

PUBLIC

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

STRATEGY FOR BOSNIA AND HERZEGOVINA

**REPORT ON THE INVITATION
TO THE PUBLIC TO COMMENT**

PUBLIC

1. INTRODUCTION

The objective of this report is to summarise the key comments received from stakeholders during the consultation period dedicated to the Bank's Strategy for Bosnia and Herzegovina and provide the Bank's management responses to these. The comments received during the public consultation period were reviewed by the Bank's management and reflected in the Strategy as appropriate.

In accordance with the EBRD Public Information Policy (PIP), the draft strategy for Bosnia and Herzegovina was posted on the EBRD website in English and Bosnian for 45 calendar days from 3 May 2017. The public was invited to submit comments on the draft strategy no later than 16 June 2017. For information, the previous strategy was also made available on the website in English and Bosnian, at <http://www.ebrd.com/where-we-are/bosnia-and-herzegovina/overview.html>.

Information about the public consultation process was posted on the EBRD's dedicated webpage "Have your say", which highlights the latest opportunities for the public to comment on the Bank's policies and strategies under review. In addition, targeted notifications of the consultation process were sent to local and international civil society organisations (CSOs) that have expressed interest in the Bank's work in the country. The start of the review process was also advertised through social media platforms (e.g. Facebook and Twitter).

One letter on the draft strategy for Bosnia and Herzegovina was received during the public consultation period.

In line with the Bank's increased efforts to involve civil society at an early stage of country strategy development, the EBRD organised a consultative meeting with CSOs on 15 March 2017 to gather civil society's feedback during the preparatory phase leading to the draft strategy. The consultation provided a platform for dialogue between civil society representatives and EBRD staff involved in the strategy preparation process. A summary of the meeting and list of participating organisations are provided in the Annex to this report.

2. PUBLIC COMMENTS AND STAFF RESPONSES

Reference	Comment	EBRD Response
Operational environment		
Business climate	<p>The CSO comment recommends an improvement of the business climate, in particular for SMEs – including through fiscal breaks and incentives, such as the introduction of a VAT cash accounting scheme. According to the CSO, this would require amendments to national legislation, in line with EU and regional laws and regulations.</p> <p>The CSO considers that it is necessary to improve the planning process, as well as the transparency and coordination of different levels of government involved in awarding budgetary incentives, and to define a system that would improve the accountability of relevant institutions and beneficiaries.</p>	<p>The EBRD fully agrees on the importance of a good business environment for the sustainable development of the private sector. The EBRD will promote improvement of the business climate in Bosnia and Herzegovina – through its Investment Climate and Governance Initiative, under which a number of targeted projects will be initiated with the objective of reducing barriers to doing business, including the establishment of an Investment Council.</p> <p>Within its remit, EBRD provides support for addressing systemic long-term legal and institutional reforms that create a more attractive investment climate for both domestic and foreign investors, with specific measures to be discussed.</p>
Strategic Directions		
SME Support	<p>The CSO comment calls for a strong and sustainable development of the SME sector.</p>	<p>Under its first strategic priority, the EBRD will enable capacity-building and scaling up of the private sector by promoting a robust and capable SME sector (including women-led companies), improved skills and quality standards for SMEs and an improved investment climate for SMEs.</p> <p>Within the framework of the Small Business Initiative, one of the EBRD's strategic initiatives launched in 2013, the EBRD will support the SME sector through providing access to finance and know-how.</p>

		<p>The Bank will promote demonstration of best practices via broad engagement with select SMEs, using advisory service to enhance core competencies and build SME capacity with a view to support SMEs to grow further and increase their investment readiness.</p> <p>The EBRD will also provide specialised SME on-lending frameworks (to complement general purpose SME lending) via partner banks, e.g., scaling up Women in Business and further supporting improved competitiveness of SMEs, as well as direct financing with bankable private enterprises, specifically within the framework of the WB EDIF Enterprise Expansion Fund (ENEF).</p>
Environmental and Social Implications of Bank Proposed Activities		
Economic inclusion	<p>The CSO comment urges for creation of new jobs, in particular for youth, marginalized groups and the long-term unemployed.</p> <p>The CSO also calls for enhanced support for youth in starting their own businesses and becoming self-employed, including through access to finance, skills and long-terms support.</p> <p>The CSO also recommends that employers should be given financial incentives to hire unemployed youth, including in the form of tax and salary contributions exemptions for young employees during their first year of employment.</p>	<p>In light of the major inclusion challenges facing Bosnia and Herzegovina, including the high level of youth unemployment (close to 60 per cent), the Bank will seek to promote inclusive growth at the project level. In this context, the Bank will specifically focus on addressing the challenges that young people face in obtaining the skills that are needed in the labour market and accessing decent employment or entrepreneurship opportunities on this basis. An additional focus will be on populations in less advanced regions within the country. Gender considerations are mainstreamed across the EBRD's activities.</p>

Summary of EBRD meeting with civil society – 15 March 2017, Sarajevo

On 15 March 2017, the EBRD Resident Office in Sarajevo hosted a consultation with civil society representatives to discuss the Bank's Country Strategy for Bosnia and Herzegovina. The event was attended by five participants from local civil society organisations, including the Mozaik Foundation, Initiative for Better and Humane Inclusion, Center for Environment, and Social Inclusion Foundation in Bosnia and Herzegovina.

Following a presentation of the Bank's activities and key operational priorities in the forthcoming EBRD strategy, the floor was opened for a roundtable discussion on a wide range of topics, including sustainable energy and environmental issues, economic and social inclusion, private sector development, as well as transparency and good governance.

Participants welcomed the Bank's approach in consulting civil society at an early stage of the country strategy process and encouraged the Bank to pursue dialogue with civil society as part of institutional decision-making processes. CSO representatives furthermore broadly endorsed the main operational priorities set forth in the upcoming Country Strategy for Bosnia and Herzegovina.

Sustainable energy and environmental issues

Civil society representatives claimed that there was a significant lack of implementation capacity at the level of state and local governmental institutions with regard to environmental legislation and regulations. In particular, CSOs pointed to a lack of adequate Environmental Impact Assessments (EIAs) for hydropower plants, despite EU legislation being adopted. Civil society in Bosnia and Herzegovina also raised concerns about the high energy intensity of the country, and low level of energy efficiency in both the industrial and the residential sectors. CSOs moreover highlighted the importance of renewable energy diversification, especially as regards wind and solar energy.

The EBRD has helped achieve progress in enacting legislative framework for promotion and development of renewable energy in both entities, the introduction of feed-in tariffs and reduction of CO₂ emissions by 47 Kt/year with energy savings of 649,850 GJ/y. Under its strategic priorities in Bosnia and Herzegovina, the EBRD will moreover support energy efficiency in the residential and public sector and renewable energy generation, including through the pursuit of bankable renewable energy generation projects with reputable sponsors, leveraging regional Western Balkans energy schemes, supporting the rehabilitation of existing grids to stem electricity losses, as well as potential assistance in promoting gasification and advisory to improve regulatory frameworks for renewable energy.

Economic inclusion

CSO participants pointed to large regional gaps with respect to the quality of institutions in Bosnia Herzegovina. They further drew attention to the fact that the share of the population in employment was one of the lowest in the Western Balkans, with low overall labour participation, and in particular high youth unemployment. Civil society representatives also highlighted that there were significant gender inclusion gaps as regards both employment and entrepreneurship. CSOs claimed that social exclusion and poverty persist and there were no state-level strategies to address these issues.

In light of the major inclusion challenges facing Bosnia and Herzegovina, including the high level of youth unemployment (close to 60 per cent), the Bank will seek to promote inclusive growth at the project level. In this context, the Bank will specifically focus on addressing the challenges that young people face in obtaining the skills that are needed in the labour market and accessing decent employment or entrepreneurship opportunities on this basis. An additional focus will be on populations in less advanced regions within the country. Gender considerations are mainstreamed across the EBRD's activities.

Economic competitiveness and private sector development

Civil society organisations expressed concern about the business climate and private sector competitiveness in Bosnia and Herzegovina. According to CSOs, there were several factors constraining the development of the private sector in the country (in particular for SMEs), including the poor business climate, improper procurement procedures, and the shortage of business skills in some regions of the country. Civil society stakeholders claimed that access to finance remains limited for SMEs, especially for companies located outside the more advanced regions. Social enterprises and young entrepreneurs were also facing particular difficulties in accessing credit due to lack of collateral.

Under its first strategic priority, the EBRD will enable capacity-building and scaling up of the private sector by promoting a robust and capable SME sector (including women-led companies), improved skills and quality standards for SMEs and an improved investment climate for SMEs. Within the framework of the Small Business Initiative, one of the EBRD's strategic initiatives launched in 2013, the EBRD will support the SME sector both through providing access to finance and know-how. The Bank will promote demonstration of best practices via broad engagement with select SMEs, using advisory service to enhance core competencies and build SME capacity with a view to support SMEs to grow further and increase their investment readiness. The EBRD will also provide specialised SME on-lending frameworks (to complement general purpose SME lending) via partner banks, e.g., scaling up Women in Business and further supporting improved competitiveness of SMEs, as well as direct financing with bankable private enterprises.

Transparency and good governance

Civil society representatives raised concerns about transparency and governance in Bosnia and Herzegovina. After sustained pressure from CSOs, the government joined the Open Government Partnership, an international initiative that aims to secure concrete commitments from governments to promote transparency and fight corruption. Although public authorities are perceived to have made progress over the last years in tackling the problem, corruption remains a serious issue of concern and is regarded by citizens and civil society as a widespread phenomenon. CSOs in Bosnia and Herzegovina consider that the EBRD and other international financial institutions should maintain the highest standards of transparency and accountability in the selection of business partners for their projects.

The EBRD will promote improvement of the business climate in Bosnia and Herzegovina – through its Investment Climate and Governance Initiative, under which a number of targeted projects will be initiated with the objective of reducing barriers to doing business, including the establishment of an Investment Council. The EBRD follows its own rigorous internal processes before deciding to invest and during any project implementation, and takes very seriously the need to balance the merits of its potential projects with its focus on integrity due diligence. This covers companies and sponsors, as well as significant contractors and other possible beneficiaries of any Bank support.

List of participating organisations to the consultation meeting in Sarajevo on 15 March 2017

1. Mozaik Foundation
2. Initiative for Better and Humane Inclusion
3. Center for Environment
4. Social Inclusion Foundation in Bosnia and Herzegovina