels between the three leading ethnic-based parties and several other groupings are fragile. Bosnia's energetic High Representative and EU Special Representative since May 2002, Paddy Ashdown has been continually, and with considerable success, pressing BiH officials to accelerate reforms. Indeed, the implementation of the integrative elements of the Dayton Accords and of the constitutional reform in 2002 is still driven primarily by the international community, not by the domestic forces in BiH. Since many of the reforms require the transfer of more power from the Entities to the state-level government and a continued revision of the Dayton Accords (including the BiH Constitution), the political establishment in the RS mainly opposes them fearing that they might weaken the status secured by the RS at Dayton. Pressure by Bosnian Croats for territorial autonomy has abated in recent years. On the other hand the Bosniak Moslems, the country's largest ethnic group, mainly support BiH's full integration (see *Annex 1 – Political Structure* and *Annex 2 – Chart of Legislative and Executive Bodies* for further details on the current political structure).

*Ethnic-based parties continue to dominate the political scene.* The non-ethnic Social Democratic Party (SDP), which had briefly led a coalition government between 2000 and 2002, did badly in the 2002 elections, as did its political partners. The representatives of the ethnic-centred SDA (Bosniak Moslem), HDZ (Croat) and SDS (Serb) parties did better and captured their respective seats in the three-member BiH Presidency. After months of negotiations – and a vetting by the OHR of prospective Ministers and senior officials – coalition governments were formed in February 2003 at Entity levels. An enlarged and strengthened Council of Ministers under a new Prime Minister, Adnan Terzic, a member of the SDA, was formed at state level. Mr Terzic offered his resignation in late-2004 over the refusal by one of the houses of parliament to accept his government's proposal for a single rate (17 per cent) VAT, to be introduced in 2006. The parliament's decision was subsequently reversed in favour of Mr Terzic, and he accordingly withdrew his resignation. In March 2005, the High Representative removed from office the Croat representative on the Presidency, Dragan Covic, who is facing charges of corruption.

*The RS is under particularly strong pressure from the OHR, acting on behalf of the international community, to improve its cooperation with the International Criminal Tribunal for former Yugoslavia (ICTY).* Paddy Ashdown triggered a political crisis in the RS in December 2004 by removing nine security officials from office and freezing the bank accounts of several others, on the grounds of their lack of cooperation with ICTY. Earlier in 2004, he had sacked 59 high-ranking RS officials for the same reason. The latest round of sackings in December led to the resignation of the RS Prime Minister, Dragan Mikerevic, and his replacement by Pero Bukejlovic, a member of the SDS party. Borislav Paravac, the Serb member of the BiH Presidency considered resigning, and the (also Serb) BiH Foreign Minister, Mladen Ivanic actually did resign in protest but both later decided to stay at their posts. In February and March 2005 there were several voluntary surrenders to ICTY by former senior RS officials indicted for war crimes.

*Since the end of the 1992-95 war, 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. State institutions are being strengthened and a “single economic space” is becoming a reality. Significant military and police reforms, unthinkable even a few years ago, are being implemented. Since March 2002 BiH has been in the process of putting into practice an important constitutional reform designed to reverse some of the worst consequences of the war – notably those of the notorious policy of ethnic cleansing, systematically pursued during it. Under that reform, the three major ethnic groups now have the status of constituent peoples on the whole of the territory of BiH. The reform, prompted by the international community, has established mechanisms for the protection of each constituent people (education, religion, language, promotion of tradition and cultural heritage) and a public information system. In addition, the reform has led to ethnically-balanced representation in the two Entities and in the highest courts, based on the 1991 census. Thus, for example, in the RS, which is currently 95 per cent ethnically Serb, the Bosniaks and the Croats are represented at all levels of government. The reform has created the need for political coalitions cutting across the ethnic lines of division.*

*Paddy Ashdown is stepping down at the end of 2005 and is due to be replaced by a new High Representative who also would be the EU Special Representative, whose powers still remain to be defined. Presidential and parliamentary elections are not due till 2006, but pre-election manoeuvring has already started.*

### ***2.1.2 International relations and regional cooperation***

*BiH's two Entities have, within the framework of normal inter-state relations, a special constitutional relationship with Croatia and Serbia and Montenegro which were also signatories of the Dayton Peace Accords. The RS has a special relationship with Serbia and Montenegro, while the Federation's is with Croatia. The President of Serbia, Boris Tadic, made the first official visit by a Serbian head of state to BiH in December 2004 and, while in Sarajevo, offered an official apology to local victims of war crimes committed by Serbs in the 1992-95 war, coupling this with a remark that all parties involved owed each other an apology. Croatia's President Stipe Mesic has since assuming office in 2000 paid several visits to BiH, where his stand in favour of the country's unity and territorial integrity during the 1992-95 period is well known. Companies from the two countries are increasingly covering the whole of BiH through trade and investment activities, not just the respective Entities.*

*BiH is playing an important and constructive role in an emerging south-eastern Europe (SEE). SEE is increasingly seen as a region of opportunity and potential and an attractive destination for foreign investment. Developments in BiH in recent years are contributing to this positive assessment. An important aspect of this is enhanced regional cooperation among all the countries of SEE. Free-trade agreements have been signed by BiH with Croatia and Serbia and Montenegro as well as with Slovenia, which is now emerging as an important partner in terms both of trade and of investment. In early 2005, BiH temporarily suspended the operation of its free-trade agreements with Croatia and Serbia and Montenegro, pleading special difficulties in the agriculture and food sectors.*

*In March 2004 the European Commission proposed to the European Council the creation of a European Partnership with BiH, which identifies priorities for action in order to support the country's efforts to integrate further with the EU. Among the 16 priority areas identified by the EU, significant progress is reported to have been made in almost all areas. But there are still concerns in Brussels over cooperation with ICTY. Other areas awaiting clarification and completion are further police reform and the adoption of a Public Broadcasting Systems law. There is a possibility that by mid-2005 the European Council may recommend the opening of negotiations on a Stabilisation and Association Agreement (SAA). BiH's application for membership of NATO's Partnership for Peace (PfP) was rejected at NATO's Istanbul summit in 2004 on grounds of insufficient cooperation with ICTY.*

### **2.1.3 Social conditions**

*Several social indicators in BiH have deteriorated over the past decade-and-a-half. The World Bank's Poverty Assessment in 2003 estimates that about 20 per cent of the population lives below the poverty line, and that more than two-thirds of the population are poor in at least one dimension of poverty. Those at most risk of poverty include young children, women, refugees and the unemployed. According to the Agency for Statistics of Bosnia and Herzegovina (BiH), in mid-2002, the country had a resident population of 3.8 million, a substantial reduction from the 4.4 million recorded in the last census, in 1991. Live births fell from 15.4 per 1,000 inhabitants in 1990 to an estimated 9.9 in 2001. Over the same period, mortality rates rose, from 6.7 per 1,000 in 1990 to 8 per 1,000 in 2002 and are expected to remain high, owing to the effect the war has had on the health of the population and a deterioration in the accessibility and standard of healthcare. Recent years have also seen a significant shift in the age structure of the population. In 1995 the percentage of the population below the age of 15 was 22 per cent whereas those aged over 65 made up less than 8 per cent. By 2002, the youngest inhabitants made up only 18 per cent of the population while the population of the elderly had risen to above 12 per cent. Fertility rates have been falling, as has the average age at death (68 in 2002).*

### **2.1.4 Labour issues**

*The unemployment rate is among the highest in the region. Officially, unemployment in BiH is above 40 per cent of the labour force. In practice, this estimate is based on registration rather than established ILO methodology based on a labour force survey. According to estimates from household surveys by the World Bank, the true rate of unemployment is somewhere between 15 and 20 per cent. The relatively high rate of unemployment reflects serious imbalances in the labour market, and the ongoing presence of disincentives to doing business and the hiring of new labour, including a very high rate of required social contributions.*

*The Entity constitutions and labour laws allow workers (except members of the armed forces) to form and join trade unions of their choice. In the Federation, the Confederation of Autonomous Trade Unions of Bosnia and Herzegovina represents most unionised workers. In the RS, the Confederation of the Trade Unions of the Serb Republic (SSRS) represents most unionised workers. In practice, union membership is overwhelmingly Bosnian Serb in the RS and Bosniak Moslem in the Federation. In the latter Entity, Bosnian Croats have informal trade union organisations in areas where they are a dominant group, but generally they are represented by the official Federation*

union. Trade union membership is obligatory for all workers officially registered as employed in the RS. In the Federation, about 70 per cent of the total workforce is unionised. Officially, trade unions are independent but in practice they are highly politicised. A joint multi-ethnic union was established in the District of Brcko in 2000. Strikes sometimes occur, but are usually brief.

### ***2.1.5 Integrity issues***

*Corruption is a major problem in BiH.* In 2003 BiH was for the first time included in the Corruption Perceptions Index (CPI) published annually by Transparency International. The CPI 2003 included 133 countries, with BiH sharing a ranking of 70<sup>th</sup> with six other countries. In the 2004 CPI of 145 countries, BiH had fallen to 82<sup>nd</sup> place, which it shares with Armenia and Madagascar. International observers note that, in BiH, corruption is widespread. An overall anti-corruption campaign started by the OHR in 2003, has significantly stepped up the efforts to combat corruption (including audits of public utilities). Some important legislative and institutional progress has been achieved in the last two years such as the adoption of the “law on civil service/public administration/corruption prevention”, “law on conflict of interest”, “criminal law and criminal procedure law”, “law on anti-money laundering/combating the financing of terrorism”, the establishment of the “courts and prosecution offices” as well as tax and customs reform. The success of implementing these laws and reforms is yet to be seen. According to a recent opinion poll, about 20 per cent of the citizens of BiH see corruption as the second most serious problem facing them – after unemployment (31 per cent) and ahead of political instability (15 per cent), crime (12 per cent) and poverty and low living standards (9 per cent).

### ***2.1.6 Legal reform***

*Bosnia and Herzegovina’s legal environment remains complex and challenging.* Because of the country’s political structure, legal reform was very difficult to achieve during the period after the war and up until 2002. However, the situation is improving and a number of substantial positive developments have occurred recently under the auspices of the Office of High Representative, including the “Bulldozer Initiative” launched in November 2002 (see below).

*One of the main legal challenges facing the country is creating a single economic space across the whole territory of BiH.* Pursuant to the Bulldozer Initiative a number of legal reforms have been enacted to this end through the mechanism of having the Entities enacting mirror laws. For example, this is the case of the bankruptcy law (one of the few insolvency laws in high compliance with international standards in the EBRD countries of operation), the law relating to taking security over movable property and the framework law on business registration. This latter framework law will enable firms in one Entity to register more easily in the other. The new system is expected to reduce the time needed to register companies to five days from the current 54 days which, according to the World Bank’s “Doing Business in 2005” publication, is the highest in south-eastern Europe.

However there are still obstacles to achieving a single economic space. For example certain business licences, permits and other administrative requirements are duplicated in the Entities. Moreover, although the judicial system has recently undergone reorganisation, it still suffers from serious administrative deficiencies. Court

proceedings are very lengthy, unpredictable and costly. One of the obstacles to taking security comes precisely from concerns as to court efficiency in connection with enforcement.

*The prospects for the future depend largely on the implementation of recent legal reforms and the continuation of the reform momentum.* While the future of OHR and its influence on the reform process remain unclear beyond 2005, the aspiration of starting negotiations on the Stabilisation and Association Agreement with the EU may provide the impetus and a legal framework for the continuation of legal reforms (see *Annex 3 – Assessment of Commercial Laws* for further details).

### **2.1.7 Environment**

*BiH faces major challenges in the environmental area since protection of the environment has not been high on the priority list of the local authorities.* According to the EU's country strategy for BiH, although responsibility for environmental affairs rests with the Entities and cantons, a BiH-wide mechanism is required to ensure coordination and coherence between the different actors and to represent BiH internationally. Water resource and waste management are critical issues of concern which should not be further neglected. Underlining all these concerns and challenges are significant budgetary constraints which hamper improvements.

As a result of growing concern for the environment, a National Environmental Action Plan (NEAP) has been developed with World Bank support during 2000-2003, which provides the basic framework for the future and for the first time comprehensively develops the structure for environmental protection and provides guidelines for BiH. The objective of the NEAP is to facilitate the preparation of a unified environmental protection policy in the context of macroeconomic reforms, poverty reduction strategy and the transition process. The capacity for environmental management has been further facilitated by the adoption of several new environmental laws with financial and technical support by the EU.

All EBRD operations in Bosnia and Herzegovina have been subject to the Bank's Environmental Policy and Procedures and incorporate, where appropriate, environmental action plans into the legal documentation in order to address issues raised during due diligence (see *Annex 4 – Environmental issues* for further details).

## **2.2 PROGRESS IN TRANSITION AND THE ECONOMY'S RESPONSE**

### **2.2.1 Macroeconomic conditions for Bank operations**

*The macroeconomic environment in BiH has been very stable for a number of years,* with an economy characterised by steady growth, low inflation and high unemployment rates and current account deficits. Real GDP growth in 2004 is estimated at around five per cent, above last year's growth thanks in part to a better performance in the agricultural sector (after a drought in 2003) and a partial recovery in the industrial sector. In general, the environment for business development and expansion has improved and the SME sector is exhibiting increasing dynamism. However, it is difficult to ascertain with any precision the true level of economic activity, given the weak capacity of statistical gathering in the country. The situation is likely to improve, following the recent establishment of a state-level statistical agency. The introduction

of VAT from 2006 is also expected to contribute to a decline in informal activity which, according to Central Bank estimates, currently accounts for nearly 40 per cent of GDP.

*Monetary policy in BiH continues to be based on a strict currency board anchor* and the annual inflation rate (around 1 per cent in 2004) remains one of the lowest in the region. The currency board was established in 1997 and was fully endorsed by the state presidency and parliament in August 2003, when a new governing board of the Central Bank was appointed. Given the complex political structure in BiH, the currency board is widely accepted throughout the country as providing the right framework for monetary stability and it is likely to be retained for the foreseeable future. A new governor of the Central Bank, Mr Kemal Kozaric, took office in January 2005, replacing the expatriate governor, Mr Peter Nicholl who remains on the board.

*One of the biggest macroeconomic challenges facing BiH is to achieve long-term fiscal sustainability and reduce the size of the government.* The country's multi-level structure of state, Entities, cantons (in the Federation) and municipalities has left it with a bloated bureaucracy and a level of public spending that is among the highest (relative to GDP) in the region. But there have been significant and necessary reforms in the public sector over the past couple of years and prospects for fiscal sustainability are improved. The Entities have increasingly shown better discipline in balancing budgets, although often at the cost of a significant build-up of wage and pension arrears. The move to strengthen state-level institutions, however, is creating new fiscal issues for the authorities. The current expansion of state-level competencies has sometimes come with significantly higher wage levels for state employees relative to those who are or were doing similar jobs at the Entity-level. As the state expands further, the challenge is to manage the expansion in line with the still limited resources available to the government.

*Fiscal sustainability also depends on a clear resolution to the major problem of domestic debt.* The legacy of the break-up of Yugoslavia and the war from 1992-95 left the BiH authorities with a potentially enormous liability related to frozen foreign currency deposits, war-related damages and other claims. With the assistance of the international community (the IMF in particular), a proposal for a comprehensive settlement of all domestic public debt claims was formulated and approved by governments at all levels in late-2003. It was subsequently approved by Republika Srpska, District of Brčko and State parliaments, but some amendments to the law were made in one of the houses of the Federation parliament. The plan involves the replacement of much of the debt by low-interest, long-term bonds with long grace periods and, if implemented in full, it will result in a reduction of the net present value of domestic debt to around 10 per cent of GDP. The constitutional court has subsequently challenged the proposed settlement and the issue remains yet to be resolved. Another complication that has arisen recently is that the plan fails to account for war-related claims on municipalities. These could be huge: in one municipality (Trebinje), the constitutional court recently upheld a claim of KM 35 million, as a result of which the municipality has had to cut wages and essential services. The authorities and the IMF are currently discussing ways to deal with this problem.

*Another macroeconomic concern is the large size of the trade and current account deficits.* The exact size of these deficits is unknown, because of inadequate statistical coverage of exports and imports and other current account items such as remittances, but the current account deficit is estimated by the IMF at close to 20 per cent of GDP,

one of the highest levels among all transition countries. This deficit is covered by a combination of capital transfers, FDI and other, unidentified capital inflows, which may include remittances that are not captured in the current account of the balance of payments. Capital transfers for reconstruction continue to fall from the post-war highs of the late-1990s. Encouragingly, FDI in 2004 was the highest level since the end of the war, following the increased pace of large-scale privatisation (see below) and a major investment by Mittal Steel into the large steel conglomerate, BH Steel, which was the largest exporter of BiH before the war. As a result, BiH is moving steadily away from being a donor-dependent economy to one that is increasingly attractive to foreign investors. However, for long-term external sustainability, the current account deficit must be reduced over time, which in turn will require a significant increase in corporate restructuring and profitability.

*The external debt of BiH is currently at a moderate level of around 31 per cent of GDP, down from over 60 per cent of GDP in 2000. Much of the debt is denominated in dollars, so a major explanation for the decline in the debt/GDP ratio is the recent fall of the dollar relative to the Euro. Most of BiH's external debt is on long-term, concessional terms, and the debt service ratio is correspondingly low at less than 10 per cent of exports of goods and services. However, the country has limited access to capital markets (see below) and will continue to rely in the medium-term on IFI and bilateral lending and support for large-scale projects. The authorities are currently in negotiations with the IMF on a new standby arrangement, and the World Bank approved in August 2004 a new Country Assistance Strategy (CAS) for the fiscal years FY05-07. The CAS proposes US\$ 152 million of new lending on IDA terms (in addition to about US\$ 20 million in grants), with the possibility of an extra US\$ 30 million on IBRD terms if performance is good.*

### ***2.2.2 Transition success and transition challenges***

*BiH began its transition to a market economy later than most other countries of the region. Recent years have seen significant progress in a number of areas, but the country has still some catching up to do on its neighbours in south-eastern Europe (with the exception of Serbia and Montenegro, which also began its transition late), and is well behind the new EU members of central eastern Europe and the Baltic states. Table 2 below, which lists the EBRD "transition indicators" for western Balkans countries, shows that the reforms where BiH has made most progress are initial-phase reforms such as price and trade liberalisation and small-scale privatisation. The year 2004 saw several significant large privatisations and may mark a turning point in the process, provided the momentum is maintained in the Federation and accelerated in the RS. The banking sector is also relatively advanced by regional standards and supervision standards are good. However, the table also makes it clear that the country has a long way to go in the areas of governance and enterprise reform, competition policy, non-banking financial institutions and infrastructure.*

**Table 2: Transition indicators of western Balkan countries, 2004**

	Albania	Bosnia and Herzegovina	FYR Macedonia	Serbia and Montenegro
Price liberalisation	4.33	<b>4.00</b>	4.00	4.00
Forex and trade liberalisation	4.33	<b>3.67</b>	4.33	3.33
Small-scale privatisation	4.00	<b>3.00</b>	4.00	3.33
Large-scale privatisation	2.33	<b>2.33</b>	3.33	2.33
Enterprise reform	2.00	<b>2.00</b>	2.33	2.00
Competition policy	2.00	<b>1.00</b>	2.00	1.00
Infrastructure	2.00	<b>2.33</b>	2.00	2.00
Banking sector	2.33	<b>2.67</b>	2.67	2.33
Non-banking financial institutions	1.67	<b>1.67</b>	2.00	2.00

The index ranges from 1, indicating little or no progress to 4+ (4.33) indicating standards similar to advanced industrial market economies. *Source: EBRD Transition Report, 2004.*

*The authorities' reform agenda* at the state and entity-level is driven by two broad, complementary frameworks: the Mid-Term Development Strategy (MTDS), also known as the Poverty Reduction Strategy Paper (adopted in February 2004) and the EU's Stabilisation and Association Process, mentioned earlier. The Mid-Term Development Strategy is a comprehensive programme of reforms, and was the first serious state-wide programme developed by the authorities at state and Entity-level, in consultation with IFIs and bilateral donors. The Bank was fully involved with the preparation of the MTDS, attended consultation meetings with the local authorities, and provided input based on its experience of transition economies. The strategy has come up with an action plan of nearly 400 measures and activities, which have clear responsibilities, deadlines and regular monitoring. So far, progress has been encouraging: by November 2004, around two-thirds of measures had been adopted by the three governments (state and two Entities). However, implementation of these measures will be the key challenge.

*Other important structural reforms have advanced in the last two years.* For example, the "Bulldozer Initiative", launched in November 2002, has made steady progress towards removing obstacles to doing business. The first 50 measures under this initiative were completed by mid-2003 and the second 50 were adopted in the first half of 2004. The third phase, under the slogan "minding our own business", was launched in August 2004. Nevertheless, high taxation levels, corruption and the poor quality of the judiciary remain significant problems, as highlighted as particular concerns in the 2002 round of the EBRD - World Bank Business Environment and Enterprise Performance Survey (BEEPS).

BiH faces a number of difficult **transition challenges over the strategy period**. These include the following:

- Accelerate the pace of **privatisation and restructuring of enterprises** to enhance the flow of private capital: The BiH economy has a number of sectors with potential for development and investment, but large-scale privatisation and restructuring have been held back by vested interests and lack of investor appetite due to country image. If long-term growth and prosperity are to be assured, it is essential that these blockages are unlocked.
- Reduce the **size of the public sector** and eliminate unnecessary **red tape and bureaucracy**: The structure of the public sector in BiH is unwieldy and is holding back further development of a vigorous entrepreneurial culture. And, as noted, red

tape and bureaucracy are among the highest levels in the region. The challenge is to combine the strengthening of the state with an overall decline in public spending relative to GDP.

- Press forward with **structural and institutional reforms** in key infrastructure sectors such as energy, transport, telecommunications and municipal infrastructure: BiH's basic infrastructure has seen great improvements from the war-related damage, but the pace of market-oriented reforms in these sectors has generally lagged behind. Now that donor-led rehabilitation efforts are largely over, a firm commitment to reform, as well as compliance with the relevant EU directives, will be essential for attracting necessary outside investment.
- Implement further moves towards the **strengthening of state institutions** and the **creation of a single economic space**: Much has already been achieved in the creation of a single economic space, as described earlier, but further implementation measures are needed to reduce unnecessary barriers to doing business across Entities. These include the introduction of state-level VAT, the state-level planning, operation and regulation of all infrastructure sectors and the merging of the bank supervisory agencies.

### 2.3. ACCESS TO CAPITAL AND INVESTMENT REQUIREMENTS

*The BiH government has very limited access to international capital markets.* In the late-1990s, the country successfully reached restructuring agreements with the Paris and London Clubs and, as noted, the current level of external debt is at a moderate level. However, BiH remains vulnerable to various possible internal and external shocks and is likely to continue to rely on IFI and bilateral loans to finance major infrastructure and social projects. Nevertheless, the prolonged stability of the country prompted the authorities recently to seek its first international rating from a major credit agency. In March 2004, Moody's assigned a "B3, positive outlook" rating. The authorities may seek another rating (either from Moody's or another agency) later in 2005 and expect an upgrade based on more accurate statistical data.

*At the company level, access to capital has improved significantly in recent years.* Overall the banking system appears to function relatively well and is regarded generally as one of the success stories of the transition in BiH. The banking sector has undergone significant consolidation in recent years. The number of banks fell from 55 at the end of 2000 to 33 at the end of 2004, and further consolidation is expected in coming years. Financial intermediation has expanded rapidly in recent years: domestic credit to non-financial enterprises and cooperatives was around 25 per cent of GDP at the end of 2003. Household credits have been growing 35 and 32 per cent respectively in 2003 and 2004. Credit growth for enterprises has also been increasing steadily over the past three years and has exceeded the growth of household credits for the first time in 2004 (29 and 34 per cent in the past two years).

Minimum reserve requirements rose in September 2004 from 5.0 to 7.5 per cent, with a further rise to 10.0 per cent in December 2004. However, for SMEs in particular, access to capital is still limited and many small businesses finance their investment needs primarily from internal sources and from other sources such as remittances.

### 3. STRATEGIC ORIENTATIONS

#### 3.1 BANK'S PRIORITIES FOR THE STRATEGY PERIOD

The Bank's priorities for the strategy period will be guided by its strong support for the recently approved first *Medium-Term Development Strategy (MTDS)* which covers 2004-2007 and aims at creating conditions for sustained and balanced economic development in BiH. In accordance with the transition challenges listed in *Section 2.2.2* above, the Bank will focus on the following three areas:

- Support for the **development of private sector activity** through direct and indirect financing of small and medium-sized private enterprises, as well as large-scale privatisations, and further strengthening of financial institutions.
- Continued policy dialogue and assistance to the BiH governments at all levels with key **structural and institutional reforms** in financial, infrastructure, and corporate sectors.
- Assistance for **BiH's regional integration and its progress towards EU membership** through physical investments in key infrastructure projects as well as institutional development and strengthening of state institutions in line with the European Partnership paper and the BiH European Partnership Action Plan.

#### 3.2 SECTORAL CHALLENGES AND BANK OBJECTIVES

##### *3.2.1 Financial sector and small businesses*

The majority of the Bank's private sector operations in BiH (around 80 per cent) have so far been in the financial sector and channelled to a large number of small and medium-sized enterprises throughout BiH. Continued support in this area, as summarised below, is fully in line with the Bank's key priorities in the new strategy period such as further development of private sector activity and policy dialogue on legal reform of the financial institutions sector.

##### *3.2.1.1 Banking sector*

The banking sector is well developed and highly competitive due to the presence of major foreign banks competing for market share. More than 84 per cent of the sector has been privatised, and around 70 per cent of banking assets are now foreign-owned (total banking assets exceed €4.4 billion). The sector as a whole has become increasingly profitable in the past three years, and productivity gains were achieved by banks (assets per employee increased significantly). Nevertheless, banking intermediation remains relatively low due to the slow privatisation process, low level of foreign investment, and the still untested enforcement of the securities legislation that was recently adopted. In addition, further strengthening of the regulatory and supervisory capacities and reconciliation with EU directives and Basle II accords is required.

The Bank will respond to these challenges by assisting banks with the development of new products and goal-oriented policy dialogue with the authorities as summarised below.

Demand for EBRD funds is expected to continue in the foreseeable future since local banks' liabilities are mostly short-term in nature, while on the asset side the need is for longer-term financing. Hence, the focus of the Bank's activity will be to continue providing **funding to local banks for on-lending to SMEs** (see below) to cover mostly longer-tenor needs of local companies.

In addition, the Bank will **support the ongoing consolidation process**, which has led to a reduction in the number of banks by more than half in the past six years, and is expected to continue, through mergers and acquisitions, in the next 2-3 years. The Bank will review remaining opportunities and **facilitate the entry of new investors**. Support may be provided in the form of equity to strengthen the capital base of small locally owned banks ahead of a trade sale or a merger with another local institution. Wide-ranging institution building plans should accompany any investment in local banks in the absence of a strategic investor due to the need for restructuring and turn-around management of these institutions.

Recent advances in the privatisation and restructuring of state enterprises are expected to increase the need for larger size loans from local banks. The banks currently face client exposure limits and long-term capital constraints and are not always able to meet demand in this area. In response, the Bank will offer a facility to banks in order to **co-finance medium-term transactions** and address the exposure issue. The Bank will continue its current policy dialogue with the Banking Supervisory Agency regarding the legal amendments for this facility to alleviate local bank exposure limits.

Following the enactment of crucial legislation and establishment of law enforcement and implementation capacity, the Bank intends to place **emphasis on supporting mortgage lending** in BiH. In its early stages, this will be achieved through credit lines to local banks for on-lending to the retail sector. To avoid constraints with respect to single party exposure limits of the Bank, it will be necessary either to support the establishment of separate mortgage institutions or to **launch syndications** as an "A" lender. In addition, the possibility of launching securitisation schemes in this area will be explored together with local banks and relevant authorities.

### ***3.2.1.2 Small and medium-sized enterprise support***

The majority of Bank's private sector portfolio in BiH has so far been concentrated on support to SMEs through the local banking sector. As mentioned in Section 1, some 300 SMEs have used EBRD sub-loans for investments to expand their businesses, and nearly 400 transactions have benefited from the Bank's trade facilitation programme. In addition to financial support, the Bank has also provided advisory services to small local businesses through its BAS Programme.

Despite the recent significant legislative and regulatory changes to create a single economic space and improve the business environment, SME sector still has a range of issues to tackle including lack of coordination among institutions dealing with SME policy, high dependency on donor sponsored initiatives, weaknesses in contract and law

enforcement, access to “long-term” credits, and double-taxation for companies operating in both Entities.

In addition to **channelling more funding to SMEs** through local financial institutions, the Bank will also mobilise additional funding for the **TAM and BAS Programmes** and seek to provide targeted support to local businesses. The Bank will seek to identify possible DIF candidates through the BAS Programme and take equity investments in SMEs that have strong potential for growth. These actions will be associated with targeted policy dialogue with the authorities, IFIs and bi-lateral donors.

### ***3.2.1.3 Micro lending***

There are a large number of non-profit organisations engaged in micro financing in BiH that target low-income entrepreneurs. Most of these organisations were set up in 1997 by various donors and non-governmental organisations. The total loan portfolio of these organisations amounts to €130 million, although the sector is not regulated or supervised by the existing legislation. Sustainability of these organisations in the long-term is a concern. The only other institution providing finance to micro enterprises is ProCredit Bank which was established in 1997<sup>2</sup> and is licensed and regulated under the banking supervisory agency. The current outstanding portfolio of ProCredit exceeds €55 million.

The Bank will continue its discussions with various IFIs, bi-lateral donors, and local banks in order to **identify mechanisms under which further support to micro lending can be provided**, including credit lines to be channelled by local banks coupled with donor guarantee and risk-sharing schemes. The Bank will also engage in policy dialogue with the authorities with regard to the regulation of the micro credit organisations and the security structure that would be required by local banks.

### ***3.2.1.4 Non-bank financial institutions***

Non-bank financial institutions in BiH are in their infancy. The leasing and insurance sectors in particular require development and improved regulatory frameworks. The EU has provided assistance for the preparation of modern insurance legislation which was submitted to state and entity parliaments but is not yet adopted. The IFC-SEED programme co-ordinates the efforts of the international community with regard to the leasing legal framework and the new law on leasing is expected to be passed by mid-2005. The pension system is largely unreformed and a multi-pillar system with private pensions is not yet in place.

In order to **assist the healthy development of leasing sector**, the Bank will engage with principal leasing companies, including banks which control them, and will aim at structuring appropriate products as needed. The Bank will also enter into policy dialogue with the relevant authorities and share its lessons learned from other countries of operations as well as support further revision of legislation as needed.

In addition, the Bank will seek to **boost activities in the insurance sector**. The Bank will work together with the authorities and their advisors towards designing an appropriate legal framework in line with the single economic space concept and provide

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<sup>2</sup> Established under the name of Micro Enterprise Bank by the EBRD, IFC, BH Banka, FMO, IPC, Commerzbank, IMI, and KfW.

assistance in implementing the required restructuring measures. The Bank will also continue to **explore equity investment opportunities** in existing and new insurance companies.

### ***3.2.2 Corporate sector***

The slow privatisation process, a negative country image abroad, weak corporate governance in local companies, and the weaknesses of the current legal and business environment are challenges for the growth of private sector in BiH.

Despite these challenges, in the last 18 months large scale privatisations have finally started including the high profile purchase of BH Steel by Mittal Steel, and other deals in tourism, pulp and paper, and mining. Nevertheless, a more focused approach by the authorities to improve BiH's image abroad, advertise the achievements to date, and attract foreign investors is essential. This needs to be complemented with careful selection of experienced privatisation advisors with a good track-record for the success of the planned privatisations in the medium term.

In addition to current and planned privatisations, there are a number of sectors which have potential to attract greenfield investments in the medium term such as agribusiness, property, tourism, forestry and wood processing. Among these, the Bank will actively seek opportunities especially in food retail and branded products, property development and forestry (a TC is being launched to identify **key challenges and investment opportunities** in this sector).

Despite their potential, each of these sectors have structural problems that need to be tackled in the medium-term and country image continues to be an impediment for attracting foreign investment as mentioned above despite growing interest from Austria, Germany, Italy and Turkey. There is also growing interest from Croatia, Serbia and Montenegro, and Slovenia for investing in BiH which are concentrated on smaller scale investments but have the competitive advantage of pre-war links.

In the current context of limited investment opportunities in the corporate sector, the Bank's strategy in the short-term will be to (i) **support the large-scale privatisation process** through policy dialogue with the IFIs and the authorities; (ii) **provide post-privatisation financing** to strategic investors; (iii) work with the local authorities in **improving country image** and attracting foreign investors; and (iv) seek to **provide financing to local investors**, provided that it is additional with regard to the well-developed and competitive local banking market.

The Bank will seek to include energy efficiency components in all relevant projects, with a special emphasis on General Industry. To that end the Bank will mobilise TC resources to finance energy audits.

### ***3.2.3 Infrastructure***

As a result of the large-scale post-war reconstruction effort in BiH, the majority of direct war damages to basic infrastructure have now been repaired. During the first phase of the reconstruction effort (1996-1999), the focus was largely on emergency repairs and restoring of essential services for the public such as access to electricity, heating, water and reconstruction of essential roads and bridges (as well as a massive

effort of repair and reconstruction of housing undertaken mostly by bilateral donor funding). In the second phase (2000-2004), war damage reconstruction efforts funded by the IFIs and bilateral donors continued, but these were complemented with a focus on associated sector reforms and institution-building. Although progress has been achieved, implementation of reforms has been slow and difficult due to the fragmented structure of the utilities, telecom companies, and transport directorates as a result of their split among ethnic lines.

During the next four years, BiH still has significant investment needs in areas such as road and rail transport, municipal infrastructure, and energy which have been delayed due to the focus on war damage repairs. New investment in infrastructure is essential not only to improve public services and support the revival of economic growth led by the private sector, but also to accomplish further regional integration in south-eastern Europe.

During this new phase BiH will face a number of challenges: (i) prioritisation of essential investments in the context of reduced donor funding and prudent management of external debt; (ii) implementation of critical sector reforms and strengthening of state institutions in line with the regional and EU integration process; and (iii) further commercialisation and eventual privatisation of public utilities. The Bank has a critical role to assist BiH in order to meet each of the challenges listed above, and will continue to provide financial, technical and policy assistance during the new strategy period.

### *3.2.3.1 Transport*

The transport sector remains 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. An increased role of the State is needed to ensure that priorities are well-established and those sustainable projects with the highest economic impact are implemented as priorities.

The Bank will **directly support prioritisation of investments, structural and institutional reforms, and regional integration** through its planned activities listed below.

Improvement of the **railway infrastructure** is a key priority for BiH as recognised by authorities at both the state and each Entity level. The railway sector needs further reform and strengthening with the separation of infrastructure and operations and establishment of transparent financing mechanisms for public service obligations. A draft railway law has recently been approved by the Council of Ministers and its adoption by the parliaments is a key requirement for further Bank assistance. If progress in this area is made, the Bank will proceed with a second railways project with co-financing from EIB and technical assistance from the EC. This project will focus on critical infrastructure along Corridor Vc and the route parallel to Corridor X. The project is needed to ensure that railways will cope with increased traffic of freight, related to the restart of major industrial facilities in heavy industry (most of which are export-oriented such as steel, aluminium and coke) that are located along these two main corridors in the country. The total project cost is expected to be in the range of €150-190 million. The project is planned to be signed during 2005. The Bank will also

focus on finalisation of the Railways Recovery Project due to be completed by early 2006.

In the **road** sector, the Bank will focus on continuing to upgrade the main road network, provided projects are economically justified, realistically designed and financially affordable. To this end, as part of the Bank's Regional Road Development Project, a State Transport Policy and Strategy is being developed. The project will build on the work undertaken on road financing under the Bank's first transport project through the implementation of measures aimed at improving the efficiency of road sector administration. The Bank will also focus on the implementation of the BiH Regional Road Development Project, which is expected to take four years to complete. As part of the existing roads project, feasibility studies will be undertaken to prioritise future investment needs.

The Bank is developing a second **air navigation** system project which is in line with regional priorities in this sector and is exploring options to develop this as a non-sovereign operation. The Bank will build on the work undertaken under its first loan in the transport sector. The project is expected to achieve an excellent transition impact by supporting the separation of regulatory and service provision functions and by financing investments needed to ensure BiH's integration into the Central European Air Traffic Services Project after 2012.

### ***3.2.3.2 Power and energy***

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 at the moment but that may no longer be the case as domestic demand for electricity is growing due to the revival of heavy industry. Possible increases in the generation capacity may be contemplated provided such investments are economically viable and justified within the context of the region. BiH has recently initialled the ECSEE Treaty led by the EU which calls for sector restructuring in line with EU directives and eventual establishment of a regional energy market in south-eastern Europe.

As part of the current Power III project (financed by the EBRD and other IFIs) significant sector reforms have been launched. Laws on establishment of Single Transmission Company and an Independent System Operator have been passed (although implementation is slower than expected). Independent regulatory agencies at the state and Entity levels have been set up and training of staff is on-going. Action plans for the restructuring, unbundling and eventual privatisation of the sector have been approved by the governments but not yet adopted by the F BiH parliament. Implementation of sector restructuring is a pre-requisite for attracting future investments and continued EBRD and donor support. The physical implementation of the EBRD component of Power III project has been slow due to the delays in sector reform, although it has now accelerated following the adoption of key laws mentioned above.

The Bank will continue to **provide support for sector reform, institution building, and regional energy integration** through its activities listed below.

The priority during the next two years will be the implementation of the Electric Power Reconstruction and the Thermal Power Upgrade projects, 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. Following the implementation of these plans, the Bank may explore further financing aimed at increased efficiency and reduction of losses in **electricity distribution** companies. The Bank will also be ready to support the preparation of future privatisation plans in the sector subject to market appetite, although it is not likely that this process will be launched before the end of the strategy period since the implementation of electricity sector restructuring will be complicated and difficult. Financing new generation capacities might be considered only provided there is a strong rationale in the context of the **regional energy market**.

### ***3.2.3.3 Telecommunications***

The Bank has played a key role in developing the telecom infrastructure through its sovereign guaranteed Telecommunications Emergency Reconstruction Project (signed in 1998) with all three telecom operators, followed by the pre-privatisation loan to Telekom Srpske in 2002. In parallel to these projects, the Bank provided technical 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 which was covenanted under the Bank's loan. The actual privatisation of Telekom Srpske has been delayed although the selection of the privatisation advisor is on-going (with WB funding). It is expected that a tender may be launched by the end of 2005 and privatisation can take place in the first half of 2006. The FBiH Government has not yet taken any steps towards commencing privatisation of BH Telekom and completing the privatisation process of HT Mostar. The situation in the Federation was further complicated by the issue of the third GSM license and a law suit (HT Mostar versus Eronet). Both issues are currently being dealt with by the relevant bodies and hopefully would be resolved in the near future thus creating the pre-conditions for further reforms in the sector.

The Bank's top priority remains the implementation of the Pre-Privatisation Convertible Loan to support and facilitate the **privatisation of Telekom Srpske**. The Bank will continue its policy dialogue with the authorities on the privatisation process for the **Federation-based telecommunications operators** and will consider new opportunities in the private sector. The Bank will also consider providing further technical assistance as well as new investment financing where there is sufficient commitment demonstrated by the respective authorities to (i) implement the reforms necessary to advance the restructuring and privatisation process; and (ii) achieve full harmonisation of the sector regulatory framework with relevant EU standards.

### ***3.2.3.4 Municipal and environmental infrastructure***

BiH has large needs in all sectors of municipal infrastructure as a result of war damages and chronic under-investment. 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), 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). The institutional capacity in municipal 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 10 cantonal governments and 82 local municipalities are, from a budgetary perspective, more independent).

During 2004, the Bank initiated a dialogue with the state authorities on the need for greater investment in the municipal infrastructure sector and to **specify the legal and regulatory reforms that would facilitate financing** on a decentralised and fully-commercial basis. As a result, the Bank signed a Protocol in December 2004 with the government indicating its interest in providing up to €30 million in loans directly to municipal/cantonal companies for a range of infrastructure services but **focusing on water and wastewater**.

The government in return agreed to provide a sovereign guarantee for such loans. A guarantee is required because tariff levels and legal and institutional reforms are at an early stage of transition. The Bank anticipates moving gradually from sovereign to non-sovereign business as the market matures and specifically as municipal and cantonal finance becomes more secure and predictable.

A key factor for success is the willingness of companies and local authorities to discuss their financial and operational practices in an open and transparent manner. **Potential municipal infrastructure projects** have been identified in Tuzla and Banja Luka, and other cities are currently under consideration. The emergency investment needs in Tuzla concern a new water purification plant which will ensure safe supply of quality drinking water to the city. In order to implement the project, merging three local municipal companies into a single water company may be required. Currently most of the population has running water available six hours a day. In Banja Luka the priority investments required are for water supply, including for one part of the city which does not benefit currently from running water.

#### **4. 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 total, some €5-6 million of Technical Cooperation Funds are estimated to be channelled annually during the strategy period directly through the Bank covering mainly infrastructure (transport, power, MEI) and finance sectors.*

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 IFIs (EIB, World Bank) and bilateral donors such as USAID, KfW, CIDA, SIDA, and DFID. As many of these donors are in the process of redefining their involvement in BiH and the Balkan region in general, the scope and extent of future co-operation with the Bank will need to be tested against their new programmes and priorities.

The reform of telecom and energy sectors will in particular be closely co-ordinated with the World Bank, IMF and the EU. The Bank will also cooperate closely with the EU and the EIB regarding the reform of the transport sector. The Bank will also coordinate its activities and efforts on sector reforms with other organisations 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 will continue to actively participate in all international community working groups which are relevant to EBRD activities in BiH (see *Annex 8 - Other IFIs, Multilaterals, and Bilateral Donors* for further details).

## ANNEXES

- Annex 1*    **Political Structure**
- Annex 2*    **Chart of Legislative and Executive Bodies**
- Annex 3*    **Assessment of Commercial Laws**
- Annex 4*    **Environmental Issues**
- Annex 5*    **Approved Bank Operations**
- Annex 6*    **Technical Cooperation Projects**
- Annex 7*    **SME Finance and TAM / BAS Programmes**
- Annex 8*    **Other IFIs, Multilaterals, and Bilateral Donors**
- Annex 9*    **Social and Economic Indicators**
- Annex 10*   **Map of Bosnia and Herzegovina**

## **Political Structure**

The 1995 General Framework Agreement for Peace in Bosnia and Herzegovina (the Dayton Accords) created the independent state of Bosnia and Herzegovina (BiH) within the boundaries of the former Yugoslav republic of the same name. A state of daunting complexity, it is made up of two Entities: the Federation of Bosnia and Herzegovina (the Federation) and Republika Srpska (RS). Brcko, a strategic town on the Sava River in the north, hotly fought over during the 1992-95 war, is since March 2000 a self-governing District under the sovereignty of the central government and run by an internationally appointed supervisor authorised to address such questions as taxation, law enforcement, District management and composition of the District Assembly. The Constitution (Annex 4 of the Dayton Accords) established BiH as a federal democratic republic, with a Constitutional Court, a Commission for Displaced Persons, a Human Rights Commission, a central bank, public corporations to manage and operate transport and telecommunications, a Commission to Preserve National Monuments and a system of arbitration. Foreign trade negotiations were also placed within the competence of the state. However, many governmental functions were assigned to the two Entities, which have their own governments. The Constitution gave the government of each Entity responsibility for law enforcement.

The BiH Council of Ministers consists of 10 Ministers, one of whom is appointed Chairman (Prime Minister) for a four-year term. In recent years, Ministries of Justice, Security and Defence have been created at state level. BiH has a rotating, collective, three-member Presidency, which assumed the command of the armed forces in 2003. Tax and customs administration are to be unified in 2006. BiH's bicameral parliament consists of the House of Representatives and the House of Peoples, two-thirds of the members of which are elected from the Federation and one third from the RS. A valid majority requires the support of at least one third of the members representing each Entity. The Federation and the RS also have parliaments (in addition, the Federation is subdivided into 10 cantons, each with a considerable degree of self-government). The next presidential and parliamentary elections are due in 2006.

The Dayton Accords also provided for the Office of the High Representative (OHR) to oversee the implementation of the civilian provisions. Since 1997, the High Representative has been able, under the so-called "Bonn Powers" accorded to him by the international community, to impose decisions in cases of disagreement and to remove officials who obstruct the implementation of the Dayton Accords. The Stabilisation Force (SFOR), led by NATO, continued to implement the military aspects of the Dayton Accords to provide a secure environment for the implementation of the non-military aspects of the peace settlement. On 2 December 2004, SFOR transferred the stabilisation mandate to a European-led force (EUFOR). A small NATO headquarters in Sarajevo retained responsibility for overseeing defence reform, counter-terrorism work and cooperation with the International Criminal Tribunal for the Former Yugoslavia (ICTY). The aims of the smaller European Union Police Mission (EUPM), which succeeded the UN International Police Task Force (IPTF), are to monitor, mentor, inspect and raise standards of the local police force.

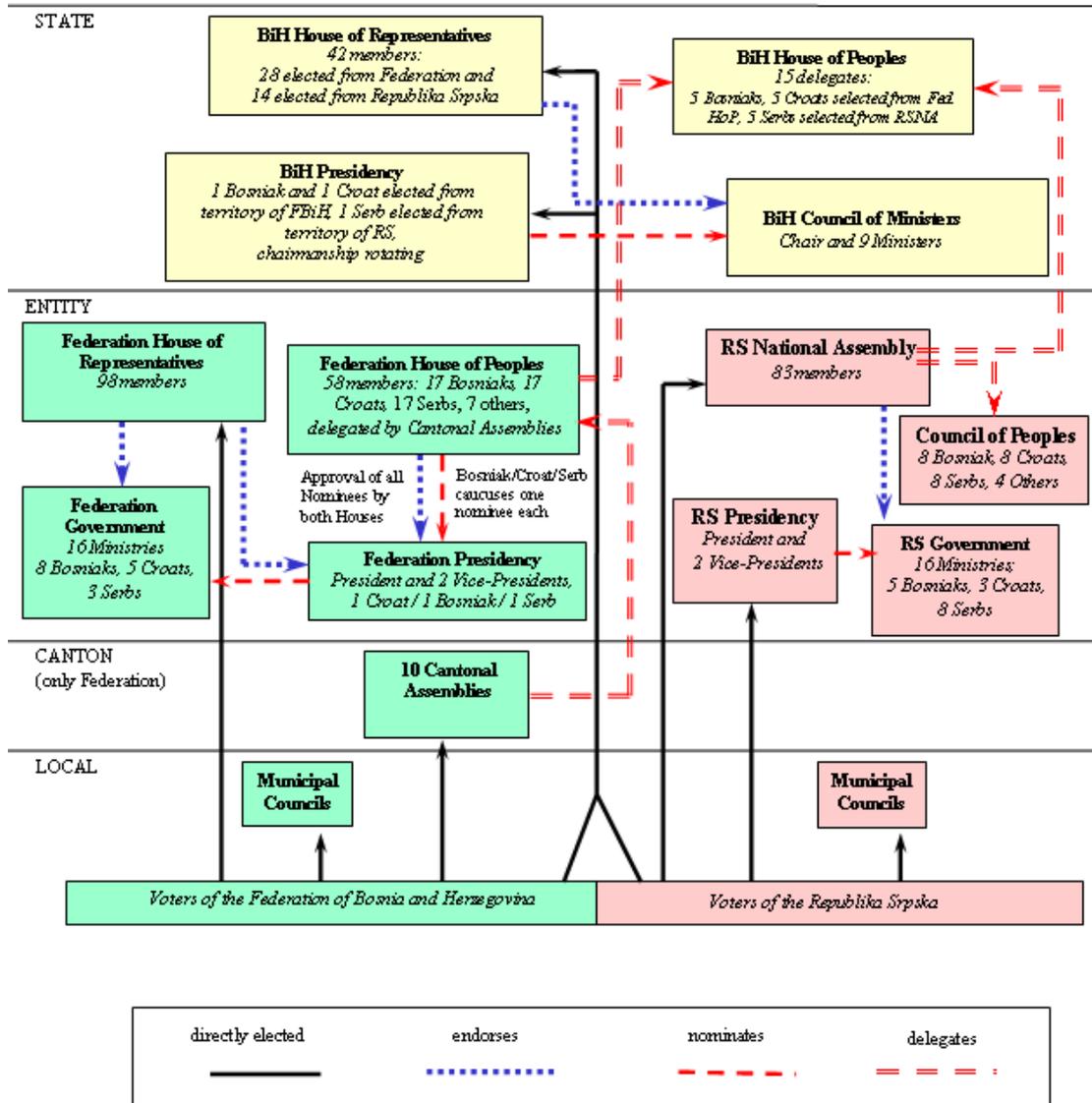
## **Population issues**

The 1991 census estimated the Bosniak Moslem population at 1,902,956 (43.5 per cent of the total), the ethnic Serb population at 1,366,104 (31.2 per cent) and the ethnic Croat population at 760,852 (17.4 per cent). Some 242,682 (5.5 per cent), chiefly people of mixed parentage, declared themselves as 'Yugoslav'. Migrations during the war produced largely ethnically homogenous territorial units, as people moved (or were forced to move) to the territory controlled by their respective group. Perhaps the largest overall change was in the proportion of Croats, many of whom settled in Croatia. There has been a significant change in the ratio between urban and rural population. In 2002 the ratio of urban to rural population was about 60 to 40, whereas in 1991 it was the reverse.

Migration continues to be the dominant characteristic of the demographic situation in BiH, and is made up of three types of movement: displaced people migrating within BiH; refugees returning from abroad; and BiH citizens emigrating abroad in search of better economic opportunities. According to UNHCR, between the end of the war in 1995 and the end of November 2004, 1,004,564 persons who had previously left the country had returned. Of those, 447,767 were returnees to areas where they represent an ethnic minority. The numbers of returnees are falling, the main inhibiting factor being the difficult economic situation in the country. Many returnees cite the failure to apprehend the war criminals as a disincentive to return.

The law prohibits trafficking in persons but it remains a serious problem in BiH. The country is a destination and transit point and, to a lesser extent, a country of origin for women, girls and, in a few cases, teenage boys trafficked for sexual exploitation. There were allegations of corruption and official involvement in trafficking. Over 90 per cent of trafficked women in the country came from Moldova, Romania and Ukraine. Most women entered the country through Serbia and Montenegro. The perpetrators of trafficking included freelance operators, local crime gangs and large international organised crime syndicates. Some employment, travel and tourist agencies fronted for traffickers. The presence of international civilian and military personnel may have contributed to the trafficking problem. The BiH Criminal Code, which came into force in 2003, contains a provision specifically aimed at human trafficking. The Code mandates up to 10 years in prison for violators. A BiH-level commission was established in 2002 to coordinate anti-trafficking efforts.

## ANNEX 2 - LEGISLATIVE AND EXECUTIVE BODIES OF BiH



## ANNEX 3 - ASSESSMENT OF COMMERCIAL LAWS

The EBRD has developed and regularly updates a series of assessments of legal transition in its countries of operations, with a focus on selected areas relevant to investment activities: capital markets, company law and corporate governance, concessions, insolvency, secured transactions and telecommunications. The existing tools assess both the quality of the laws “on the books” (also referred to as “extensiveness”) and the actual implementation of laws (also referred to as “effectiveness”). All available results of these assessments can be found at [www.ebrd.com/law](http://www.ebrd.com/law). This annex presents a summary of the results for Bosnia and Herzegovina, accompanied by critical comments of the Bank’s legal experts who have conducted the assessments.

The legal framework in BiH is quite complex due to the combination of different government systems. Other than the State, two Entities – the Federation of Bosnia and Herzegovina (“FBiH”) and Republika Srpska (“RS”) – also have their own legal and court systems. In addition, the District of Brčko has a separate legal framework. Only a small number of laws are adopted at the State level. Although each Entity has its own laws, the differences are usually minimal but problems in harmonisation may occur.

The majority of existing laws were in force in the former Yugoslavia, and accepted as Entity laws, in most cases with no major alterations. Pursuant to the Constitution of Bosnia and Herzegovina, the Entities have wide legislative competences, so each of them may adopt completely different laws. However, with the stimulus of the Office of the High Representative (“OHR”), the Entities started enacting the so-called “mirror laws”, i.e. laws being identical but enacted separately by the parliaments in each Entity.

### **Capital Markets**

The securities markets legal framework in BiH is mostly regulated at Entity level.

In FBiH, the basic legal framework for the establishment, functioning and the development of the capital market is comprised of the Law on Securities, the Law on the Securities Registrar, the Law on the Securities Commission, the Law on Fund Management Companies and Investment Funds, and the Law on Business Companies. Most of the laws were enacted in 1998 and amended in 1999. The Securities Commission was established at the beginning of 1999 as the independent securities markets regulator in the FBiH.

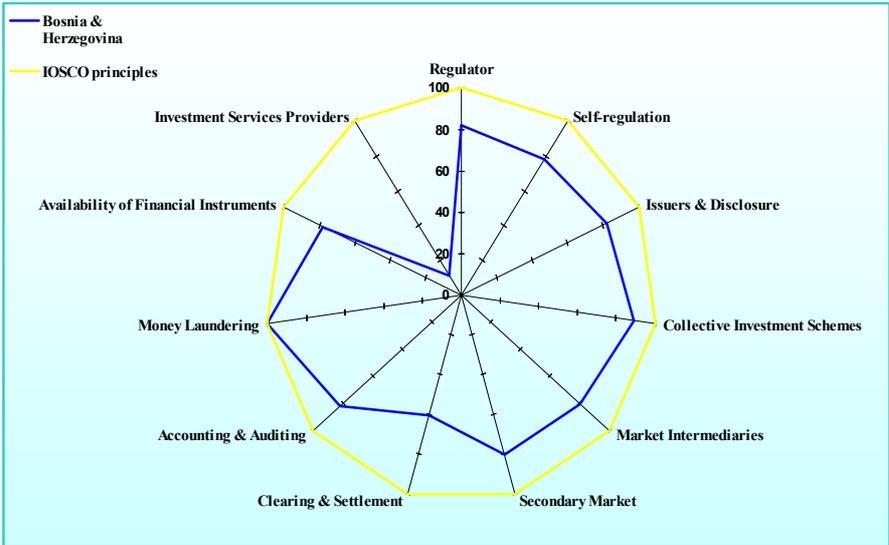
In RS, the capital markets legal framework is comprised of the Law on Securities (1998 and amended in 2001), the Law on Privatisation Investment Funds and Privatisation Fund Management Companies (1998), the Law on the Central Registry of Securities (1998) and the Law on Enterprises (1998 and amended in 2003). The RS Securities Commission was established in 2000 on the basis of the Law on Securities as the independent securities markets regulator in the RS.

Financial reporting is now regulated at the State level, but Entity laws still need to be amended to comply with the new regulations. There are two stock exchanges in BiH, one in Banja Luka (RS), and the other in Sarajevo (FBiH). The Sarajevo Stock Exchange has 485 listed companies and 11 privatisation investment funds with a market

capitalisation of approximately US\$ 1.2 billion. The Banja Luka Stock Exchange has only three listed companies and 13 privatisation investment funds plus 642 on the free market list, with a market capitalisation of approximately US\$ 760 million<sup>3</sup>. Trading is primarily related to privatisation vouchers.

In 2004, EBRD performed an assessment of the extensiveness of securities markets legislation benchmarked against the IOSCO principles. The country scored “medium compliance”, being better only than Serbia and Montenegro and Albania among the countries in South East Europe.

**Graph 1 - Quality of securities market legislation – BiH (2004)**



*Note: the extremity of each axis represents an ideal score in line with international standards such as the IOSCO Principles. The fuller the ‘web’, the more closely capital markets laws of the country approximate these standards.*

*Source: EBRD Securities Market Legislation Assessment 2004*

Shortcomings were found in the limited availability of financial instruments and in the lack of detailed regulation concerning investment service providers. Financial reporting is also an area of concern. The two Entities have different accounting and auditing frameworks. Companies registered in both Entities must maintain two different sets of accounting records and are subject to different accounting and financial reporting which significantly raise the cost of doing business in BiH and impede foreign investments and private sector growth. Moreover, financial statements are not publicly available. A new state-level law has been prepared and is currently under consideration. This law, together with new Entity laws is expected to overcome the existing problems.

Areas for improvement remain also in strengthening the enforcement of the regulation and the supervision of the market. The harmonisation of regulations in the two Entities in order to level the conditions for investments and contribute to the creation of a single economic space in BiH is a priority.

The implementation of an efficient system of clearing and settlement of securities with a delivery versus payment system and the creation of the conditions necessary for issuing and trading with new market instruments, to ensure the growth of liquidity in the capital market should also be tackled as priorities.

<sup>3</sup> Data from the World Bank Report on Observance of Standards and Codes (ROSC) – Bosnia and Herzegovina – Accounting and Auditing – October 19, 2004

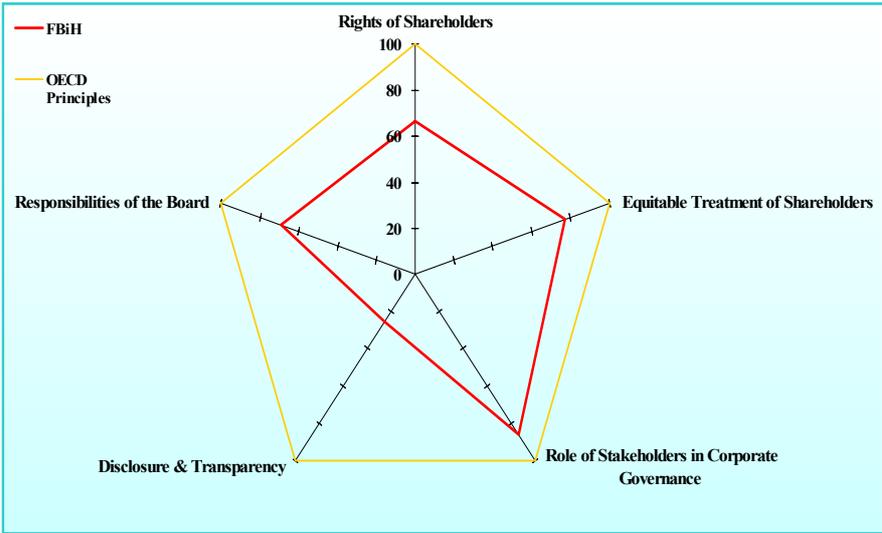
**Company law and corporate governance**

In 2003, the Special Auditor appointed by the OHR discovered that public companies in BiH were losing tens of millions of euros annually, through dishonest behaviour and/or incompetence. In October 2003, in response to this, the Entity Prime Ministers proposed a package of five corporate governance laws: the Entity Laws on Public Companies, the Entity Laws on Investment of Public Funds, the BiH Law on Public Procurement, the BiH Framework Law on Auditing and Accounting and the Entity Laws on Obligations. Only some of these laws have been passed so far, as summarised below.

In October 2004, the FBiH House of Representatives adopted the Law on Public Companies, stipulating tighter control over the business operations of all public enterprises and sanctions against any violations. The new law regulates private enterprises operating in energy, utility services, public property governance sectors and employing more than 50 workers, as well as companies where the state is a majority shareholder. The BiH Framework Accounting and Auditing Law was enacted in June 2004. The law represents a major step forward, as it not only foresees a uniform approach to accounting and auditing, but also addresses some serious shortcomings of accounting and auditing practices in BiH. To give effect to the law’s provisions and to ensure uniform application of its principles throughout the country, the Entities and the District of Brčko now need to adopt corresponding laws fully harmonized with the State Law and with each other. The Entities’ laws were adopted by the respective governments in December 2004 while parliamentary approvals are pending. The BiH Law on Public Procurement was approved in September 2004.

Apart from the above, the relevant legal framework dealing with corporate governance is composed by the Laws on Company Registration (at the State and Entity levels), the Law on Business Companies (in FBiH) and Law on Enterprises (in RS).

**Graph 2 - Quality of corporate governance legislation - FBiH (2003)**



*Note: the extremity of each axis represents an ideal score in line with international standards such as the OECD Principles of Corporate Governance. The fuller the ‘web’, the more closely corporate governance laws of the country approximate these standards.*

*Source: EBRD Corporate Governance Sector Assessment, 2003 assessment*

While it may not be politically feasible to formulate and promulgate a single piece of legislation governing companies within the whole of BiH, the two Entity laws should be harmonised. Reflecting on one half of this fractured system, the EBRD Corporate Governance Sector Assessment found that legislation in the FBiH was in “low

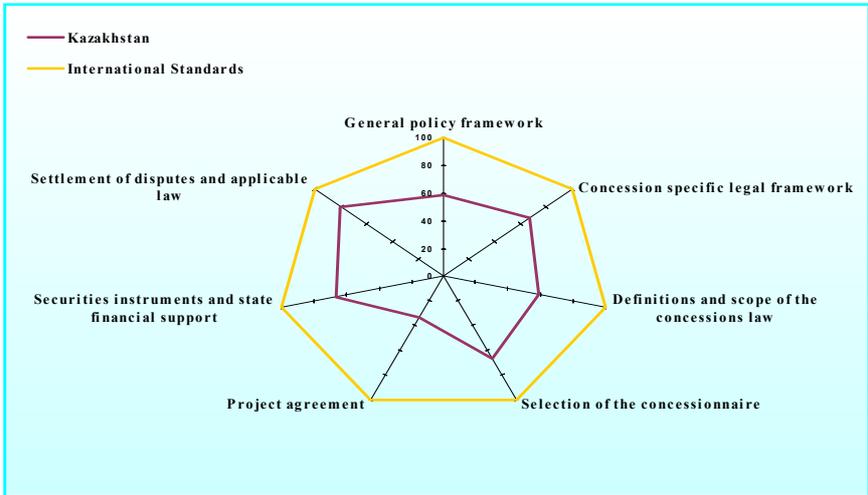
compliance” with the international standards as set out in the OECD Principles of Corporate Governance. Major problems were registered in financial reporting (see above – Capital Markets section), transparency and disclosure. Amendments must be made to ensure effective means of governance by the board of directors and to guarantee shareholder rights, especially minority shareholders.

**Concessions**

The country’s multi-spectrum political structure has its inevitable effect on legal issues and jurisdiction. 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 District of Brčko Concessions Law, and the individual cantons' concessions legislation. Such complex legal framework, although reflecting the current political situation, would not give comfort to either investors or conceding authorities. The absence of a publicly available clear policy promoting or restricting public private partnership adds further reservations. All the above may in practice impede the effective application of laws. 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 BiH, 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 Concessions 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 and 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 Concessions Law regulates the tendering process and provides for requirements for concession agreements. It lacks the so-called ‘stability clause’ allowing the application of more favourable rules in the event laws become less favourable 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.

**Graph 3 - Quality of concession legislation –BiH (2004)**



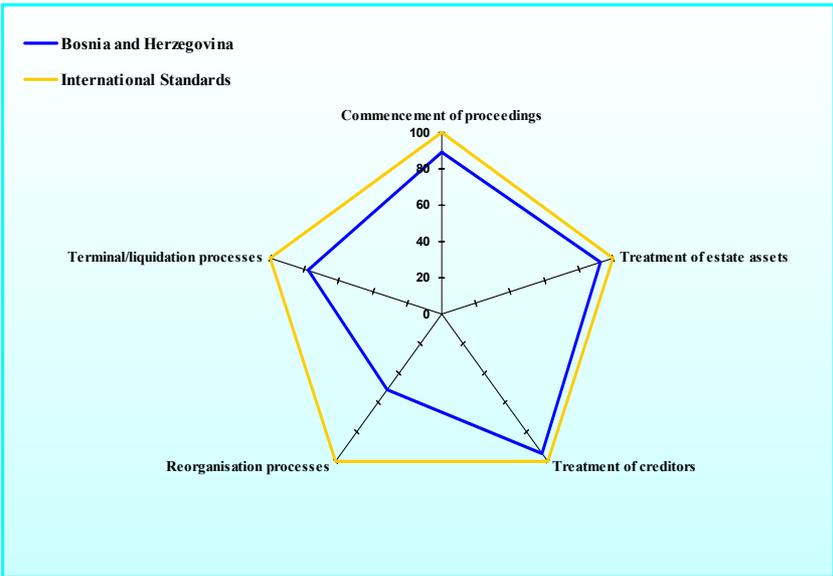
*Note: the extremity of each axis represents an ideal score in line with international standards such as the UNCITRAL Legislative Guide for Privately Financed Infrastructure projects. The fuller the ‘web’, the more closely concessions laws of the country approximate these standards. Source: EBRD Concessions Sector Assessment 2004*

Despite noticeable efforts to improve concession legislation in Bosnia and Herzegovina, its legal framework remains overly complex. The 2004 EBRD Concession Laws Assessment (which evaluated the laws on the books as opposed to how they work in practice) rated the country’s laws as being in “medium compliance” with internationally accepted standards. As one can see from the graph above, the areas most in need of improvement are policy framework and availability of financial instruments and state support. Ultimately, in the event the current overly complex system proves not to work in practice, a more comprehensive and simple regime for concessions in Bosnia and Herzegovina will need to be contemplated.

**Insolvency**

Bankruptcy and insolvency in BiH are governed by identical Entity laws on bankruptcy. The Law on Bankruptcy (the “Insolvency Law”), was adopted in FBiH in June 2003 (and amended in 2004) and in RS in October 2004. The laws are one of the leading insolvency laws in the EBRD’s countries of operations. In the EBRD’s 2003-2004 Insolvency Sector Assessment, which measured the compliance of insolvency legislation with international standards, the Insolvency law was one of only six laws to receive an overall score of “high compliance”.

**Graph 4 - Quality of insolvency legislation – BiH (2004)**



*Note: The extremity of each axis represents an ideal score, i.e., corresponding to the international standards such as the World Bank’s Principles and guidelines for Effective Insolvency and Creditor Rights Systems, the UNCITRAL Working Group on “Legislative Guidelines for Insolvency Law”, and others. The fuller the ‘web’, the more closely insolvency laws of the country approximate these standards.*

*Source: EBRD Insolvency Sector Assessment 2004*

The Insolvency Law is one of few in the EBRD’s countries of operations that effectively deal with the avoidance of pre-bankruptcy transactions. This law provides sufficient detail to determine which types of transactions will be subject to challenge and the circumstances that must be established to affect such a challenge. Although reorganisation processes were the weakest area of performance for this legislation (see graph above), it still provides for a relatively well-designed reorganisation process and, quite uniquely, attempts to address the issue of cross-border insolvency.

The law’s relatively poor scoring in the area of restructuring processes relates principally to its failure to provide for independent analysis of a reorganisation plan, the absence of any provision to automatically convert a reorganisation to a bankruptcy (if the reorganisation plan is rejected), the absence of reorganisation financing provisions

and shortage of stay provisions, relating to the supply of essential services and utilities, pending a reorganisation.

In addition, this law does not provide a clear requirement for the delivery of assets of the debtor to the insolvency administrator. Most worrisome, however, is the absence of provisions to deal with an insolvency case if it is determined that there are not enough assets in the estate to fund the insolvency proceeding.

Assessing the state of insolvency legislation in BiH provides only part of the picture. It is also necessary to look at the practical functioning of the insolvency regime (the “effectiveness” of the regime). According to a case study conducted by the EBRD in 2004, for debtors and creditors seeking to commence insolvency proceedings in Bosnia and Herzegovina, it is relatively easy to determine at which court such proceedings should be commenced and the degree of formality required to access the insolvency process does not present a huge obstacle. The process, however, is seen as far too expensive and the courts cannot generally be relied upon to deal with insolvency matters in a predictable and competent manner.

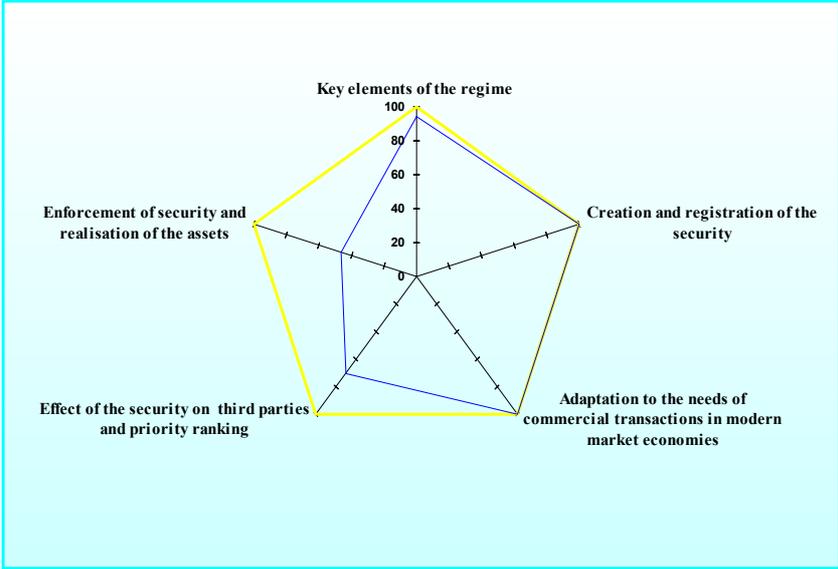
In general, it is somewhat easier for debtors to access insolvency systems in Bosnia and Herzegovina than creditors. This is consistent with most of the EBRD’s countries of operations and reflects, in part, the fact that the initial access of the insolvency regime by creditors is usually quite contentious. Debtors, by contrast, can often commence proceedings and obtain an initial order under the insolvency regime with little notice to creditors and, therefore, without the need for protracted court proceedings.

### **Secured transactions**

The legal framework for secured transactions has substantially improved since the last strategy was prepared. A new regime for secured transactions (pledge) over movable property was adopted in 2004. Not only is this regime much more flexible and market-oriented than the previous one, but a serious effort of harmonisation between the two Entities and the District of Brčko has been made: the new so-called Framework Pledge Law adopted in May 2004 applies to all parts of Bosnia and Herzegovina.

The law adopts a so-called “functional” approach to security, covering possessory (when the debtor must transfer the collateral to the creditor or a third party) and non-possessory pledges, liens, leases and other security rights. The law leaves great freedom to the parties to define the object of the security (specifically, generally, including pool of fluctuating assets) and also the secured debt (revolving loan, credit line, etc). The security interest is subject to registration in a centrally held register in order to be opposable to third parties and to determine the creditor’s priority order. The register which is operated by the Ministry of Justice has started operating and is available electronically (upon subscription) at [www.reg-zaloga-bih.gov.ba](http://www.reg-zaloga-bih.gov.ba).

**Graph 5 - Legal and practical regime for taking security over movable and intangible property - BiH (2004)**



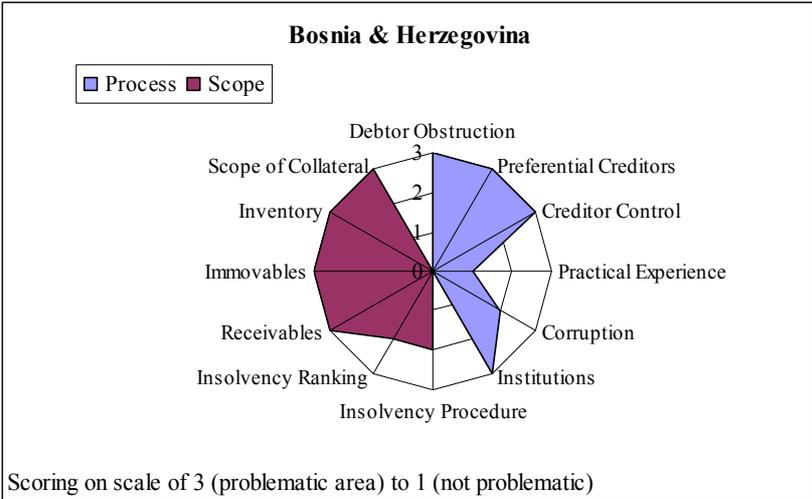
*Note: Scoring on a scale from 1 to 100, where 100 represents the most advanced legal and practical regime.*

*Source: EBRD Regional Survey of Secured Transactions, 2004*

A preliminary assessment of the law is provided in the graph above. It clearly shows great improvement but it should also be taken cautiously: it is still too early to assess the law’s effects in practice, especially those concerning enforcement of the collateral over immovable assets. The law envisages streamlined enforcement for movable assets such as (i) a deadline to end court proceedings and obtain a resolution on enforcement by the creditor was imposed; and (ii) seizing of the pledge from the debtor without the involvement of the court was introduced provided that there is written consent from the debtor. Due to the significant backlog of cases in courts, however, enforcement remains the weakest link of the new regime.

In a survey conducted by the EBRD in 2003, Bosnia and Herzegovina scored very poorly on the question of how much a creditor could expect from realisation of the collateral and how quickly the procedure would take place. As shown in the graph below, both the process of enforcement and the scope under which the procedure could take place presented serious deficiencies: the debtor was able to obstruct the process, the courts were unable to process the case swiftly and fairly and the lack of publicity meant that priority ranking could always become problematic. Enforcement over immovable property or account receivables was just as inefficient. For these reasons, banks used to 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. As the survey was conducted concurrently to a reform of the Enforcement Law and the new law on secured transactions has since been adopted, one could expect some improvement to the situation, but this remains to be seen.

**Graph 6 - Obstacles to charge enforcement process – BiH (2003)**



*Note: The fuller each half “web” of the graph is, the more serious the problems are in each of the respective categories. “Process” factors measure the impact of specific incidences on the enforcement proceedings. “Scope” factors relate to the ability of the system to deal with specific situations or items.*

*Source: EBRD Legal Indicator Survey 2003*

**Telecommunications**

The telecoms sector in Bosnia and Herzegovina is currently regulated by the Communications Regulatory Agency (the “CRA”) and governed by the State Communications Law of 2002 (the “Communications Law”), together with associated sector legislation. The Communications Law has improved the legislative base of the sector considerably, formally moving sector regulation away from entity based regulation and allowing the consolidation of a state based model. The CRA is a unified regulatory body, responsible for both telecom and broadcast regulation (including media content). The specific responsibilities of the CRA include implementation of state communications sector policy, sector licensing, operator dispute resolution and tariff regulation.

The telecoms sector is dominated by the three fixed line incumbent operators, who, despite being the holders of nation-wide licences and interconnection agreements with each other, continue to serve along ethnic lines. All three serve particular geo-ethnic areas - Telekom Srpske serves RS, while BH Telecom and HT Mostar serve the Muslim and Croat areas of the FBiH respectively. Despite a sector policy predicated upon the introduction of private investment in to the sector, all three operators remain majority state-owned: Telekom Srpske 80 per cent, BH Telecom 90 per cent and HT Mostar 67 per cent. While Telekom Srpske has made in-roads in preparation for privatisation, the implementation process moves at a painfully slow pace and is currently stalled at advisor selection stage.

While the telecom infrastructure was seriously damaged during the war, thanks in part to an EBRD loan, much of the infrastructure has now been restored with many elements of it being upgraded and digitised, with Bosnia and Herzegovina’s fixed-line teledensity standing at approximately 25 per cent at the end of 2003.

Bosnia and Herzegovina currently has three mobile operators. Similar to the fixed line, although the licensees have nationwide licences, they operate mainly on geo-ethnic bases. Mobis (Telekom Srpske’s subsidiary) serves RS and GSMBiH (BH Telecom’s subsidiary) serves the Muslim part of the FBiH. The licensing of a third mobile operator has a chequered history, with the first attempts to award the licence coming

unravelling amid disputes surrounding ownership of the third mobile network operator, Eronet, who had claimed rights to this licence. Although the third licence was awarded by the CRA in July 2004, issues remain complicated as the licence was granted to HT Mostar, not Eronet, while Eronet is understood to continue operating the Mostar based network.

Notwithstanding the presence of centralised state level regulatory machinery, clarification of authority and responsibilities in the sector between the State and the Entities and a forward-looking state sector policy predicated upon full liberalisation and private sector investment in the sector, progress towards practical implementation of state-wide sector development remains slow. There have been some successes, such as the new licensing regime, but with full liberalisation expected in 2006 the authorities should focus upon implementing reforms in priority areas necessary to support a competitive marketplace.

The provisions of the Communications Law in areas such as tariff rebalancing, interconnection and universal service should be fully implemented as a matter of urgency. Similarly, a competitive environment will likely place significant market pressures on the incumbent operators and increase the need for investment. Accordingly, the authorities should re-double efforts to implement the Telekom Srpske privatisation and form a coherent strategy for the privatisation of the remaining operators, allowing these operators access to the capital and expertise necessary to develop network infrastructure and fully participate in a competitive environment.

The key to developing a competitive and dynamic market place for telecoms in Bosnia and Herzegovina lies in the full implementation of European Union practices (as envisaged in the Communications Law), together with the maximisation of opportunities for appropriate private investment in the sector. The EBRD has provided significant technical assistance to the authorities in Bosnia and Herzegovina over the past decade aimed at assisting the authorities to implement a framework comprising such characteristics. Going forward, the EBRD stands ready to provide further technical assistance to the authorities in addressing sector priority issues, where appropriate.

## ANNEX 4 - ENVIRONMENTAL ISSUES

The European Commission's Country Strategy for BiH 2002-2006 notes that 'the country is faced with major challenges in the environmental area which since the end of the war has been low on the list of priorities of the authorities'. It further states that 'the Entity and canton ministries responsible for the environment lack institutional capacity and until this is developed progress on the environmental front will be impossible'. The Strategy further notes that although responsibility for environmental affairs rests with the Entities and cantons, a BiH-wide mechanism is required to ensure coordination and coherence between the different actors and to represent BiH internationally. Water resource and waste management are critical issues of concern which should not be further neglected. Underlining all these concerns and challenges are significant budgetary constraints which hamper improvements.

Following these statements, the European Commission (EU PHARE) developed a draft environmental framework legislation for all the constitutional entities within BiH in 2001, with specific framework laws related to water protection, air protection, nature protection, waste management and integrated pollution prevention and control. Recognising the potential implementation problems, an Inter-Entity Environmental Steering Committee with a role to co-ordinate environmental policy in harmonising environmental laws between the Entities in BiH was established in 1998 and has begun to meet on a monthly basis.

The National Environmental Action Plan (NEAP), developed with the World Bank's support in the period 2000-2003, provides the basic framework for the future and for the first time comprehensively develops the structure for environmental protection and guidelines for overall development within BiH. The goal of the NEAP is identification of short and long-term environmental protection strategy in accordance with the economic, social and political situation in BiH. The objective of the NEAP is to facilitate the preparation of a unified environmental protection policy in the context of macroeconomic reforms, poverty reduction strategy and the transition process.

The capacity for environmental management has been further facilitated by the adoption of several new environmental laws (Environmental Law, 2003; Nature Conservation Law, 2003; Air Protection, 2003; Water Resource Protection, 2003; Waste Management Law, 2003; Environmental Impact Assessment Regulation, 2004). These laws were prepared with financial and technical support from the EU and drew upon the already established principles of European environmental legislation.

The UNDP has lent its support to environmental issues by financing energy efficiency projects in BiH. The World Bank is currently financing projects in the urban management, forest development and solid waste management areas. Further, the World Bank is also in the process of preparing projects related to biodiversity conservation and water quality improvement.

All EBRD operations in Bosnia and Herzegovina have been subject to the Bank's Environmental Policy and Procedures and incorporate, where appropriate, environmental action plans into the legal documentation in order to address issues raised during due diligence. For example, the Regional Road Development Programme in BiH (two components of the Programme: Sarajevo by-pass in FBiH and Banja Luka

– Gradiska in RS) involved EBRD financing and assistance to the FBiH's Ministry for Physical Planning and Environment and the Client, the FBiH's Road Directorate as well as the RS's Ministry of Urbanism, Civil Engineering and Ecology and the RS's Road Directorate in implementing the country's Environmental Impact Assessment Regulation of 2004 for the first time as well as measures to comply with the EBRD's Environmental and Public Information Policies. With respect to the financing of railway upgrade and modernisation as well as electric power reconstruction in both Entities, environmental action plans were prepared to improve worker health and safety, and environmental management for the four thermal power stations located in FBiH and RS.

With regard to the FI and SME sectors, representatives of the EBRD's Environment Department organised and carried out environmental risk management training for BiH's FIs to ensure that environmental, health and safety issues are considered during the appraisal financing of local large, SME and micro enterprises by the Bank's FI partners.

**ANNEX 5 - APPROVED BANK OPERATIONS**

<b>Operation Name</b>	<b>Total Project Value<sup>4</sup></b> <b>(€ million)</b>	<b>EBRD Finance</b>	<b>EBRD Signed Equity</b>	<b>Signing Date</b>	<b>Gross Disbursement</b>
<b>Completed</b>					
Zagrebacka Banka equity	1.0	1.0	1.0	15 May 97	1.0
Raiffeisen Bank Bosnia (Market Banka) equity	2.4	2.4	2.4	4 Nov 97	2.4
Sarajevska Pivara	10.8	3.1	--	27 Nov 97	3.1
TBiH Financial Services Group	2.2	1.3	1.1	04 Dec 00	1.3
<b>Total Completed</b>	<b>16.4</b>	<b>7.8</b>	<b>4.5</b>		<b>7.8</b>
<b>Repaying</b>					
Telecoms Emergency Reconstruction	68.4	17.5	--	03 Jun 98	17.5
Transport Emergency Reconstruction	148.2	31.2	--	05 Dec 96	31.2
Power System Emergency Reconstruction	237.5	14.1	--	27 Nov 97	14.1
Pivara Tuzla	9.4	6.1	--	28 Jun 00	6.1
BiH SME FW - UPI Banka Credit Line	3.5	1.7	--	17 Dec 99	1.7
BiH SME FW - Raiffeisen Bank Credit Line	2.5	1.7	--	14 Dec 99	1.7
US/EBRD SME – ProCredit Bank Bosnia	19.1	2.7	--	2 Oct 00	2.7
Raiffeisen Bank - Credit Line 2	5.0	5.0	--	21 Dec 01	5.0
<b>Total Repaying</b>	<b>493.6</b>	<b>80.0</b>	<b>0.0</b>		<b>80.0</b>
<b>Disbursing</b>					
US/EBRD SME – ProCredit Bank Bosnia	7.0	0.5	0.5	30 Sep 97	0.5
Horizonte BiH Enterprise Fund	17.3	4.7	4.7	10 Mar 98	3.2
BiH SME FW – Unicredit Zagrebacka Banka	4.3	2.8	--	13 Dec 99	2.8
US/EBRD SME – ProCredit Bank Bosnia	5.8	0.3	0.3	06 Apr 99	0.3
Railways Recovery Project	65.0	21.0	--	11 Jun 01	10.7
Electric Power Reconstruction Project	209.0	70.0	--	02 Nov 00	12.7
US/EBRD SME – ProCredit Bank Bosnia	3.6	0.4	0.4	28 Feb 01	0.4
BiH SME FW - Unicredit Zagrebacka Banka	2.5	1.7	--	06 Feb 02	1.7
BiH SME FW – Raiffeisen Bank HPB	2.5	1.7	--	20 Dec 01	1.7
BiH SME FW – Extension UPI Banka	2.5	2.5	--	20 Dec 02	2.5
UPI Banka equity	2.4	2.4	2.4	27 Nov 02	2.4
Telekom Srpske – Pre-privatisation convertible	94.8	30.0	--	19 Dec 02	13.0
Volksbank FW - Volksbank BiH Credit Line	2.5	2.5	--	21 Feb 03	2.5
Volksbank FW - Volksbank BiH Subordinated	7.5	7.5	--	9 Sep 03	7.5
DIF – Primus	1.0	1.0	1.0	7 Sep 04	0.8
Raiffeisen Bank BiH - Syndication	45.0	15.0	--	16 Dec 03	15.0
Marbo (BiH component)	9.4	3.9	--	1 Apr 03	3.0
Grand (BiH component)	9.5	2.8	--	6 Nov 03	2.8
US/EBRD SME – ProCredit Bank Bosnia	6.0	6.0	--	3 Mar 04	6.0
<b>Total Disbursing</b>	<b>497.6</b>	<b>176.7</b>	<b>9.3</b>		<b>89.5</b>
<b>Signed</b>					
Regional TFP - UPI Banka	0.4	0.4	--	04 Apr 00	0.0
Regional TFP - Raiffeisen Bank BiH	1.5	1.5	--	14 Dec 99	0.0
Regional Road Development Programme	236.0	70.0	--	3 Dec 04	0.0
Unicredit Zagrebacka banka - Credit Line 2	7.5	7.5	--	17 Dec 04	0.0
UPI Banka - Credit Line 3	5.0	5.0	--	29 Dec 04	0.5
<b>Total Signed</b>	<b>250.4</b>	<b>84.4</b>	<b>0.0</b>		<b>0.5</b>
<b>Grand Total</b>	<b>1,258.0</b>	<b>348.9</b>	<b>13.8</b>		<b>177.8</b>
<b>Regional Project (BiH component)</b>					
Raiffeisen International	10.0	5.0	5.0	20 Oct 04	5.0
<b>Board Approved Frameworks</b>					
BiH SME Framework	15.0	5.0	--	9 Mar 99	5.0
BiH SME Framework Extension	15.0	15.0	--	19 Nov 02	7.5

<sup>4</sup> Adjusted for exchange rate differences and the co-financing mobilised under the Power III project.

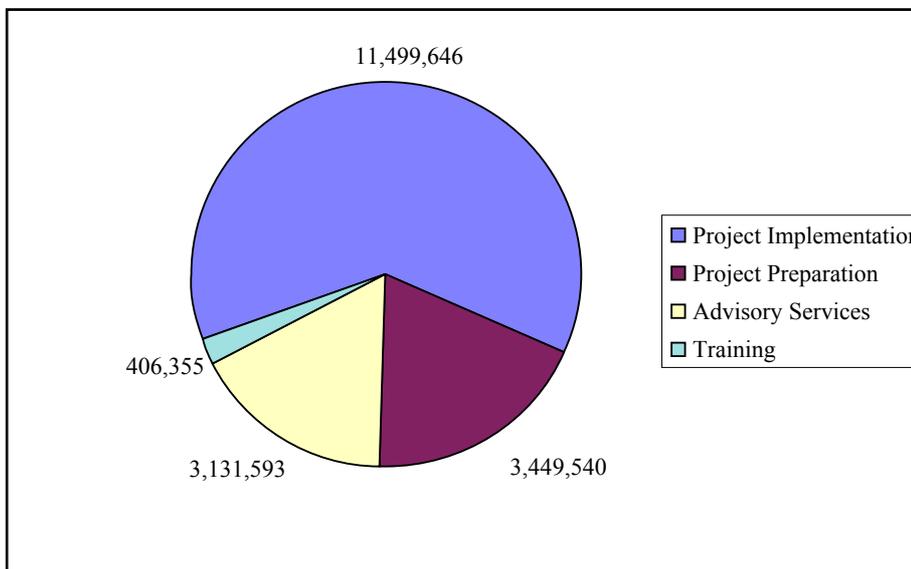
## ANNEX 6 - TECHNICAL COOPERATION PROJECTS

The total amount of grant-financed Technical Cooperation (TC) funds mobilised by the Bank in BiH since 1996 to date has reached €18.5 million.

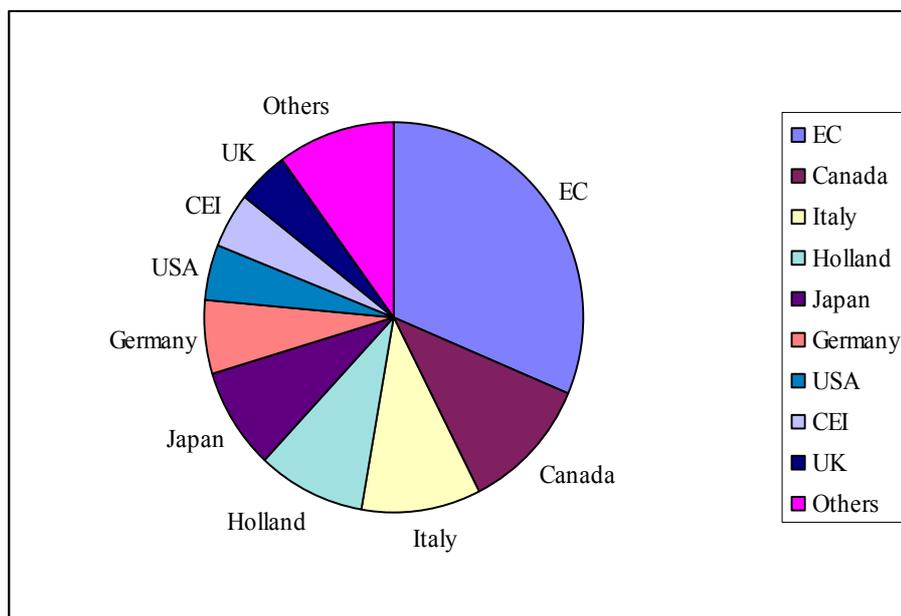
Major donors included Canada, Germany, Italy, Japan, the Netherlands, **Sweden**, Switzerland, United Kingdom and USA along with the EU and CEI.

All TCs were linked to investment projects financed by the Bank at different stages of project life cycle. Accordingly, TC funds were used for project preparation, project implementation, advisory services and training. As shown in the chart below, the majority of funds were used for assistance to Bank's clients in project implementation.

**Chart 1: TC funds by type (€)**



**Chart 2: TC funds by country**



The full list of individual TC assignments is provided below:

**Table 1: List of TCs committed to date in BiH**

Commitment Number	Commitment Name	Sector Name	Commitment EUR Amount	Disbursed EUR Amount	TCO Type
BOSSME-1999-10-01 (Italy)	BiH SME PIU	Finance, Business	1,580,105	1,580,105	Project Implementation
BOSSME-2004-12-01F (Italy)	BiH SME PIU extension	Finance, Business	254,180	0	Project Implementation
BRSF-2002-10-09	Bosnia Railways Recovery Project	Transport, Storage	158,640	158,640	Project Preparation
BRSF-2003-06-01	Primus Market Study	Finance, Business	8,839	8,839	Project Preparation
CAN-1996-08-02	Air navigation services upgrading project	Transport, Storage	50,128	50,128	Project Preparation
CAN-1997-04-03	Implementation of air navigation system	Transport, Storage	51,697	51,697	Project Implementation
CAN-1998-02-02	Air navigation services upgrading project (extension)	Transport, Storage	13,351	13,351	Project Preparation
CAN-1999-03-02	Secretary General of the Commission on Public Corporations	Community/Social Services	124,479	124,479	Advisory Services
CANSE-2001-01-01	Railways Recovery Project - Accounts Strengthening and Business Planning	Transport, Storage	500,000	399,628	Project Implementation
CANSE-2001-02-02	Bosnia & Herzegovina Railways Recovery Project	Transport, Storage	1,220,000	0	Project Implementation
CANSE-2004-05-04	Assistance with procurement of MIS	Transport, Storage	59,993	34,997	Project Implementation
CEI-1997-09-04	Emergency power system reconstruction project	Energy	76,218	76,218	Project Preparation
CEI-1997-09-05	Emergency power system reconstruction project	Energy	133,581	133,581	Project Preparation
CEI-1998-03-08	Project screening for Bosnia-Herzegovina	Transport, Storage	62,683	62,683	Project Preparation
CEI-1998-04-09	Sarajevo Airport Masterplan Study	Transport, Storage	167,412	167,412	Advisory Services
CEI-1999-07-01	Sarajevo International Airport - Lighting & Equipment	Transport, Storage	409,971	409,971	Project Implementation
DEN-1996-11-03	Emergency transport reconstruction project - provision of technical support services	Construction	189,425	189,425	Project Implementation
DEN-1998-09-06	TurnAround Management Programme - standard	Manufacturing	47,383	47,383	Advisory Services
DEN-1998-11-08	TurnAround Management Programme - Borja	Manufacturing	39,858	39,858	Advisory Services
DEN-2000-12-04	TurnAround Management Programme (TAM) - Standard Furniture II	Manufacturing	48,301	48,301	Advisory Services
DEN-2001-05-06	JKP Toplane Sarajevo - Emergency District Heating Rehabilitation Programme	Energy	24,587	24,587	Project Preparation
ECP96-96-11-22	Power sector management and operation - assistance in the establishment of accounting systems	Energy	586,756	586,756	Advisory Services
ECP96-97-02-40	Twinning for Hrvatska Banka	Finance, Business	1,492,258	1,492,258	Project Implementation
ECP96-97-06-57	Market Banka	Finance, Business	1,265,642	1,265,642	Project Implementation

ECP96-98-07-72	Emergency power reconstruction project	Energy	82,986	82,986	Project Implementation
ECP96-98-07-73	Emergency power reconstruction project	Energy	76,114	76,114	Project Implementation
ECP98-2000-01-60	Twinning for Hrvatska Banka	Finance, Business	68,859	68,859	Project Implementation
ECP98-2000-02-62	Bosnia Power Sector Management Operation	Energy	219,652	219,652	Project Implementation
ECP98-2000-04-65	Market Banka Twinning	Finance, Business	398,648	398,648	Project Implementation
ECP99-99-09-12	Bosnia and Herzegovina: Telecommunications regulatory development	Telecommunications	214,567	214,567	Advisory Services
EUTME-98-07-01	Micro Enterprise Bank - management services (federation assignment)	Finance, Business	980,977	980,977	Project Implementation
EUTME-98-07-02	Micro Enterprise Bank - management services (Federation of BiH)	Finance, Business	433,668	433,668	Project Implementation
FRA-1997-06-02	Financial Audit of Market Banka dd	Finance, Business	7,622	7,622	Project Preparation
GER-1996-09-05	Railway advisory programme	Manufacturing	6,220	6,220	Advisory Services
GER-1997-02-02	Electricity tariff study and social protection scheme	Energy	368,206	368,206	Project Preparation
GER-1997-02-03	Training of operators and engineers on health and safety	Energy	406,355	406,355	Training
GERK-1999-09-06	Technical advisory services for project implementation (extension)	Telecommunications	320,081	320,081	Project Implementation
HOL-1996-02-02	Telecommunications sector policy development	Telecommunications	5,766	5,766	Project Preparation
HOL-1996-04-06	Sarajevo airport preliminary design study	Transport, Storage	133,832	133,832	Project Preparation
HOL-1996-04-09	Equity investment in SAB Banka	Finance, Business	80,197	80,197	Project Preparation
HOL-1996-11-14	Equity investment in Market Banka dd - financial audit, due diligence and business strategy	Finance, Business	123,020	123,020	Project Preparation
HOL-1998-12-04	Road user charges study	Construction	192,913	192,913	Project Implementation
HOL-96-08-11PS	Sarajevo Airport - final design study	Transport, Storage	1,156,344	1,156,344	Project Preparation
IRL-1997-03-01	Telecoms sector policy (extension)	Telecommunications	2,820	2,820	Project Preparation
IRL-1997-10-03	Electricity tariffs and social protection study (framework contract)	Energy	54,034	54,034	Project Preparation
IRL-1998-02-01	Telecommunications sector policy development III	Telecommunications	9,462	9,462	Advisory Services
ITA-2000-03-01	TurnAround Management Programme (TAM) - UNICO	Manufacturing	48,028	48,028	Advisory Services
ITA-2002-05-02	TAM Programme- Pobjeda	Manufacturing	46,060	46,060	Advisory Services
JAP-1997-12-46	Technical advisory service - telecommunications emergency reconstruction	Telecommunications	480,000	480,000	Advisory Services
JAP-1997-12-47	Finance, accounting and billing advisory services - telecommunications emergency programme	Telecommunications	469,980	469,980	Project Implementation
JAP-1999-11-20	Telecommunications Emergency Reconstruction Project - Finance, accounting and billing advisory services (extension)	Telecommunications	599,550	599,550	Advisory Services

NLT-1998-09-02	Sarajevo Airport & Strengthening of Aviation Sector	Transport, Storage	113,445	113,445	Project Implementation
NORG-1996-02-01	Telecommunications sector policy development	Telecommunications	46,267	46,267	Project Preparation
SWE-1996-02-01	Technical and economic advisory services for telecommunications reconstruction and development	Telecommunications	187,095	187,095	Project Preparation
SWE-1996-06-04	Technical and economical advisory services (extension)	Telecommunications	158,729	158,729	Project Preparation
SWE-2000-06-06	Bosnia and Herzegovina - Project Scoping for Railway Rehabilitation Project	Transport, Storage	199,000	199,000	Project Preparation
SWI-1996-07-02	War damage review and preparation of a long-term development strategy	Energy	515,076	515,076	Advisory Services
TAI-1996-09-09	Equity investment in SAB Banka	Finance, Business	21,239	21,239	Project Preparation
TCS-1997-05-03	TC for Financial Audit of Market Banka d.d	Finance, Business	20,591	20,591	Project Preparation
UKC-1996-02-03	Sector policy development - technical, economic and policy advisory services for Telecom reconstruction and development	Telecommunications	69,222	69,222	Project Preparation
UKC-1996-07-17	Sector policy development (extension)	Telecommunications	131,721	131,721	Project Preparation
UKC-1996-07-19	Equity investment in Hrvatska Banka	Finance, Business	155,808	155,808	Project Preparation
UKC-1997-11-11	Telecommunications sector policy development Phase III	Telecommunications	211,348	211,348	Project Implementation
UKC-1998-09-06	TurnAround Management Programme - Standard	Manufacturing	13,331	13,331	Advisory Services
UKC-1998-11-09	TurnAround Management Programme - Borja	Manufacturing	10,859	10,859	Advisory Services
UKC-1999-07-08	Telecommunications Regulatory Development	Telecommunications	18,740	18,740	Advisory Services
UKE-2000-03-05	TurnAround Management Programme (TAM) - UNICO	Manufacturing	11,512	11,512	Advisory Services
UKF-2003-07-04	Primus Technical Due Diligence	Finance, Business	9,913	9,913	Project Implementation
UKF-2003-09-07	Primus Legal Due Diligence	Finance, Business	15,980	11,743	Project Implementation
UKF-2004-07-08	Primus Financial Audit	Finance, Business	10,000	10,000	Project Implementation
UKF-2004-10-10F	Business Advisory Service (BAS) Programme in Bosnia and Herzegovina - Framework - Programme Operating Costs	Manufacturing	144,000	14,469	Advisory Services
USA-1998-06-05	Sarajevo Airport and strengthening of aviation sector	Transport, Storage	51,753	51,753	Project Implementation
USSP-2001-08-06	Bosnia & Herzegovina Micro Enterprise Bank (MEB)	Finance, Business	335,199	335,199	Project Implementation
USTD-2001-04-01	Bosnian Railways: Assistance with Project Implementation	Transport, Storage	484,860	411,471	Project Implementation
<b>TOTAL</b>	<b>74</b>		<b>18,487,133</b>	<b>16,680,427</b>	

## 1. SMEs in Bosnia and Herzegovina

### *Bank support to date*

EBRD support to SMEs started in 1999 through the Bank's active involvement in the local banking sector supported by significant donor grants especially from Italy (such as the EUR 1.58 million TC provided in 1999 and extended in 2004 with an additional EUR 0.25 million). Bank support has so far been highly successful despite impediments to the development of SMEs listed below. Total amount of EBRD financing which benefited SMEs is around €77 million of which €36 million has been provided through confirmation of credit instruments issued by local intermediaries. The number of funded sub-loans has reached 300 while 376 transactions were concluded through the trade facilitation programme. Average size of the SME loans has been €112,000, and the tenors have been ranging from 1 to 7 years.

**Table 1: Summary of EBRD funding provided to SMEs in BiH as of March 2005**

<b>Participating Bank</b>	<b>Signed</b>	<b>Tenor (Years)</b>	<b>Amount (€ million)</b>	<b>Number of sub-loans</b>	<b>Average size of sub-loan</b>
Raiffeisen Bank BiH	Dec-99	7	2.5	5	434,000
Zagrebacka Banka	Dec-99	7	5	37	134,025
UPI Banka Credit Line I	Dec-99	7	2.5	15	166,667
Raiffeisen Bank HPB	Dec-01	5	2.5	17	147,059
Universal Banka	Feb-02	5	2.5	17	147,059
UPI Banka Credit Line II	Nov-02	5	2.5	17	147,059
Raiffeisen Bank BiH CL II	Dec-01	5	3	10	300,000
Raiffeisen Bank BiH -syndicated loan*	Nov-03	4	15	165	90,909
Horizonte BiH Enterprise Fund	Mar 98	5	3.2	10	323,334
Volksbank BH	Feb 03	5	0.7	5	133,000
UPI Banka Credit Line III	Dec 04	5	0.5	2	255,646
<b>Total I</b>			<b>39.9</b>	<b>300</b>	<b>133,000</b>
Regional TFP - UPI Banka	Apr 00	1	1.8	43	41,860
Regional TFP - Raiffeisen Bank BiH	Dec 99	3	32.8	313	104,773
Regional TFP - UniCredit Zagrebacka	Jul 00	1	1.8	20	91,324
<b>Total II</b>			<b>36.4</b>	<b>376</b>	<b>96,809</b>
<b>Total (I+II)</b>			<b>76.3</b>	<b>676</b>	<b>112,870</b>

\*final number of SMEs is higher due to the fact that under the loan four micro credit organisation were financed to on lend to micro sector companies.

### *Impediments to SME growth in BiH*

Despite on-going efforts to improve the business environment which led to rapid growth of the sector, there are still a number of impediments to SMEs success in BiH. Considering the current demand in a relatively difficult environment, removal of impediments below is likely to lead to an even faster and healthier growth of the sector.

Most notably, **costs of doing business** in BiH are still high and lead to businesses shifting into the grey economy. A summary of cost related issues is presented below:

- *High start up costs and complexities of registration:* The slow process and high fees for opening a company must be factored into business planning as sunk costs. These increase the level of start up capital needed and lower overall profitability in the most crucial years of operation. New legislation which is expected to be adopted soon will hopefully bring BiH business registration requirements into line with EU standards.
- *High costs of inspections, licensing, permits (especially construction) and approvals:* There are numerous and costly licensing and permit requirements which are more costly than necessary. Added together, these fees set up barriers to successful investment.
- *High taxes (direct and indirect):* These include income, labour contributions, sales taxes, customs, tariffs, property transfer taxes and various charges, duties and fees imposed by various authorities. Introduction of VAT is expected to result in reduction or elimination of some taxes, but the aggregate level of taxes will also need to be reduced to stimulate growth and economic development.
- *High labour costs and restrictive labour policies:* Employment regulations are overreaching and sometimes discourage companies to employ. In some industries there are legal requirements for a minimum number of employees without regard to the needs of the business. In addition, official requirements for labour contributions are high and result in widespread avoidance, with employers reporting lower salaries to reduce pension contributions.

The **risks associated with doing business** are high and discourage start-ups in certain cases. The current efforts to improve the legal and regulatory environment are critical for future success of SMEs. The revenue side obstacles such as unfair competition need to be further addressed.

- *Enforcement:* The most important non-market risk for SMEs is the lack of predictable, affordable enforcement in the event of a commercial dispute. The courts are slow to issue judgment, but once they finally do, the judgment itself may not be enforceable, at least within a reasonable time frame and at a reasonable cost. As a result banks, leasing companies and other credit providers manage this risk by increasing the costs of their products and services, as well as collateral requirements.
- *Unpredictable business environment:* The law making process in BiH is highly unpredictable, and public input to changes is not yet sufficient. In addition, the existing laws and regulations are confusing, conflicting, and poorly disseminated.
- *Unfair competition:* Unfair competition in some sectors artificially lowers the prices or reduces the size of the market. Large size of informal economy in BiH leads to unfair competition as it increases evasion of taxes and other legal obligations.

The Bank, along with other IFIs, is engaged in a policy dialogue with the authorities in various areas in order to help eliminate the obstacles listed above.

## **2. Micro Lending**

The Bank, together with IFC, BH Banka, FMO, IPC, Commerzbank, IMI, and KfW has established Micro Enterprise Bank (current ProCredit Bank) in 1997 through a €1.1 million equity investment (23.3 per cent) and a total of €9.6 million debt.

Since the beginning of its operations in November 1997, ProCredit has disbursed more than 30,000 loans to micro and small enterprises (MSEs) worth about €121 million. As at end-September 2004, the outstanding business loan portfolio consisted of over 11,350 loans worth almost €43 million. Of these, only 0.55 per cent in volume terms was in arrears over 30 days. The average loan disbursement is about €5,000 and 93 per cent of all loans disbursed during September 2004 were in the range €1,000-10,000. Lending to micro and small enterprises remains the bank's core business and over half of the bank's loan portfolio comprise of loans under EUR 10,000.

## **3. TAM and BAS Programmes**

### *Overview*

TurnAround Management (TAM) and Business Advisory Services (BAS) Programmes are complementary SME programmes directly assisting individual, privatised enterprises in EBRD's countries of operation. The Programmes began in the early 90s, with initial funding from the EBRD, the United Nations Development Programme, the EU, the Nordic Council of Ministers and Japan. Since then, with strong funding support from the EU, the Nordic Council of Ministers and 21 individual donor countries, nearly 1200 TAM projects and 3500 BAS projects have been undertaken in 27 countries utilising over €100 million of donor funding.

TAM helps potentially viable SMEs to adapt, survive and grow in a market economy, utilising the breadth and depth of knowledge of recently retired CEOs with over 15 years' experience from an industry directly related to that of the beneficiary enterprise.

BAS has two priority aims: to teach micro and SME managers to use external business advisory services and to increase the capacity and skills of local consultancy services in the Bank's countries of operation. BAS helps enterprises to overcome barriers to growth through the provision of grants to encourage CEOs to benefit from external business advice by local BAS accredited consultants.

TAM/BAS maintains a pipeline of eligible projects from a wide variety of regions and industries so that funds provided by donors can be utilised swiftly.

### *Objectives*

TAM/BAS supports economic reform and growth by transferring management and technical know-how, conveying the principles of responsible corporate governance and sharing commercial experience directly with potentially viable enterprises.

In addition to improving business performance, TAM/BAS may assist enterprises to communicate with potential investors, including the EBRD and EBRD-related financial

intermediaries. However, transformation of the management of the enterprise is the primary TAM/BAS objective.

By developing strong management at the SME level and building a strong national base of local consultants to serve enterprise future needs, TAM/BAS acts as a catalyst for economic and social transition, contributing to donor objectives for alleviating poverty, improving standards of living and increasing social cohesion in both the EU accession and the lower transition countries.

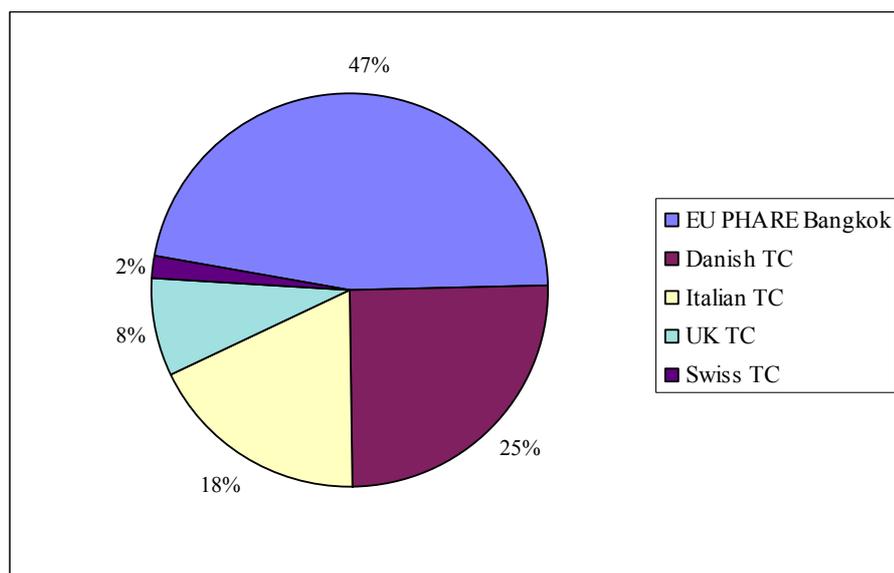
### *TAM and BAS programmes in Bosnia and Herzegovina*

Since 1997, TAM has undertaken 10 projects in Bosnia and Herzegovina utilising €0.56 million of Donor funding. This has included major contributions from the EU Phare Programme and the Italian, Danish and UK Governments. The projects undertaken have been in a wide range of industries. TAM maintains an active pipeline of eligible projects and is in continuous search of funding to prolong its successful operations in the country.

**Table 2: List of TAM projects in BiH**

<b>Enterprise</b>	<b>SIC</b>	<b>Status</b>	<b>Funding Source</b>	<b>Start Date</b>	<b>End Date</b>	<b>Amount</b>
Borja Furniture	Furniture and Related Products	Project Completed	UK TC	18-Feb-98	31-Dec-99	10000
Borja Furniture	Furniture and Related Products	Project Completed	Danish TC	18-Feb-98	31-Dec-99	40000
Borja II	Furniture and Related Products	Project Completed	EU PHARE Bangkok	27-Aug-99	15-Nov-00	60000
Fering Cranes	Industrial Machinery	Project Completed	EU PHARE Bangkok	13-Feb-98	30-Dec-99	50000
Klas	Food Manufacturing	Project Completed	EU PHARE Bangkok	12-Nov-97	30-Dec-99	50000
Pivara Tuzla	Food Manufacturing	Project Completed	EU PHARE Bangkok	16-Feb-98	30-Dec-99	50000
Pobjeda D.D.	Motor Vehicles and Components Manufacturing	Project Completed	Swiss TC	07-May-02	07-Nov-03	11600
Pobjeda D.D.	Motor Vehicles and Components Manufacturing	Project Completed	Italian TC	07-May-02	07-Nov-03	48400
Proleks	Leather and Hide Tanning	Project Completed	EU PHARE Bangkok	27-Sep-99	15-Nov-00	60000
Standard Furniture (Bosnia)	Furniture and Related Products	Project Completed	UK TC	20-Aug-98	06-Apr-00	11600
Standard Furniture (Bosnia)	Furniture and Related Products	Project Completed	Danish TC	20-Aug-98	06-Apr-00	48400
Standard Furniture (Bosnia) II	Furniture and Related Products	Project Completed	UK TC F	07-Dec-00	31-Aug-03	11600
Standard Furniture (Bosnia) II	Furniture and Related Products	Project Completed	Danish TC	07-Dec-00	31-Aug-03	48400
Unico Filter DD Tesanj	Motor Vehicles and Components Manufacturing	Project Completed	UK TC E	22-Mar-00	22-Dec-01	11600
Unico Filter DD Tesanj	Motor Vehicles and Components Manufacturing	Project Completed	Italian TC	22-Mar-00	22-Dec-01	48400

**Chart 1: Funding by donors (TAM)**



The **BAS** office in BiH was opened in 2001 and has received funding totalling €2.25 million which, to end January 2005, has funded 158 BAS projects. The projects have covered all aspects of business performance. Current funding is sufficient to maintain operations in BiH until October 2006.

**Table 3: Funding by donors (BAS)**

Donor	Year	Amount (€ million)
CEI (1 <sup>st</sup> tranche & 2 <sup>nd</sup> tranche)	2000	0.21
CEI (3 <sup>rd</sup> tranche)	2003	0.22
EU Phare	1999	0.71
UK (1 <sup>st</sup> tranche)	2000	0.06
UK (3 <sup>rd</sup> tranche)	2004	0.14
The Netherlands	2004	0.91
<b>Total</b>		<b>2.25</b>

**Table 4: List of BAS projects in BiH**

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.	Electrical/Electronics/IT	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 002-01	Lasva-Komerc d.o.o.	Wholesale/Retail Distribution	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 003-01	Vigmelt d.o.o.	Electrical/Electronics/IT	Feasibility Studies
ECP 99-99-09-11/21	BAS-BiH-ECP 004-01	Primus d.o.o.	Wood Processing/Furniture/Forestry	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 005-01	Ans Drive d.o.o.	Wood Processing/Furniture/Forestry	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 006-01	Mlin Ljubace d.d.	Food & Beverages	Feasibility Studies

ECP 99-99-09-11/21	BAS-BiH-ECP 007-01	Pharmamed d.o.o	Chemical/Pharmaceutical	Computerised Financial/Management Information Systems
ECP 99-99-09-11/21	BAS-BiH-ECP 008-01	Finalist d.o.o	Construction/Engineering	Computerised Financial/Management Information Systems
ECP 99-99-09-11/21	BAS-BiH-ECP 009-01	ACM Soko d.o.o.	Metals/Machinery/Equipment	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 010-01	Atlantik BB	Printing/Publishing	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 011-01	AD Termomontaza	Metals/Machinery/Equipment	Engineering Studies
ECP 99-99-09-11/21	BAS-BiH-ECP 012-01	Barpeh d.o.o.	Food & Beverages	To Introduce Quality Management & Certification
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.	Wholesale/Retail Distribution	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 015-01	INTAL Milici	Wood Processing/Furniture/Forestry	Computerised Financial/Management Information Systems
ECP 99-99-09-11/21	BAS-BiH-ECP 016-01	ZRAK AEO dd	Metals/Machinery/Equipment	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 017-01	Unis-Fagas d.o.o.	Metals/Machinery/Equipment	Development Planning
ECP 99-99-09-11/21	BAS-BiH-ECP 018-01	Metal-Export d.o.o.	Construction/Engineering	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 019-01	Tropic Ribarstvo d.o.o.	Food & Beverages	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 020-02	Papir Servis d.d.	Other	Development Planning
ECP 99-99-09-11/21	BAS-BiH-ECP 021-02	NBI Curic d.o.o.	Construction/Engineering	Other
ECP 99-99-09-11/21	BAS-BiH-ECP 023-02	Bjelasnica d.d.	Wood Processing/Furniture/Forestry	Development Planning
UKF 2000-09-01/01	BAS-BiH-UKF 024-02	Grizelj d.d.	Metlas/Machinery/Equipment	Computerised Manufacturing Systems
ECP 99-99-09-11/21	BAS-BiH-ECP 025-02	Razvitak d.d.	Wood Processing/Furniture/Forestry	Development Planning
ECP 99-99-09-11/21	BAS-BiH-ECP 026-02	Exclusive Commerce	Textiles/Apparel/Footwear	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 027-02	Unis-Adria d.o.o.	Food & Beverages	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 028-02	Blicdruk d.o.o.	Printing/Publishing	Development Planning
ECP 99-99-09-11/21	BAS-BiH-ECP 029-02	Komotin d.o.o.	Construction/Engineering	Feasibility Studies
ECP 99-99-09-11/21	BAS-BiH-ECP 030-02	Remontmontaza d.o.o.	Metlas/Machinery/Equipment	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 031-02	Koteks d.o.o.	Textiles/Apparel/Footwear	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 032-02	Dukat d.o.o.	Food & Beverages	Computerised Financial/Management Information Systems
ECP 99-99-09-11/21	BAS-BiH-ECP 033-02	Medena d.o.o.	Metlas/Machinery/Equipment	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 034-02	Euro-Hem d.o.o.	Chemical/Pharmaceutical	Market Analysis & Planning
ECP 99-99-09-11/21	BAS-BiH-ECP 035-02	Kaldera Company d.o.o.	Electrical/Electronics/IT	Feasibility Studies
ECP 99-99-09-11/21	BAS-BiH-ECP 036-02	Adi-Mark d.o.o.	Food & Beverages	Computerised Financial/Management Information Systems
ECP 99-99-09-11/21	BAS-BiH-ECP 037-02	Favorit d.o.o.	Wholesale/Retail Distribution	Computerised Financial/Management Information Systems
ECP 99-99-09-11/21	BAS-BiH-ECP 038-02	Laser d.o.o.	Wholesale/Retail Distribution	Market Analysis & Planning
UKF 2000-09-01/01	BAS-BiH-UKF 039-02	Alfa-Therm d.o.o.	Construction/Engineering	Reorganisation/Restructuring
ECP 99-99-09-11/21	BAS-BiH-ECP 040-02	Unicop-trade	Wholesale/Retail Distribution	Computerised Financial/Management Information Systems
ECP 99-99-09-11/21	BAS-BiH-ECP 041-02	Famok A.D.	Metlas/Machinery/Equipment	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 042-02	Mermer A.D.	Construction/Engineering	Engineering Studies
UKF 2000-09-01/01	BAS-BiH-UKF 043-02	Klimavent d.d.	Metals/Machinery/Equipment	Computerised Financial/Management Information Systems
ECP 99-99-09-11/21	BAS-BiH-ECP 044-02	Helios d.d.	Metals/Machinery/Equipment	To Introduce Quality Management & Certification

ECP 99-99-09-11/21	BAS-BiH-ECP 045-02	Sirbegovic d.o.o.	Construction/Engineering	Development Planning
ECP 99-99-09-11/21	BAS-BiH-ECP 046-02	Vatrostalna d.o.o.	Construction/Engineering	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 047-02	Prominvest d.o.o.	Construction/Engineering	To Introduce Quality Management & Certification
UKF 2000-09-01/01	BAS-BiH-UKF 048-02	Golubic d.o.o.	Travel/Tourism	Feasibility Studies
CEI 2001-10-04/02	BAS-BiH-CEI 049-02	Economic d.o.o.	Wholesale/Retail Distribution	Development Planning
CEI 2001-10-04/02	BAS-BiH-CEI 050-02	Sana Linea a.d.	Textiles/Apparel/Footwear	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 051-02	Bosnaplast d.o.o.	Glass/Rubber/Plastic	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 052-02	Ferplast d.o.o.	Glass/Rubber/Plastic	Reorganisation/Restructuring
ECP 99-99-09-11/21	BAS-BiH-ECP 053-02	Sirano d.o.o.	Travel/Tourism	Feasibility Studies
CEI 2001-10-04/02	BAS-BiH-CEI 054-02	MALCom d.o.o.	Wholesale/Retail Distribution	Computerised Financial/Management Information Systems
UKF 2000-09-01/01	BAS-BiH-UKF 055-02	Krehic d.o.o.	Food & Beverages	Market Analysis & Planning
ECP 99-99-09-11/21	BAS-BiH-ECP 056-02	Jajce Alloy Wheels d.o.o.	Metals/Machinery/Equipment	Reorganisation/Restructuring
ECP 99-99-09-11/21	BAS-BiH-ECP 057-02	Kes d.o.o.	Metals/Machinery/Equipment	To Introduce Quality Management & Certification
UKF 2000-09-01/01	BAS-BiH-UKF 022-02	Omerbasic	Food & Beverages	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 058-02	Elker a.d.	Electrical/Electronics/IT	To Introduce Quality Management & Certification
CEI 2001-10-04/02	BAS-BiH-CEI 059-02	Mira a.d.	Food & Beverages	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 060-02	Unis Tvornica Zakovica	Metals/Machinery/Equipment	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 061-02	Frimont d.o.o.	Metals/Machinery/Equipment	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 062-02	Proming d.o.o.	Construction/Engineering	Feasibility Studies
ECP 99-99-09-11/21	BAS-BiH-ECP 063-02	Orah a.d.	Wood Processing/Furniture/Forestry	Development Planning
UKF 2000-09-01/01	BAS-BiH-UKF 064-02	Unis Kovina d.d.	Metals/Machinery/Equipment	Computerised Manufacturing Systems
CEI 2001-10-04/02	BAS-BiH-CEI 065-02	Hering d.o.o.	Construction/Engineering	Reorganisation/Restructuring
ECP 99-99-09-11/21	BAS-BiH-ECP 066-02	Tekstilna Industrija d.d.	Textiles/Apparel/Footwear	Feasibility Studies
ECP 99-99-09-11/21	BAS-BiH-ECP 067-02	Nova sirovina a.d.	Other	Development Planning
ECP 99-99-09-11/21	BAS-BiH-ECP 068-02	Pobjeda d.d.	Metals/Machinery/Equipment	Reorganisation/Restructuring
ECP 99-99-09-11/21	BAS-BiH-ECP 069-02	Pero d.o.o.	Construction/Engineering	Reorganisation/Restructuring
ECP 99-99-09-11/21	BAS-BiH-ECP 070-02	Standard A.D.	Glass/Rubber/Plastic	Reorganisation/Restructuring
CEI 2001-10-04/02	BAS-BiH-CEI 071-02	Hidroinžinjering d.o.o.	Wood Processing/Furniture/Forestry	Engineering Studies
CEI 2001-10-04/02	BAS-BiH-CEI 072-02	Farmavita d.o.o.	Chemical/Pharmaceutical	Computerised Financial/Management Information Systems
UKF 2000-09-01/01	BAS-BiH-UKF 073-02	Pharma jez d.o.o.	Chemical/Pharmaceutical	Reorganisation/Restructuring
CEI 2001-10-04/02	BAS-BiH-CEI 074-02	Topling d.o.o.	Metals/Machinery/Equipment	To Introduce Quality Management & Certification
CEI 2001-10-04/02	BAS-BiH-CEI 075-02	MTK Metalotehna a.d.	Metals/Machinery/Equipment	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 076-02	Vicom d.o.o.	Travel/Tourism	Engineering Studies
UKF 2000-09-01/01	BAS-BiH-UKF 077-02	Kokaprodukt d.d.	Food & Beverages	To Introduce Quality Management & Certification
CEI 2001-10-04/02	BAS-BiH-CEI 078-02	I Maj A.D.	Construction/Engineering	Development Planning
CEI 2001-10-04/02	BAS-BiH-CEI 079-02	Hano d.o.o.	Construction/Engineering	To Introduce Quality Management & Certification
CEI 2001-10-04/02	BAS-BiH-CEI 080-02	Rama - glas d.o.o.	Glass/Rubber/Plastic	To Introduce Quality Management & Certification
CEI 2001-10-04/02	BAS-BiH-CEI 081-02	Koko-dzada d.o.o.	Food & Beverages	Computerised Financial/Management Information Systems
CEI 2001-10-04/02	BAS-BiH-CEI 082-02	Soko izgradnja objekata d.d.	Metals/Machinery/Equipment	Feasibility Studies
CEI 2001-10-04/02	BAS-BiH-CEI 083-02	Delibasic-Poliuretani d.o.o.	Glass/Rubber/Plastic	To Introduce Quality Management & Certification
CEI 2001-10-04/02	BAS-BiH-CEI 084-02	Kalin d.d.	Travel/Tourism	Feasibility Studies
CEI 2001-10-04/02	BAS-BiH-CEI 085-02	Eurofarm - centar d.o.o.	Health	Computerised Manufacturing Systems

UKF 2000-09-01/01	BAS-BiH-UKF 086-02	Vegafruit d.o.o.	Food & Beverages	Computerised Financial/ Management Information Systems
ECP 99-99-09-11/21	BAS-BiH-ECP 087-03	Sprind d.d.	Food & Beverages	Computerised Financial/ Management Information Systems
ECP 99-99-09-11/21	BAS-BiH-ECP 088-03	Vispak d.d.	Food & Beverages	Reorganisation/Restructuring
ECP 99-99-09-11/21	BAS-BiH-ECP 089-03	Golden Metro d.o.o.	Food & Beverages	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 090-03	Kontinental d.o.o.	Wood Processing/Furniture/Forestry	Computerised Financial/ Management Information Systems
ECP 99-99-09-11/21	BAS-BiH-ECP 091-03	Nobil d.o.o.	Textiles/Apparel/Footwear	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 092-03	Kristal d.o.o.	Glass/Rubber/Plastic	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 093-03	Unipromet d.d.	Wholesale/Retail Distribution	Market Analysis & Planning
ECP 99-99-09-11/21	BAS-BiH-ECP 094-03	Filing d.o.o.	Metals/Machinery/Equipment	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 095-03	Mir d.o.o.	Wood Processing/Furniture/Forestry	Engineering Studies
ECP 99-99-09-11/21	BAS-BiH-ECP 096-03	Ping d.o.o.	Electrical/Electronics/IT	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 097-03	FAIN d.o.o.	Construction/Engineering	Reorganisation/Restructuring
ECP 99-99-09-11/21	BAS-BiH-ECP 098-03	Energoinvest - SUE	Electrical/Electronics/IT	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 099-03	Fagus d.o.o.	Wood Processing/Furniture/Forestry	Reorganisation/Restructuring
ECP 99-99-09-11/21	BAS-BiH-ECP 100-03	Miral d.o.o.	Glass/Rubber/Plastic	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 101-03	Livnica A.D.	Metals/Machinery/Equipment	Engineering Studies
ECP 99-99-09-11/21	BAS-BiH-ECP 102-03	Opal Commerce d.o.o.	Wholesale/Retail Distribution	Computerised Financial/ Management Information Systems
ECP 99-99-09-11/21	BAS-BiH-ECP 103-03	BEPRO d.o.o.	Construction/Engineering	Computerised Financial/ Management Information Systems
ECP 99-99-09-11/21	BAS-BiH-ECP 104-03	Pivara Tuzla	Food & Beverages	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 105-03	TEO d.d.	Metals/Machinery/Equipment	To Introduce Quality Management & Certification
ECP 99-99-09-11/21	BAS-BiH-ECP 106-03	Ferimpex d.o.o.	Food & Beverages	Market Analysis & Planning
ECP 99-99-09-11/21	BAS-BiH-ECP 107-03	Elan Ros	Textiles/Apparel/Footwear	Engineering Studies
ECP 99-99-09-11/21	BAS-BiH-ECP 108-03	Furnir, Janj, Vakuf	Wood Processing/Furniture/Forestry	Engineering Studies
ECP 99-99-09-11/21	BAS-BiH-ECP 109-03	Termik	Wholesale/Retail Distribution	Computerised Financial/ Management Information Systems
ECP 99-99-09-11/21	BAS-BiH-ECP 110-03	Tegas	Metals/Machinery/Equipment	Computerised Manufacturing Systems
ECP 99-99-09-11/21	BAS-BiH-ECP 111-03	Tin	Wholesale/Retail Distribution	Feasibility Studies
ECP 99-99-09-11/21	BAS-BiH-ECP 112-03	Adria MM	Food & Beverages	Computerised Manufacturing Systems
ECP 99-99-09-11/21	BAS-BiH-ECP 113-03	Mladegspak	Food & Beverages	Computerised Manufacturing Systems
ECP 99-99-09-11/21	BAS-BiH-ECP 114-03	Stirokard	Construction/Engineering	Feasibility Studies
CEI -2003-07-01/09	BAS-BiH-CEI I 01/03	Baja Company d.o.o.	Textiles/Apparel/Footwear	To Introduce Quality Management & Certification
CEI -2003-07-01/09	BAS-BiH-CEI I 02/03	Metal a.d.	Metals/Machinery/Equipment	To Introduce Quality Management & Certification
CEI -2003-07-01/09	BAS-BiH-CEI I 03/03	Mahnjaca d.d.	Textiles/Apparel/Footwear	Computerised Manufacturing Systems
CEI -2003-07-01/09	BAS-BiH-CEI I 04/03	Alumina d.d.	Metals/Machinery/Equipment	To Introduce Quality Management & Certification
CEI 2001-10-04/02	BAS-BiH-CEI 115/03	New Sanatron	Electrical/Electronics/IT	Computerised Financial/ Management Information Systems
CEI 2001-10-04/02	BAS-BiH-CEI 116/03	Slatkom d.o.o.	Metals/Machinery/Equipment	Feasibility Studies
CEI 2001-10-04/02	BAS-BiH-CEI 117/03	Barpeh d.o.o.	Food & Beverages	To Introduce Quality Management & Certification
CEI 2001-10-04/02	BAS-BiH-CEI 118/03	Natura Vita d.o.o.	Food & Beverages	Reorganisation/Restructuring
CEI 2001-10-04/02	BAS-BiH-CEI 119/03	Eling ZL d.d.	Wood Processing/Furniture/Forestry	Engineering Studies

CEI -2003-07-01/09	BAS-BiH-CEI I 05/03	SBS d.o.o.	Food & Beverages	Market Analysis & Planning
CEI -2003-07-01/09	BAS-BiH-CEI I 06/03	Autocentar d.o.o.	Wholesale/Retail Distribution	To Introduce Quality Management & Certification
CEI -2003-07-01/09	BAS-BiH-CEI I 07/03	Prodex d.o.o.	Paper	Market Analysis & Planning
CEI -2003-07-01/09	BAS-BiH-CEI I 08/03	Narodno grijanje d.o.o.	Metals/Machinery/Equipment	Market Analysis & Planning
CEI 2001-10-04/02	BAS-BiH-CEI 120/03	Unis Tok d.o.o.	Metals/Machinery/Equipment	Reorganisation/Restructuring
CEI -2003-07-01/09	BAS-BiH-CEI I 09/03	A.D. Prijedor putevi	Construction/Engineering	Computerised Financial/Management Information Systems
CEI 2001-10-04/02	BAS-BiH-CEI 121/03	PZU Ibn Sina	Chemical/Pharmaceutical	Computerised Financial/Management Information Systems
CEI -2003-07-01/09	BAS-BiH-CEI I 10/04	Metalinvest d.o.o.	Metals/Machinery/Equipment	Engineering Studies
CEI 2001-10-04/02	BAS-BiH-CEI 122/04	Zimplast d.o.o.	Glass/Rubber/Plastic	To Introduce Quality Management & Certification
CEI 2001-10-04/02	BAS-BiH-CEI 123/04	Ambra d.o.o.	Glass/Rubber/Plastic	Market Analysis & Planning
CEI 2001-10-04/02	BAS-BiH-CEI 124/04	Drvoexport d.o.o.	Wood Processing/Furniture/Forestry	Feasibility Studies
CEI -2003-07-01/09	BAS-BiH-CEI I 11/04	Kras d.d.	Textiles/Apparel/Footwear	Computerised Manufacturing Systems
CEI -2003-07-01/09	BAS-BiH-CEI I 12/04	Pobjeda d.d.	Metals & Machinery	To Introduce Quality Management & Certification
CEI -2003-07-01/09	BAS-BiH-CEI I 13/04	Sconto-Prom d.o.o.	Textiles, Apparel, and Footwear	Computerised Manufacturing Systems
CEI 2001-10-04/02	BAS-BiH-CEI 125/04	Ukus d.d.	Wood Processing & Furniture	Reorganisation/Restructuring
CEI -2003-07-01/09	BAS-BiH-CEI I 14/04	TEO d.d.	Metals/Machinery/Equipment	Market Analysis & Planning
CEI -2003-07-01/09	BAS-BiH-CEI I 15/04	Ping d.o.o.	Electrical/Electronics/IT	Reorganisation/Restructuring
CEI 2001-10-04/02	BAS-BiH-CEI 126/04	Blagoleks d.o.o.	Chemical/Pharmaceutical	Engineering Studies
CEI -2003-07-01/09	BAS-BiH-CEI I 16/04	Kes d.o.o.	Construction/Engineering	Reorganisation/Restructuring
CEI 2001-10-04/02	BAS-BiH-CEI 127/04	Savicic d.o.o.	Wood Processing/Furniture/Forestry	Engineering Studies
UKF 2000-09-01/01	BAS-BiH-CEI 128/04	Spektar drink d.o.o.	Food & Beverages	To Introduce Quality Management & Certification
CEI 2001-10-04/02	BAS-BiH-CEI 129/04	Primus d.o.o.	Wholesale/Retail Distribution	Reorganisation/Restructuring
CEI 2001-10-04/02	BAS-BiH-CEI 130/04	Maxmara d.o.o.	Glass/Rubber/Plastic	Computerised Manufacturing Systems
CEI 2001-10-04/02	BAS-BiH-CEI 131/04	Javor A.D.	Wood Processing/Furniture/Forestry	Computerised Manufacturing Systems
CEI 2001-10-04/02	BAS-BiH-CEI 132/04	Vlasic Milk d.o.o.	Food & Beverages	Computerised Manufacturing Systems
CEI 2001-10-04/02	BAS-BiH-CEI 133/04	Ekskluziv	Textiles/Apparel/Footwear	Market Analysis & Planning
CEI 2001-10-04/02	BAS-BiH-CEI 134/04	Janjos d.o.o.	Wholesale/Retail Distribution	Computerised Financial/Management Information Systems
CEI 2001-10-04/02	BAS-BiH-CEI 135/04	Inmer d.o.o.	Food & Beverages	Market Analysis & Planning
CEI 2001-10-04/02	BAS-BiH-CEI 136/04	Enterijer A. D.	Wood Processing/Furniture/Forestry	Engineering Studies
CEI -2003-07-01/09	BAS-BiH-CEI I 17/04	IGM d.o.o.	Wood Processing/Furniture/Forestry	Engineering Studies
CEI 2001-10-04/02	BAS-BiH-CEI 137/04	Agrocentar d.o.o.	Food & Beverages	Engineering Studies
CEI -2003-07-01/09	BAS-BiH-CEI I 18/04	Janj d.d.	Wood Processing/Furniture/Forestry	Market Analysis & Planning
CEI 2001-10-04/02	BAS-BiH-CEI 138/04	Bajric d.o.o.	Food & Beverages	Market Analysis & Planning
CEI -2003-07-01/09	BAS-BiH-CEI I 19/04	Carmen Line d.o.o.	Textiles/Apparel/Footwear	Computerised Manufacturing Systems
CEI -2003-07-01/09	BAS-BiH-CEI I 20/04	Fabulas d.o.o.	Wholesale/Retail Distribution	Market Analysis & Planning
CEI 2001-10-04/02	BAS-BiH-CEI 139/04	Liko-Sas d.o.o.	Wood Processing/Forestry	Engineering Studies
CEI 2001-10-04/02	BAS-BiH-CEI 140/04	Pharmamed d.o.o.	Chemical/Pharmaceutical	Partner Search
NEBA-2004-12-01/01	BAS-BIH-NEBA 002/04	Zelena dolina d.o.o.	Food & Beverages	Computerised Financial/Management Information Systems
NEBA-2004-12-01/01	BAS-BIH-NEBA 001/04	Frukta trade d.o.o.	Wholesale/Retail Distribution	To Introduce Quality Management & Certification
NEBA-2004-12-01/01	BAS-BIH-NEBA 003/05	Primus d.o.o.	Wood Processing/Furniture/Forestry	Computerised Financial/Management Information Systems
NEBA-2004-12-01/01	BAS-BIH-NEBA 004/05	Celvik d.o.o.	Food & Beverages	To Introduce Quality Management & Certification
NEBA-2004-12-01/01	BAS-BIH-NEBA 005/05	Tesanjska vrela d.o.o.	Food & Beverages	To Introduce Quality Management & Certification

NEBA-2004-12-01/01	BAS-BIH-NEBA 006/05	Napredak d.d	Textiles/Apparel/Footwear	Computerised Manufacturing Systems
NEBA-2004-12-01/01	BAS-BIH-NEBA 007/05	Hercegtisak d.o.o.	Paper	Partner Search
NEBA-2004-12-01/01	BAS-BIH-NEBA 009/05	Soko Rashladna I klima tehnika d.d.	Metals/Machinery/Equipment	Computerised Manufacturing Systems
NEBA-2004-12-01/01	BAS-BIH-NEBA 010/05	Soko IPV d.d.	Metals/Machinery/Equipment	Computerised Manufacturing Systems
NEBA-2004-12-01/01	BAS-BIH-NEBA 011/05	Dioda -lexelektron d.o.o.	Metals/Machinery/Equipment	To Introduce Quality Management & Certification
NEBA-2004-12-01/01	BAS-BIH-NEBA 012/05	Meteortex d.o.o.	Textiles/Apparel/Footwear	Computerised Manufacturing Systems
NEBA-2004-12-01/01	BAS-BIH-NEBA 013/05	Printex d.o.o.	Electrical/Electronics/IT	Market Analysis & Planning
NEBA-2004-12-01/01	BAS-BIH-NEBA 014/05	Cicak d.o.o.	Metals/Machinery/Equipment	To Introduce Quality Management & Certification
NEBA-2004-12-01/01	BAS-BIH-NEBA 015/05	Top Wood d.o.o.	Wood Processing/Furniture/Forestry	Partner Search
NEBA-2004-12-01/01	BAS-BIH-NEBA 016/05	BNT Hidraulika d.d.	Metals/Machinery/Equipment	To Introduce Quality Management & Certification

## **1. MULTILATERAL ORGANISATIONS**

Main IFIs and multilateral donors present and actively working in Bosnia and Herzegovina are as follows:

### **1.1 European Commission (EC)**

Almost €2.5 billion of European Community funds have been committed to Bosnia and Herzegovina since 1991. From 1991 to 2000 humanitarian assistance provided by ECHO, the European Commission's Humanitarian Aid Office, totalled €1.032 billion. Between 1996 and 2000 BiH received assistance under the OBNOVA and Phare programmes amounting to €890.7 million. In addition, the EU member states contributed over €1.8 billion in assistance between 1996 and the end of 2001.

In 2001 the European Commission adopted a Country Strategy for BiH which covers the period 2002-2006 and provides a framework for EU assistance. Between 2001 and 2004 assistance of €312.1 million has been committed under the CARDS (Community Assistance for Reconstruction, Development and Stabilisation) Programme, supporting BiH's participation in the Stabilisation and Association Process. A further €100.4 million is planned in 2005-2006. Future funding after 2007 will be based on a Commission proposal for a new Instrument for Pre-Accession (IPA) that would also include financing of large scale infrastructure and rural development.

Since 2002, the EU financial assistance provided through CARDS underpins the objectives and mechanism of the "Stabilisation and Association Process", while the 2005-2006 strategy will focus on the implementation of the "European Partnership" approved by the EU in March 2004. In April 2004, the EC has adopted its "2004 Annual CARDS programme for BiH" (amended in December 2004): some €72 million has been allocated to address five main areas of intervention: justice and home affairs (€25.5 million); democratic stabilisation (€7.5 million); administrative capacity building (€23.5 million); economic and social development (€14.1 million); and environment (€1.4 million).

The "Infrastructure Steering Group" recently informed the EBRD that – for the period 2005-2006, EC funds in the amount of €10 million will be utilised to support IFI-developed investment projects in the sectors of Transport – WWTP – Energy, under the CARDS Regional Programme.

For the period 1996-2004, EU funding of €6.0 million has financed 11 TC assignments in the frame of the "EBRD TC Fund" (see also *Annex 6 – Technical Cooperation Projects*). These have led to the signing of projects with EBRD funding of €65.8 million and a total project value of €316.3 million. The projects have helped to develop financial institutions, the energy sector, transport and telecommunications infrastructure. Some €52 has been mobilised for every euro provided as EU funding in BiH.

EU funds in the amount of €45.8 million have also been used to officially co-finance EBRD investments in the Country.

**Table 1: EC funds used for co-financing EBRD projects**

<b>Project</b>	<b>Sector</b>	<b>Amount (€ million)</b>
Emergency transport reconstruction	Transport	14.4
Emergency power system reconstruction	Energy	14.0
ProCredit Bank Bosnia (formerly MEB)	Financial institutions	10.9
Telecommunications emergency reconstruction	Telecommunications	6.5
<b>TOTAL</b>		<b>45.8</b>

During the new strategy period, the EC intends to allocate an additional €4 million for the design of the joint EBRD/EIB railways project which is currently under preparation.

## **1.2 European Investment Bank (EIB)**

EIB started its operations in BiH in 2000 and signed four projects amounting to €185 million. In the public sector EIB has approved €40 million for emergency railway recovery project, €60 million towards electric power reconstruction (part of Power III) and €60 million for road rehabilitation and construction. In the private sector a corporate loan in the amount of €25 **million** has been extended to Lukavac Cement Factory. Furthermore a global loan to Raiffeisen Bank in the amount of up to €30 million was approved in December 2004 towards financing SMEs as well as small infrastructure projects.

EBRD works closely with the EIB in the public sector. The most recent example is the joint preparation of a new regional railway project in BiH as explained in Section 3.2.3.1 above. EIB is also contemplating to commit additional funds for roads sector in Republika Srpska in the amount of €48 million to complement the funds already approved by EBRD.

## **1.3 World Bank (WB)**

BiH became a member of the World Bank 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.

Since 1996, the World Bank in BiH has financed 51 projects for a total commitment of US\$ 1,091 million. These include 8 adjustment loans worth US\$ 424 million and 43 investment projects for US\$ 667 million. Of the 51 operations, 31 have been completed as of November 30, 2004. These credits have been disbursed under standard IDA terms, repayable in 35 years, including a 10 year grace period, without interest, and with 0,75 per cent servicing fee.

The World Bank's current portfolio in BiH comprises 18 active investment projects, totalling about US\$ 370 million (of which approximately US\$ 223 million remains to be disbursed) as well as two grants worth US\$ 742,490.

Recently, the WB has announced that BiH is at risk of losing US\$ 108 million of WB funds due to slow implementation of key social and economic reforms under three adjustment credits (Business Enabling Environment Structural Adjustment Credit - BAC, Second Social Sector Structural Adjustment Credit - SOSAC II, and Economic Management Structural Adjustment Credit – EMSAC).

The World Bank's new assistance strategy for BiH, approved in September 2004, explicitly supports BiH's own Medium Term Development Strategy (MTDS) and identifies a base case lending program of US\$ 152 million in the next three years.

The EBRD is working closely with the WB in a number of areas including project implementation and reforms in the energy sector, possible co-financing in municipal projects and privatisation of Telekom Srpske (where the WB PTAC facility is providing funding for the privatisation advisors).

#### **1.4 International Finance Corporation (IFC)**

Since BiH became a member in 1996, IFC has committed more than US\$ 137 million of its own funds and has arranged over US\$ 10 million in syndications for projects in the country. 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 launched its advisory program in BiH with support to the wood processing industry in 1996, and remained active in the sector with several projects until 2002. In general manufacturing, IFC continues to provide technical support in operations, financial management, and health and safety standards to growing SMEs.

IFC advisory projects in BiH include restructuring of PBS Bank funded by the Government of Sweden (2002-2003) and advisory programme for Bosnalijek funded by the Government of Italy (2001-2003).

IFC is managing the Southeast Europe Enterprise Development (SEED), based in Sarajevo, a multi-donor SME assistance programme (US\$ 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 SMEs' needs; and improvement of the business enabling environment.

During 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 has worked with IFC in the Sarajevska Pivara project and is co-shareholders in ProCredit bank and Horizonte venture capital fund. The BAS and TAM programmes are liaising with SEED.

## **1.5 International Monetary Fund (IMF)**

BiH became member of IMF as a successor of ex-Yugoslavia in December 1992. BiH has had a series of short-term, stand-by arrangements (SBA) with the IMF over the past years, with the latest one successfully completed more or less on time over one year ago. Negotiations for a new SBA have started and discussions are currently on-going. Provided solutions are found for a number of outstanding issues (domestic debts, war-related claims on municipalities, fiscal costs), the new SBA is planned to be signed by mid-2005.

## **2. BILATERAL ASSISTANCE**

### **2.1 EBRD TC funds donors**

BiH will remain among the priority countries for a wide number of bilateral donors as well as for the EC. In 2005, funds in the range of €5-6 million could be made available, mainly by donors who are particularly interested in the region such as Austria, Canada, Italy, France, and the Netherlands.

*Austria* has recently signed an agreement for the establishment of a framework agreement to support MEI activities in SEE countries including BiH. BiH is a priority country under the *Canadian CIDA SEE Fund*. Specific interest continues in TC funding for micro-credit and infrastructure development. *France* shows specific interest in the region and plans to finance the preparation of a state wide transport sector policy and strategy in BiH under the Bank's new roads project (€395,000). *Greece* has funds in the amount of €650,000 that are uncommitted and potentially available for TC Projects in BiH.

BiH is also a priority country for *Italy*. In 2004 the Bank signed the "Administration Agreement" for "The Italian Trust for the Western Balkans". This is a new fund established with the aim to address the needs of Western Balkans countries (including BiH) in the sectors of private sector development, energy and transport infrastructures.

*The Netherlands* will provide funds up to an amount of €1,380,000 to be used for financing of technical co-operation to be provided to selected micro, small and medium-sized enterprises in BiH and FYR Macedonia to enhance the competitiveness and sustainability of such enterprises using specific and practical business advice such as upgrading information technology systems, market research and analysis, introduction of quality management systems, business planning and operating overhead for the BAS Programme.

The *Swiss CTF Fund* has been recently replenished, and BiH is considered among priority countries in the frame of possible co-financing activities. There is also interest

in official co-financing in infrastructure financing, SME investment promotion and trade promotion.

## **2.2. Bilateral Donors**

A more detailed breakdown of overall bilateral donor support to BiH is presented below:

### **Austria**

The funds for the Austrian Development Cooperation and Cooperation with Eastern Europe (ADC) in the Federal Ministry for Foreign Affairs represent the core of a feasible Austrian bilateral support. Overall assistance to BiH by end-2004 amounted to €57.7 million.

During 1992–1995 Austria supported BiH with large-scale programs, especially in the area of humanitarian aid. Additional funds from the Federal Government and Austrian Federal States, as well as from private sources, were provided for projects as part of a charity action called “A Neighbour in Trouble”.

As the country that accepted the largest number of BiH refugees (compared to the number of citizens in Austria), Austria also helped through financing programs to take care of the refugees, including scholarships.

The core of ADC activities from the beginning was reconstruction of a multi-ethnic society of BiH. In accordance to that, the central Bosnia, as ethnically most mixed region, was selected to be the geographical focal point and Austria is the only country that has supported the return of minorities in that region since 1996. The programmatic focuses were (in addition to refugee return) water management, higher education and SMEs. There are long-term partnerships with different communities and universities in BiH, enriched through new cooperation with the local non-governmental organizations (NGOs).

Further Austrian engagement in BiH includes participation in military presence and European Union Police Mission, as well as cooperation in OHR and other international organizations. From 1999 to 2002, Wolfgang Petrisch, an Austrian diplomat, was the High Representative of the International Community in BiH.

### **Canada**

CIDA has been heavily engaged in BiH, disbursing over CAN\$ 130 million since 1994. Canada has played a significant role in the areas of health, policing, mine action, human rights, refugee return, and energy. CIDA's assistance has evolved from its initial concentration on emergency reconstruction to focus on political and economic transition and social development.

CIDA has played and is still playing a significant part in a multi-donor initiative to help BiH reform the energy sector (Third Electric Power Reconstruction Project - CAN\$ 1.5 million), as well as working regionally, through the “South East European Electrical Support Project” (SEETEC).

In support of EBRD's South Eastern Europe Action Plan and Stability Pact activities, CIDA established two complementary Trust Funds in 2000 for both technical assistance and co-financing activities that are tied to the use of Canadian expertise. The two funds are the CIDA-EBRD Co-operation Fund for South Eastern Europe (CFSEE) and the Balkans Regional Special Fund (BRSF). The Funds cover Albania, Bosnia and Herzegovina, Croatia, Macedonia, Serbia and Montenegro (and Kosovo), Romania and Bulgaria.

Projects specific to BiH included: Railways Recovery (CAN\$ 1,950,000); Banja Luka Water Supply (CAN\$ 1,040,000); Accounts Strengthening and Business Planning (CAN\$ 800,000); and Regional Standard Setting for Charges Registers (CAN\$ 44,000).

Future programming is reflective of the priority needs as defined by the BiH Government's Medium Term Development Strategy. CIDA is consolidating its programming in three key sectors: rule of law, health, and education.

CIDA is currently developing a new CAN\$ 17 million Health Program and a new CAN\$ 10 million Judicial System Reform Program. CIDA is also providing support to UNDP's Integrated Mine Action Program (IMAP) in BiH (CAN \$4.5 million).

## **France**

In the period 1996-2003 France's overall reconstruction assistance to BiH amounted to €19 million. Various projects included the rehabilitation of the Sarajevo airport, repairs to the railway from Sarajevo to Mostar and improvement of the electricity distribution network in Sarajevo.

## **Germany**

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

The bulk of the German assistance is directed through KfW (financial assistance) and GTZ (technical assistance).

## **Kreditanstalt für Wiederaufbau (KfW)**

KfW's activities in BiH include the management of the European Fund for Bosnia and Herzegovina (EFBH) on behalf of the European Union and other donors as well as the implementation of projects in the framework of the German Financial Cooperation with BiH on behalf of the German Ministry of Economic Cooperation and Development (BMZ).

EFBH was established by KfW in 1998. The EFBH offers three lending programmes: Housing Loan Programme, SME Loan Programme and Rural Lending Programme. The European Union as well as the governments of Germany, Austria, Switzerland, the Netherlands (through FMO) and the Council of Europe Development Bank have provided the EFBH with capital amounting to €58 million to date. Out of this amount €3.8 million has been committed to technical assistance component to the participating

financial institutions, aiming to upgrade their loan departments and improve credit decision-making process.

Further in the financial sector through €5.1 million provided by the German government, KfW created a loan guarantee fund to enable qualified local banks to refinance themselves at favourable conditions on the international capital market. KfW assumes the liability for an additional €5.1 million to provide a guarantee cover of a total €10.2 million. Guarantees are made available to international banks which provide credit lines to BiH banks for on-lending to SMEs. Thus far, guarantees have been issued for ProCredit Bank and Raiffeisen Bank BiH. An additional increase of the Credit Guarantee Fund in the amount of €5.1 million is envisaged.

With funds provided by the German government totalling €7.6 million, KfW also co-capitalised the Deposit Insurance Agency on the state-level with the goal to establish a stable, deposit insurance system and to foster trust in the banking sector. The Agency receives technical assistance through GTZ.

In addition, KfW is currently preparing a municipal lending project amounting to €9 million. The project's objective is to develop municipal lending via BiH's commercial banking sector and thereby to improve the municipal infrastructure. The project is envisaged to be launched in the second half of 2005. Furthermore KfW is financing with German government funds in the amount of €3.8 million the upgrading of the water supply in the Municipality of Kakanj. A second water and sanitation programme has been commenced recently for several municipalities in the Una-Sana region amounting to € 14 million. The programme comprises currently 7 municipalities.

In the energy sector more than €7.1 million has been provided to support rehabilitation measures at the Trebinje Hydro Power Station. The investment measures are closely coordinated with the Third Electric Power Reconstruction Programme (Power III).

## **Italy**

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

By end 2003, Italy's direct contributions to support the recovery and development of BiH have reached €179 million. Of these, €46 million regards initiatives approved in the period 2001-2002.

## **Japan**

Japanese bilateral assistance to BiH began during the 1992-95 conflict with refugee and other humanitarian assistance, which reached c. USD 1.8 million.

Following the Dayton Accords, Japan pledged a total of c. USD 500 million for rehabilitation and reconstruction assistance. This represented the second largest bilateral contribution.

At the end of FY 2003 (March 2004), total cumulative commitments of bilateral official development assistance (ODA) consisted of JPY 22.5 billion of (bilateral) grants, a yen

loan of JPY 4.1 billion to the power sector signed in 1998, and USD 241.1 million of multilateral assistance (grants channelled through international organisations). This excludes contributions to the budget of the Office of the High Representative, further grants under a grass-roots assistance scheme, and technical assistance (various traineeships in Japan and experts sent to BiH).

According to OECD-DAC figures, Japan was the third largest bilateral donor in 1998 (USD 57.3 million), and the fifth largest in the previous year (USD 34.3 million).

### **Netherlands**

Total assistance of the Netherlands to BiH until 31 December 2004 has reached around €590 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 NOK 100 million were used for institutional building, economic development, some infrastructure projects and mine clearance.

### **Portugal**

Portugal's assistance by end 2003 has been €4.4 million for schools and railways rolling stock.

### **Slovenia**

In the period between 1992 and 1999 Slovenia provided to BiH approximately US\$ 135 million for humanitarian aid. Technical assistance in years 2001 and 2002 was €1.46 million. Support is being provided in the areas of SME business development and co-operation, training programs, research programs and trough Centre of Excellence in Finance. TC projects are mostly coordinated 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**

Sweden has provided assistance to BiH since 1992. By the end of 2004, Sweden has provided approximately €310 million, excluding contributions for UNPROFOR/IFOR/SFOR troops and the support channelled through the UN. Today Sweden is among the largest bilateral donors in BiH. Initially the support was concentrated on humanitarian aid. The biggest part of the assistance has been provided for Integrated Area Programmes (IAP) aiming at sustainable return. The IAP has enabled some 45, 000 persons to return to their homes and over 13,000 houses have been reconstructed. Support for human rights and democracy has primarily concentrated on strengthening the civil society with informal education regarding human rights and democracy as well as support to independent media. Support to private sector aims at strengthening of market-based systems by supporting micro credit institutions, regional economic development systems and other initiatives designed to improve overall business environment. A sector of increased importance for Swedish

support is institution building. Financing has been provided to land survey institutions, statistic institutions, public audit, State Border Service and the police institutions. Two important ongoing programmes are the programme in the area of Public Administration Reform (PAR), a joint cooperation between EC, Sida and DFID, and a joint programme between USAID and Sida called Governance Accountability Programme (GAP) targeting 40 out of the country's 143 municipalities.

Future Swedish support to BiH shifts from post-war reconstruction and direct peace building to sustainable social, economic and political development and future EU accession. Three key arenas may be identified: (i) creating conditions for sustainable and broad-based economic growth and social development; (ii) reforming the institutional framework and public sector; and (iii) continued national integration, economically, socially, institutionally, and politically.

### **Switzerland**

With a total budget of EUR 220 million, Switzerland was the fourth largest bilateral donor in Bosnia and Herzegovina during the period 1996-2003. During the war, from 1991 up to 1995, Switzerland contributed €96.6 million for emergency assistance and humanitarian aid in Croatia and Bosnia and Herzegovina. From 1996 to 1998, a special programme for Bosnia and Herzegovina was implemented with a focus on humanitarian aid and reconstruction.

On the basis of experience gained in the humanitarian phase and with partly the same implementation structure, a first mid-term programme for Bosnia and Herzegovina was developed in 1999. It shifted emphasis from humanitarian aid to longer-term development cooperation under the overall goal of transition and reconciliation. The sheer numbers of refugees and displaced persons, together with the need to stabilize the region, put Bosnia and Herzegovina high on the Swiss political agenda. Therefore, €33.3 million were earmarked for Bosnia and Herzegovina. The Medium-Term Programme 2000-2003 of SDC and SECO bundled the multitude of activities started under the special programme into various domains focusing on improvements in the social and economic situation and supporting institutional reforms.

The new Medium-Term Programme 2004-2008 essentially carries on the overall goals and strategies of the former programme. More specifically, the new programme focuses on three domains of activities – Private Sector Development, Governance and Basic Services and Social domain – as well as on the Regional Programmes, Transversal Themes Youth and Promotion of Change Processes. The new transversal theme, Promoting Change Processes, will contribute to meeting various challenges and consequences arising from the transition process. The budget for the entire Medium-Term Programme 2004-2008 is €63.3 million (i.e. € 12.8 million per annum).

### **United Kingdom**

DFID has been active in BiH since 1993. From 1993 to 1996 emergency and humanitarian relief was provided through a Bosnia-based Emergency Task Force as well as through other international relief agencies. Since 2000, DFID has focused on supporting structural reform and institutional development, primarily through working strategically with other donors and agencies, particularly the EC and the World Bank.

In the period between 1993 and 2003, DFID provided bilateral aid totalling GBP 80 million.

DFID's current bilateral programme supports work in the following areas: civil service reform; the PRSP process; Medium Term Expenditure Framework (MTEF); public broadcasting system; social and health insurance policy; social policy reform; business registration; corporate restructuring; power sector; and support to the OHR.

In line with the strategy set out in the Regional Assistance Plan for the Western Balkans 2005-2009 (RAP), DFID will be narrowing the focus of their bilateral programme and exit by end 2005 from initiatives which are less central to the RAP, such as business registration and power sector reform.

Available resources for the implementation of RAP objectives in BiH amount to GBP 16.5 million (2003/04 GBP 6.0 million; 2004/05 GBP 5.9 million; 2005/06 GBP 4.5 million).

As the prospect of future EU accession is a major driver of reform in BiH, DFID's future assistance will focus specifically on working with the donor partners towards ensuring that EU accession policies and programmes recognise and support the Government's economic and social development strategy.

DFID will continue to work closely with multi-lateral partners to agree and implement a common agenda for improved aid effectiveness in BiH.

### **United States of America**

The United States Government has provided nearly US\$ 1 billion to date for the reconstruction of BiH. The US foreign assistance programme, implemented primarily by the US Agency for International Development (USAID) 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 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 US\$ 1 billion in humanitarian assistance to the former Yugoslav republics since 1991.

## ANNEX 9 - SOCIAL AND ECONOMIC INDICATORS

BOSNIA AND HERZEGOVINA	1999	2000	2001	2002	2003	2004	2005
						<i>Estimate</i>	<i>Projection</i>
<b>Output and expenditure</b> <span style="float: right;"><i>(Percentage change in real terms)</i></span>							
GDP	9.6	5.5	4.4	5.5	4.0	5.0	5.0
Total consumption	na	na	na	na	na	na	na
Gross fixed capital formation	na	na	na	na	na	na	na
Industrial gross output	12.1	9.4	-2.0	11.5	3.8	na	na
Agricultural gross output	na	na	na	na	na	na	na
<b>Employment</b> <span style="float: right;"><i>(Percentage change)</i></span>							
Labour force (end-year)	-0.9	2.1	-1.3	3.1	1.3	na	na
Employment (end-year)	-3.1	1.6	-2.3	1.9	-0.6	0.2	na
			<i>(In per cent of labour force)</i>				
Unemployment (end-year)	39.3	39.6	40.3	40.9	42.0	41.0	na
<b>Prices and wages</b> <span style="float: right;"><i>(Percentage change)</i></span>							
Consumer prices (annual average)							
Federation (KM based)	-0.9	1.9	1.9	-0.2	-0.5	0.8	na
Republika Srpska (KM based)	14.1	14.0	7.0	1.7	1.9	1.4	na
Consumer prices (end-year)							
Federation (KM based)	-1.0	4.0	2.4	0.7	-0.3	na	na
Republika Srpska (KM based)	14.0	16.0	2.5	2.4	0.2	na	na
Gross average monthly earnings in economy (annual average)							
Federation	5.2	8.3	-43.0	na	na	na	na
Republika Srpska	-52.7	-17.0	-25.4	na	na	na	na
<b>Government sector</b> <span style="float: right;"><i>(In per cent of GDP)</i></span>							
General government balance	-4.8	-3.1	-2.5	-2.4	-0.2	-0.9	0.0
General government expenditure	65.0	56.8	52.2	50.4	46.9	46.6	44.4
<b>Monetary sector</b> <span style="float: right;"><i>(Percentage change)</i></span>							
Broad money (M2, end-year)	39.9	13.9	89.3	8.6	9.5	8.1	8.3
Domestic credit (end-year)	-1.3	10.0	5.2	28.2	21.5	12.9	5.7
			<i>(In per cent of GDP)</i>				
Broad money (M2, end-year)	25.2	24.5	42.6	43.5	45.6	46.5	46.9
<b>Exchange rates</b> <span style="float: right;"><i>(KM per euro)</i></span>							
Exchange rate (annual average) <sup>1</sup>	2.0	2.0	2.0	2.0	2.0	2.0	2.0
<b>External sector</b> <span style="float: right;"><i>(In millions of US dollars)</i></span>							
Current account	-837	-621	-811	-1,035	-1,329	-1,567	-1,538
Trade balance	-1,852	-1,715	-1,831	-2,076	-2,543	-2,855	-2,800
Merchandise exports	831	832	870	1,046	1,407	1,715	2,100
Merchandise imports	4,126	2,547	2,701	3,122	3,950	4,570	4,900
Foreign direct investment, net <sup>2</sup>	177	150	130	230	320	420	540
Gross reserves, excluding gold (end-year)	455	497	1,221	1,279	1,725	1,714	1,764
External debt stock	3,095	2,814	2,382	2,523	2,572	2,500	2,600
			<i>(In months of imports of goods and services)</i>				
Gross reserves, excluding gold (end-year)	1.3	2.2	5.1	4.6	4.9	4.2	4.0
			<i>(In per cent of exports of goods and services)</i>				
Debt service	13.8	12.1	6.2	8.5	7.8	6.6	6.1
<b>Memorandum items</b> <span style="float: right;"><i>(Denominations as indicated)</i></span>							
Population (end-year, million) <sup>3</sup>	3.8	3.8	3.8	3.8	3.8	3.8	3.8
GDP (in millions of KM)	8,603	10,054	10,959	11,650	12,170	12,911	13,861
GDP per capita (in US dollar)	1,231	1,247	1,320	1,477	1,849	2,158	2,450
Share of industry in GDP (in per cent)	na	na	na	na	na	na	na
Share of agriculture in GDP (in per cent)	na	na	na	na	na	na	na
Current account/GDP (in per cent)	-17.9	-13.1	-16.2	-18.4	-18.9	-19.1	-16.5
External debt - reserves (in US\$ million)	2,640	2,317	1,161	1,244	847	786	836
External debt/GDP (in per cent)	66.2	59.4	47.5	45.0	36.6	30.5	27.9
External debt/exports of goods and services (in per cent)	268.9	218.5	183.7	171.9	135.8	111.3	99.2

<sup>1</sup> Since August 1997 Bosnia and Herzegovina has had a common Central Bank.

The new currency, the convertible mark (KM), was initially pegged to the Deutschmark at 1:1 under currency board rules. This is equivalent to approximately 1.96 per euro.

<sup>2</sup> Excludes capital transfers for reconstruction.

<sup>3</sup> Excludes refugees abroad.

