

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

**STRATEGY FOR
BOSNIA AND HERZEGOVINA
2010 - 2013**

As approved by the Board of Directors at its meeting on 28 September 2010

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LIST OF ABBREVIATIONS

BAS	Business Advisory Services
BEEPS	Business Environment and Enterprise Performance Survey
BiH	Bosnia and Herzegovina
CEB	Council of Europe Development Bank
ECT	Energy Community Treaty
EIB	European Investment Bank
EU	European Union
EUSR	European Union Special Representative
FBH	Federation of Bosnia and Herzegovina
FDI	Foreign Direct Investment
FOPIP	Financial and Operation Improvement Programme
GDP	Gross Domestic Product
ICT	Information and Communication Technologies
IDP	Internally Displaced Persons
IFI	International Financial Institution
IMF	International Monetary Fund
LEF	Local Enterprise Facility
MEI	Municipal and Environmental Infrastructure
MFI	Microfinancial Institution
MSME	Micro, Small and Medium-sized Enterprise
NBFI	Non-Bank Financial Institution
OHR	Office of the High Representative
RES	Renewable Energy Sources
RS	Republika Srpska
SEECIP	South East Europe Cooperation Process
SBA	Standby Agreement
SME	Small and Medium-sized Enterprise
TAM	Turn-Around Management
WBIF	Western Balkans Investment Framework
WeBSEDF	Western Balkans Sustainable Energy Direct Financing Facility
WeBECLF	Western Balkans Sustainable Energy Credit Line Facility
Currencies	
KM	Konvertibilna Marka (BiH currency)
US\$	United States Dollar
EUR	Euro, European Union Currency
Exchange Rate	
1 €	1.95583 KM

EXECUTIVE SUMMARY

Bosnia and Herzegovina (BiH) continues to fulfil the conditions specified in Article 1 of the Agreement Establishing the Bank.

The Dayton-Paris peace agreement ended the 1992-95 war and paved the way to peace and stability in BiH. At the same time, the complex Dayton constitutional set up has generated a fragmented policy-making apparatus in BiH. This is additionally complicated by the fact that ethnic-based political parties continue to dominate the political scene in the country's two Entities, the Federation of BiH (FBH) and Republika Srpska (RS). The major challenge remains constitutional reform, without which further progress towards a more efficient state, implementation of a comprehensive reform agenda and EU approximation will be difficult to achieve. This process is sensitive and may take time.

After several years of robust growth, as a result of the economic crisis, BiH economy entered a sharp decline in late-2008, in common with other countries of the region, and output fell significantly in 2009. The authorities have taken some commendable steps to preserve macroeconomic stability. The currency board remains the key anchor of macroeconomic policy and the annual inflation rate fell to below zero in late-2009. The central bank took prompt action to preserve confidence in banks at the height of the crisis and played an active role in securing a "Vienna Initiative" agreement among the six largest foreign-owned banks to maintain their exposure in BiH. Confidence in banks has also been enhanced by a significant increase in the deposit insurance limit. On the fiscal side, some control was restored to public finances in late-2009 after earlier slippages, and the authorities concluded a new three-year Standby Arrangement (SBA) in July 2009 with the IMF to the value of around €1.1 billion.

Economic growth in 2010 and 2011 is likely to be positive but modest. Given the low starting point, the economy should have potential for stronger growth over the medium term. However, this will require a firm commitment by the authorities at all levels to a major structural reform agenda. This commitment has been lacking in recent years. A number of key reforms, including privatisations, have been blocked or on hold for some time. Bosnia and Herzegovina ranks behind its neighbours in south-eastern Europe on a number of reform and business climate indicators, including the EBRD transition scores, the World Bank's ease of doing business indicator, and Transparency International's corruption perceptions index. There are also substantial investment needs in a number of infrastructure sectors.

The global crisis is likely to have a significant medium-term effect on Bosnia and Herzegovina (and the wider region), highlighting the need for an expanded level of activities by the Bank in the coming years, as crisis response and in support of the recovery process. In addition, the country faces medium or large transition challenges across all major sectors of the economy. The Bank will promote transition in Bosnia and Herzegovina by continuing and enhancing its efforts to meet the following key challenges:

- develop and implement a comprehensive long-term reform programme in all infrastructure sectors, enabling a more commercial approach to the provision of services and greater involvement of the private sector, and in view of the need to achieve better infrastructure integration both regionally and within the country;
- foster greater financial intermediation, especially in the non-bank financial sector, to ensure sustainable lending to enterprises and households; and
- provide support for the large-scale privatisation process and attract investment into key export-oriented sectors such as agribusiness, industrial, property and tourism, wood and metals processing, and support further developments in the SME sector.

The Bank's focus over the next three years, both through the provision of financing and through intensive policy dialogue, will be on the following operational priorities:

Infrastructure and energy

- In the **transport** sector, provide support both for construction of new and rehabilitation of existing infrastructure, and facilitate a more commercial approach with greater involvement of the private sector;
- In the **municipal and environmental infrastructure** sector, focus both on sector reforms with local authorities and on institutional strengthening at the level of operating companies;
- In the **energy** sector, support the rehabilitation or replacement of existing thermal capacity to increase their efficiency and reliability and comply with EU emission standards, support further development of the transmission and distribution networks, and increase commercialisation of the energy sector to promote better functioning of the markets; and
- In **energy efficiency**, provide commercial loans to public utilities to finance energy efficiency measures and investments, and use existing facilities to deliver small energy efficiency and renewable projects, including through the Western Balkans Sustainable Energy Credit Line Facility (WeBSECLF).

Financial Sector

- Support MSMEs through local banks, leasing companies and non-bank microfinance institutions, and offer risk-sharing mechanisms; and
- Provide pre-privatisation investments in the banking and insurance sectors and support smaller locally-owned banks and MFIs, including with equity, in order to facilitate the entry of new strategic investors and spur further consolidation.

Industry, Commerce and Agribusiness sector

- Support strategic local and international investors, especially for large enterprises undergoing privatisation or restructuring. The Bank will actively seek projects in the agribusiness, industrial, property and tourism, wood and metals processing sectors;
- Support small and medium-sized local and foreign private companies through long-term debt or equity, using the EBRD-Italy Local Enterprise Facility (LEF).
- Ensure that the Turn-around Management and Business Advisory Services (TAM/BAS) programmes continue to provide advisory services to SMEs.

In carrying out the above priorities, the Bank will continue to co-ordinate very closely with other IFIs, the EU, other key international actors and the international donor community, especially in the context of the new Western Balkans Investment Framework (WBIF).

1. THE BANK'S PORTFOLIO

1.1 OVERVIEW OF BANK ACTIVITIES TO DATE

As of September 2010, the Bank reached a cumulative business volume of €1.197 billion, through 81 projects, and mobilised total investments of more than €2.746 billion.

The current portfolio amounts to €896.8 million, of which €432.8 million are operating assets. Private sector commitments amount to €260.4 million, including regional allocations. Public sector commitments are €636.4 million, of which infrastructure makes up €473.1 million, while the remaining €163.3 million represent investments in energy, natural resources, telecommunications and the Deposit Insurance Agency in the financial sector.

To date, total disbursements amounted to €693.3 million, with record disbursements of €127.5 million and €146 million in 2008 and 2009, respectively.

Table 1: Bank's cumulative commitments as of September 2010

Sector Team (SIC)	Total Project Value	EBRD Finance	Private	State	Portfolio Ratio*	% Share of Commitments
Energy						
Natural Resources	26	17	0	17	2%	1%
Power and Energy	226	137	0	137	0%	11%
Sub-total Energy	252	155	0	154	0%	13%
Financial Institutions						
Bank Equity	23	18	18	0	100%	1%
Bank Lending	216	166	166	0	100%	14%
Insurance & Financial Services	108	100	50	50	50%	8%
Small Business Finance	110	68	68	0	100%	6%
Sub-total Financial Institutions	457	353	303	50	86%	29%
Industry, Commerce & Agribusiness						
Agribusiness	177	69	69	0	100%	6%
Equity Funds	27	10	10	0	100%	1%
Manufacturing and Services	149	41	41	0	100%	3%
Property and Tourism	25	7	7	0	100%	1%
Telecoms Informatics & Media	163	48	1	47	2%	4%
Sub-total Industry, Commerce & Agribusiness	541	175	128	47	73%	15%
Infrastructure						
Municipal & Env Inf	60	12	0	12	0%	1%
Transport	1,437	503	0	503	0%	42%
Sub-total Infrastructure	1,497	515	0	515	0%	43%
BOSNIA AND HERZEGOVINA TOTAL	2,746	1,197	431	766	36%	100%

1.2 IMPLEMENTATION OF PREVIOUS COUNTRY STRATEGY

The Bank's country strategy for BiH, approved in September 2007, set the following main strategic priorities:

- continue policy dialogue with the BiH authorities at all levels (state, entity, cantonal, municipal) and assist with key **structural and institutional reforms** in:
 - infrastructure sector (transport policy and strategy, unbundling of the railway sector, road sector financing, energy strategy, PPP legislation),
 - financial sector (banking supervision, insurance and leasing legislation and pension reform)
 - industry, commerce and agribusiness sector (privatization of remaining state owned enterprises, post-privatization financing and restructuring, property and tourism sector, agribusiness sector).
- assist **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;
- support the **development of the private sector** through direct and indirect financing of small and medium private enterprises, as well as remaining large-scale privatisations.

Overall, the Bank has achieved the operational objectives set out in the previous Strategy. In the period January 2007 to September 2010, the Bank signed 41 new projects amounting to €646.5 million and mobilised additional investments of more than €650 million. These projects included ten public sector projects in the amount of €404 million and 31 private sector projects amounting to €242.5 million (including regional allocations). The Bank's strategic objectives were achieved primarily through the following projects:

- **Regional integration and institutional reforms** were supported by the biggest infrastructure project of the Bank in BiH so far, Corridor Vc, amounting to €180 million. This transaction involved significant policy dialogue and institutional support through the establishment of motorway companies and the introduction of an earmarked fuel levy as the prime source of revenues for these companies;
- In **MEI**, the Bank signed a project for the construction of a wastewater network in Bijeljina, which introduced commercialisation of utility services and resulted in a follow-up project which was finalised in 2010. This new project has attracted a significant amount of grant funds and will enable the company to fully meet EU standards for urban wastewaters;
- In the **financial sector**, the Bank provided a €50 million credit line to the Deposit Insurance Agency to strengthen this important state-level agency. As part of the approval process, the Bank was involved in policy dialogue that led to significant improvements in legislation. The Bank also built on its previous success in the financial sector by providing around €150 million to MSMEs through banks, leasing companies and MCOs;
- In **energy efficiency (EE)**, the Bank provided the first EE credit line to Raiffeisen Bank as part of the Western Balkans Sustainable Energy Credit Line Facility (WeBSECLF), which was a pilot for future investment in EE in BiH; and
- The Bank also directly supported the **corporate sector** with investments in the amount of €45.7 million, with an increasing role of LEF to deliver small equity-driven deals with local enterprises.

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

1.3.1 Infrastructure

Power and Energy – Whilst the very early efforts by the Bank were aimed at network rehabilitation, some deeper institutional reform was pursued later on, such as the establishment of independent regulators, and the creation both of a national transmission company and an Independent System Operator. The key lesson learned of these projects was that a unified approach of all IFIs in this sector can lead to adoption of wholesale reforms.

MEI – The 2007 Bijeljina Waste Water Collection System was the first MEI project in the country. In 2008, TC was mobilised to assist the water company to prepare and implement a Financial and Operation Improvement Programme (FOPIP). The results under this programme are still pending as the company is about to embark on implementation of the FOPIP.

Transport – The Bank was mainly involved in the road and railway sectors. Building on earlier achievements in the road sector reform, the Bank approved the **BiH Road Rehabilitation Project** in 2007. Whilst showing some positive results, e.g. business plans are now prepared for the road authorities in both Entities, the introduction of performance-based road maintenance contracts is delayed. Another sovereign loan for the construction of new priority motorway sections of the main north-south road through BiH, known as **Corridor Vc**, was approved in 2008. This operation pursues similarly ambitious transition objectives, such as assistance to develop a public-private partnership (PPP) scheme. The Bank's **Regional Railway project** - co-financed with the EIB - aimed to support the economic recovery of the railway system by repair and rehabilitation and by strengthening institutional structures and management in the railway sector. Achievements included the familiarisation of the two companies with international procurement procedures, the introduction of IAS/IFRS and a significant improvement in their business planning activities. In contrast, the accompanying TC support in the area of “*Environmental Analysis & Audit*” and “*Assistance with Restructuring*” faced difficulties and achieved its objectives only partially. A **lesson learnt** from the Bank's TC support to the BiH railways restructuring process is that the EBRD should seek strategic alliances with other powerful co-investors to improve prospects for fundamental sector reforms in highly charged political environments (PE09-441T).

Almost 60 per cent of the EBRD's portfolio is allocated to the transport sub-sector, and thus, its impact achieved here is among the highest in BiH.¹

1.3.2 Financial Sector

Banking/MSME – The Bank's activities targeted MSME segments, with projects aimed at improving corporate governance and making funding available to the SME and retail sectors. The Bank also pursued several credit lines to larger banks, such as **Raiffeisen Bank BiH dd** (for energy efficiency) and **UniCredit Bank dd**, both signed in 2009, to support the constrained SME lending by banks as a crisis response measure. The **Western Balkans MSME Framework** saw a number of projects implemented in BiH, generally achieving good transition results.

NBFI – Substantial investments into **Unicredit Leasing Bosnia** were approved in May 2009 and a credit line to the **Deposit Insurance Agency of BiH** was signed in January 2010. The

¹ OCE Transition Impact Retrospective 2009, page 100

support to the Deposit Insurance Agency has enabled an increase in the deposit insurance limit and will further enhance depositors' confidence in the banking system, especially in the wake of the financial crisis. The Unicredit Leasing operation expects to reach major transition results in supporting the constrained SME leasing market.

1.3.3 Industry, Commerce and Agribusiness Sector

Agribusiness – The Bank's early engagement with **Pivara Tuzla** and **VF Komerc** achieved all major benchmarks, namely, improved corporate governance and increased efficiency and competition. In the food distribution sector, as a result of the Bank's investment in VF Komerc, other regional retailers entered the BiH retail market.

Industry – The Bank's investment in '**Mittal Steel Zenica**' was approved in 2005. As of 2009, the company has become profitable, but the implementation of the capex programme had been delayed. Whether the company achieves its excellent transition impact potential is, hence, too early to judge. The '**Tvornica Opeke Sarajevo**' operation comprised renovation of a disused brick factory in Sarajevo for production of a range of clay bricks. The project has achieved most of its envisaged transition objectives, in particular by introducing new products of higher quality and by improving corporate governance and accounting standards. The 2006 approved project, **Natron Hayat**, has not yet achieved its physical and financial objectives in the targeted timeframe.

1.4 PORTFOLIO RATIO

As of end-September 2010, based on the current net cumulative business volume of €1,197 million, the portfolio ratio stands at 36 per cent private and 64 per cent public, and has slightly improved since the last strategy (32/68). In terms of number of projects, however, private sector transactions have dominated the project pipeline with 76 per cent share of the portfolio. Among the Bank's countries of operations, BiH stands out as having major public investment needs, reflecting the legacy of the war and continued need for rehabilitation and upgrading of infrastructure, the complex institutional structure and the country's geographical layout. Transport sector projects in particular are large by nature. In contrast, the majority of private companies are relatively small and therefore, despite the much larger number of signed projects in the private sector, the total volume is smaller.

The current portfolio risk rating stands at 6.06 while the private sector risk rating is slightly better and stands at 5.84.

2. OPERATIONAL ENVIRONMENT

2.1 THE GENERAL REFORM ENVIRONMENT

2.1.1 Political Developments

The political climate in BiH remains difficult and adversely affects economy, including the pace of reforms and the government's ability to implement certain projects. Ethnic-based political parties continue to dominate the political scene in its two Entities. The complex institutional framework and lack of consensus between the Entities and among the key politicians on the optimal internal organisation of the country represent significant challenges to the proper functioning of the State. The major challenge for the country is constitutional reform, without which further progress towards a more democratic and efficient state,

implementation of a comprehensive reform agenda and EU approximation will be difficult to achieve. Several attempts were made over the last few years to launch constitutional reform, the latest being a EU/US-led initiative launched in October 2009, known as the Butmir process, but so far without much success. Efforts to reach internal consensus are expected to intensify after the general elections in BiH due in October 2010.

EU integration remains one of the main external anchors for reform, although the specific circumstances of BiH create additional challenges. BiH signed a Stabilisation and Association Agreement with EU in 2008, and the implementation of the Interim Agreement is ongoing. However, the latest EU documents de-facto condition an application for EU membership with the closure of the Office of the High Representative (OHR) and its transition into a reinforced EU presence, which in turn has to be preceded by meeting certain benchmarks (5 objectives and 2 conditions) by BiH. On 22 April 2010, NATO invited BiH to join Membership Action Plan (MAP), while adding a provision that BiH's first Annual National Programme will only be accepted when BiH meets certain requirements related to the registration of the state property of BiH (part of the above-mentioned five objectives).

BiH participates in regional cooperation initiatives, including the South East Europe Cooperation Process (SEECF), and hosts the Regional Cooperation Council. The country has been involved in various cross-border projects and there is support to continuing this involvement from the current government.

2.1.2 Legal Reform

The legal environment continues to be complex and challenging. Some significant reforms have occurred but more are needed. The country's complex multilayered constitutional and political structure, a legacy of the Dayton accords, continues to have a negative impact on reform, generally, and on legal reform specifically. The problems of the multilayered legal structure are in evidence in a number of areas of law.

Corporate governance is regulated at the Entity level; two distinct corporate governance regimes exist and each Entity has its own primary and secondary legislation. In the judicial sector there are two separate legal systems and there is limited coordination at the state level. The legal framework for the securities market is regulated at the Entity level and each has its own securities commission and stock exchange.

Whilst for some areas of law, laws adopted tend to be one of the leading laws in the EBRD's countries of operations, but in practice the application of those laws is poor due to the failings of key institutions. For example, the law on bankruptcy and insolvency has a score of 'high compliance' as compared with international standards; however, the practical functioning of the insolvency regime has weaknesses in terms of appropriate regulation of insolvency office holders. The law and framework on secured transactions is modern; however, in practice, enforcement is slow and susceptible to obstruction. Concerns as to court efficiency and its difficulty in coping with demands is seen as the weakest link of the regime thus debtors are able to obstruct the enforcement process.

Prospects for Bosnia and Herzegovina depend largely on the implementation of practical legal reforms and integration both internally and regionally. The reform momentum needs to continue and requires a firm commitment by the authorities and further constitutional reform.

2.1.3 Environment

Bosnia and Herzegovina is facing a number of challenging environmental and social issues arising from various factors, including the social and environmental aftermath of the conflict, a complex political and institutional organisation, insufficient environmental control and environmental capacity in respect of the significant economic growth experienced during the first eight years of the past decade, and poverty or vulnerability of certain layers of the population in both rural and urban areas.

EU integration remains a distant perspective as complex constitutional and other political steps have to be made before Bosnia and Herzegovina could possibly be granted the status of a Candidate Country. The environmental regulatory and institutional framework can however be expected to align with EU principles in the coming years and some progress towards this aim has already been achieved. Specifically in the Federation, the harmonization of national legislative framework with that of the EU has started in 2003 with the overarching Law on Environment Protection and other pieces of legislation (Waste Management, Air Protection, Nature Protection and Environmental Protection Fund), but enforcement legislation is lagging behind. Bosnia and Herzegovina has also made progress in the recent years in adherence to international environmental conventions, with most of the significant ones now ratified.

Civil society development is still lagging behind in comparison with what can be observed in neighbouring western Balkan countries, and this is probably the result of what is still an ethnically polarised society and political life. However, in the last two – three years, environmental NGOs and local civil society groups have appeared that raise environmental and social issues to the different levels of Government, to private companies and to IFIs. A significant asset to the country environmental strategy is its good scientific and technical basis, with numerous University based and private experts available to participate in environmental assessments and capacity building activities.

2.2 PROGRESS IN TRANSITION AND THE ECONOMY'S RESPONSE

2.2.1 Business Environment

The quality of the business environment in Bosnia and Herzegovina remains highly problematic and the country continues to lag behind other countries in south-eastern Europe, according to various cross-country surveys. In the latest World Bank's *Doing Business 2010* report, BiH ranks 116th out of 183 countries, a slight improvement on the previous year (when it was 119th) but still a sign of the deep-rooted problems in the country. Business registration is particularly difficult, with the country ranking 160th in the world on this indicator. Some measures are under way to improve the situation. In the latest round of the Business Environment and Enterprise Performance Survey (BEEPS IV), more than one-quarter of the enterprises surveyed identified political instability, out of a menu of 15 possible obstacles, as the main problem affecting their operations. Tax rates were also considered a serious obstacle by many respondents, as well as competition from the informal sector and access to finance. Many businesses also cite corruption as a problem in their day-to-day operations. Bosnia and Herzegovina ranks at joint 99th in Transparency International's corruption perceptions index, again putting the country last in the south-eastern European region.

2.2.2 Macroeconomic Environment

After several years of robust growth, the economy entered a sharp decline in late-2008, in common with other countries of the region, and output fell significantly in 2009. The extent of the GDP decline last year is estimated at 3.2 per cent. Economic activity has been

adversely affected by falling commodity prices, which affects key exports (mainly in the metals sectors), declining demand from regional neighbours and from the eurozone, as well as from tighter credit conditions, with total credit growth slowing significantly from 22.3 per cent in December 2008 to -2 per cent y/y in April 2010. Foreign direct investment also fell by around 35 per cent in 2009 relative to the previous year.

In the face of these difficulties, the authorities have taken some commendable steps to preserve macroeconomic stability and cushion the worst effects of the downturn. The currency board remains the key anchor of macroeconomic policy and the annual inflation rate fell to below zero in late-2009, although it has since returned to positive territory in early 2010. External imbalances have been reduced, with a significant reduction in the current account deficit. The central bank took prompt action to preserve confidence in banks at the height of the crisis and played an active role in securing a “Vienna Initiative” agreement among the six largest foreign-owned banks to maintain their exposure in BiH. As noted above, the level of deposit insurance has also been raised substantially, with the support of the Bank and other international institutions. On the fiscal side, some control was restored to public finances in late-2009 after earlier slippages, and the authorities concluded a new 3-year Standby Arrangement (SBA) in July 2009 with the IMF to the value of around €1.1 billion. The second and third reviews were completed (after some delay) in March 2010, following the passing of legislation in the Federation on key reforms to transfer payments and war veteran benefits, and the programme remains on track.

Economic growth in 2010 and 2011 is likely to be positive but modest; some very tentative signs of recovery are starting to emerge in the first few months of 2010, but growth this year is likely to be somewhere between 0 and 1 per cent. Given the low starting point, the economy should have potential for stronger growth over the medium term. But there are significant risks to the more positive outlook both in the political and economic sphere. On the economic side, it is possible that FDI will dry up even further. Competitiveness could be adversely affected if there were significant depreciations in neighbouring Croatia and Serbia, with which BiH has substantial trade links. It will also be a major challenge to avoid the build up of wage and pension arrears, especially if economic output drops by more than expected. Adherence to the IMF standby arrangement – a key requirement for the preservation of macroeconomic stability – will depend on the implementation of tough fiscal measures, including those mentioned above concerning means-testing for transfers and the elimination of special benefits for veterans. Significant financial support from the EU and World Bank is conditional on the IMF programme remaining on track.

2.2.3 Transition successes and challenges

BiH’s progress in transition has been slow or non-existent in recent years. Although the main elements of a market economy are present, in terms of the dominance of private sector activity and the presence of broad price and trade liberalisation, the country continues to face broad structural reform challenges across the board. BiH’s average transition score, as measured by the EBRD and reported each year in the *Transition Report*, is the lowest in central or south-eastern Europe, reflecting limited achievements to date in finalising privatisation, improving governance and the implementation of competition policy, and developing non-bank financial institutions and a more commercial approach to the provision of infrastructure services. Furthermore, the EBRD’s *Assessment of Transition Challenges*, carried out in 2009, showed the extent of the challenges facing BiH across 13 different sectors of the economy (see table below).

Table 2: Assessment of Sectoral Transition Challenges in BiH

	Market Structure	Market Institutions	Overall 2009
Corporate			
Agribusiness	Medium	Large	Medium
General Industry	Large	Medium	Medium
Property and Tourism	Large	Large	Large
Telecom	Medium	Medium	Medium
Infrastructure			
MEI	Large	Large	Large
Natural Resources	Medium	Large	Medium
Power	Large	Large	Large
Sustainable Energy	Large	Large	Large
Transport	Medium	Medium	Medium
Financial Institutions			
Banking	Medium	Medium	Medium
Insurance and financial services	Medium	Medium	Medium
MSMEs	Medium	Medium	Medium
Private equity and capital markets	Large	Medium	Large

Note: all sectors are rated on a scale of “negligible” to “large” in terms of remaining transition challenges. “Market structure” refers to the balance between the private sector and the state and the extent of competition; “market institutions” concerns the regulatory and policy framework underpinning the functioning of the market in a given sector. In some sectors, the assessments are not directly comparable to those in the previous strategy because of methodological changes.

Source: EBRD, *Assessment of Transition Challenges, 2009*.

The main challenges that lie ahead can be summarised as follows:

Infrastructure: The key challenge in all infrastructure sectors is to develop and implement a comprehensive reform programme that enables a more commercial approach to the provision of services and greater involvement of the private sector. In the roads sector, several projects have been signed in the past year with international financial institutions for building parts of the 330 km Corridor Vc, as well as strengthening the institutional development of the Motorway Companies in both Entities. In the railways sector, various projects to upgrade and modernise services are ongoing, with the support of bilateral donors and international institutions.

Power and Energy Efficiency: In the energy sector, the key challenge will be to support the rehabilitation or replacement of existing generation capacity to increase their efficiency and reliability in order to comply with EU emission standards. In energy efficiency, the key challenge is to reform the regulatory framework in order to support commercial financing of energy efficiency measures and small renewable projects.

Financial institutions: The main challenge is to strengthen further the role of financial intermediation, particularly in the non-bank sector, where the influence on broader economic development is limited. The banking system has remained sound, despite the global crisis and the significant outflow of deposits of around KM 800 million (about €410 million) in the fourth quarter of 2008. By early 2010, the total level of deposits has returned to pre-crisis

levels. Nevertheless, some banks are still coping with difficult market conditions, and further strengthening is needed in selected cases.

Industry, Commerce and Agribusiness Sector: The key challenges in this sector are to accelerate the privatisation process for large-scale enterprises, and to bring about lasting improvements to the business climate which, as noted earlier, is ranked by authoritative cross-country surveys as worst in the SEE region. Progress in privatisation has occurred in recent years in the RS but has been exceptionally slow in the FBH. The privatisation of the Mostar-based aluminium smelter, the largest exporter in the country, is still on hold, as is the proposed privatisation of the two telecommunications companies in the FBH, BH Telekom and HT Mostar.

2.3 ACCESS TO CAPITAL AND INVESTMENT REQUIREMENTS

At the state and entity level, BiH continues to attract substantial support from international institutions such as the IMF, World Bank, EIB and the EBRD. However, much of this support (especially from the IMF and World Bank) is aimed at shoring up the fiscal position and plugging budgetary gaps, as well as strengthening the level of reserves held at the central bank. Funding for major investment projects, therefore, depends to a great extent on the support of the Bank and the EIB. BiH has effectively no access to international capital markets. The country is rated B+ by S&P and B2 by Moody's, several notches below investment grade.

At the corporate level, access to funding has become far more difficult during the crisis, as witnessed by the sharp decline in credit growth cited above. Lending rates to corporates are typically between 8 and 10 per cent which, given the low inflation rate, implies a high real interest rate. The level of credit growth has been in sharp decline throughout most of the crisis, although there was some increase in credit to the non-financial private sector in the first few months of 2010. The country's two stock markets are not yet a significant source of funding for businesses.

3. STRATEGIC ORIENTATIONS

3.1 BANK'S PRIORITIES FOR THE STRATEGY PERIOD

The Bank's country strategy sets out to improve the overall competitiveness of the country through the implementation of the following main strategic priorities:

Infrastructure and energy

- In the **transport** sector, provide support both for construction of new and rehabilitation of existing infrastructure, and facilitate a more commercial approach with greater involvement of the private sector;
- In the **municipal and environmental infrastructure** sector, focus both on sector reforms with local authorities and on institutional strengthening at the level of operating companies;
- In the **energy** sector, support the rehabilitation or replacement of existing thermal capacity to increase their efficiency and reliability and comply with EU emission standards, support further development of the transmission and distribution networks, and increase commercialisation of the energy sector to promote better functioning of the markets; and

- In **energy efficiency**, provide commercial loans to public utilities to finance energy efficiency measures and investments, and use existing facilities to deliver small energy efficiency and renewable projects, including through the WeBSECLF.

Financial Sector

- Support MSMEs through local banks, leasing companies and non-bank microfinance institutions, and offer risk-sharing mechanisms; and
- Provide equity as well as pre-privatisation investments in the banking and insurance sectors and support smaller locally-owned banks and MFIs, in order to facilitate the entry of new strategic investors and spur further consolidation.

Industry, Commerce and Agribusiness sector

- Support strategic local and international investors, especially for large enterprises undergoing privatisation or restructuring. The Bank will actively seek projects in the agribusiness, industrial, property and tourism, wood and metals processing sectors;
- Support small and medium-sized local and foreign private companies through long-term debt or equity, using LEF.
- Ensure that the TAM/BAS programmes continue to provide advisory services and financing to SMEs.

Policy Dialogue

- The Bank will continue and intensify its policy dialogue with BiH authorities at all levels (state, entity, cantonal, municipal) and assist with key structural and institutional reforms, in particular those that are requirements of the EU approximation process:
 - infrastructure sector (transport policy and strategy, unbundling of the railway sector, road sector financing, energy strategy, PPP legislation),
 - financial sector (banking, insurance and leasing supervision), and in particular policy dialogue related to transformation and consolidation in microfinance sector, and
 - Industry, commerce and agribusiness sector (improving competitiveness and restructuring of companies in the following sectors: wood and forestry management, property and tourism, agribusiness, manufacturing).

3.2 SECTORAL CHALLENGES AND OPERATIONAL PRIORITIES

3.2.1 Infrastructure

Transport sector

Given the extensive reconstruction needs of BiH, the Bank has financed a significant programme in the transport sector covering all modes of transport. This is set to continue in the next strategy period, with an emphasis both on new construction and rehabilitation. In terms of sector reform, the Bank will continue to facilitate the commercialisation of the public sector entities with specific responsibilities for transport and, where feasible, facilitate and support the greater involvement of the private sector. Support for the key corridors in BiH remains a priority as does working alongside the other International Financial Institutions, especially through the WBIF which is an important tool to consolidate financial resources and instruments at the European level.

In the roads sector the Bank will support the development of PPPs, where practical and following the recommendations of the ongoing PPP strategy. The focus will also be on the

implementation of the Corridor Vc project, comprising sections (a) Drivusa – Kakanj, (b) Vlakovo – Tarcin, (c) Pocitelj - southern border with Croatia, and (d) Odzak to the northern border with Croatia. The remaining sections of Corridor Vc the Bank will seek to finance through a PPP solution. The Bank will also seek to support important connecting routes to Corridor Vc, starting with Banja - Luka to Dobož which runs parallel to Corridor X.

The Bank has provided considerable financing for railway infrastructure in BiH and support for the ongoing restructuring of the BiH railway companies in line with EU directives. The needs of the railway companies remain considerable and the Bank will consider providing further financing both for rolling stock and for infrastructure. Support for the ongoing restructuring will continue with a focus on ensuring that structures and conditions are in place to allow open access (that is, use of the railway network by other operators).

In the aviation sector the focus will be on the implementation of the Sarajevo International Airport project, where financing has been provided for the expansion of the passenger terminal, together with expansion of the runway and taxiways. Moreover, consideration may be given to the Bank financing a project to address the rehabilitation needs of the regional airports at Banja Luka, Tuzla and Mostar.

Municipal and Environmental Infrastructure

The Bank will structure and implement projects in the municipal and environmental infrastructure sector initially under a sovereign guarantee, focusing both on sector reforms within each Entity and on institutional strengthening at the level of operating companies. Further, the Bank will prepare environmental projects (water and waste water) in order to attract IPA grant co-financing.

A key factor for success is the willingness of companies and local authorities to work together on a multi-municipal basis, regionalisation, and to discuss their financial and operational practices in an open and transparent manner. One of the Bank's projects addresses this problem by involving several municipalities to solve, on a regional level, a shared water supply problem. In bigger cities, the Bank seeks to engage with municipal authorities on an open and transparent basis, reflecting priorities established at the local level. This also holds for the smaller cities and towns with the Bank adjusting the size of the project below the €5 million threshold where appropriate.

Energy sector

Since the ratification of the Energy Community Treaty, BiH has not managed to establish its authority and leadership in the sector which is lacking an overall strategy. Coordination efforts from the Bank and the international community were hampered by the Entities, which are resisting any involvement of the State in the sector's operation.

The Bank will continue to promote sector reform, institution building, and regional energy integration in conjunction with the efforts undertaken by the European Community focusing on the implementation of the Energy Community Treaty and the definition of a strategy at State level for the sector. In the natural gas sector, the Bank will continue implementation of an Integrated Approach that has been designed to promote the unbundling of the trading and transmission system operations, the establishment of independent regulatory authorities for the gas market and the opening of the construction and management of gas distribution networks to private companies. In addition, the Bank will support further development of the natural gas transportation and distribution network in the country and contribute to energy security by supporting multiple interconnections of the country's natural gas transmission network with Croatia and Serbia from alternative entry points.

The Bank will in parallel support investments in the sector targeting commercial loans to public utilities to finance energy efficiency measures and investments to support the development of renewable projects with private entrepreneurs. The Bank will also support the rehabilitation or replacement of existing thermal capacity to increase their efficiency and reliability and comply with EU emission standards. Development of new capacity in compliance with Best Available Technology (BAT) and other best international standards will also be considered as they will benefit the whole region, which could soon experience substantial shortage of energy supply. Furthermore, the Bank will continue supporting projects in the transmission of electric energy and cross border interconnections, when feasible, on commercial basis, as well as conditional on the improvement of network transparency.

Energy Efficiency

The Bank has recently set up an energy efficiency and renewable energy credit line facility through local financial intermediaries (WeBSECLF) and a direct lending facility (WeBSEDF). Both facilities proved to be right financial mechanisms to tackle small and medium sized projects. The Bank also provides support to the identification and implementation of larger energy efficiency and renewable energy projects through technical assistance and direct investments.

In the next period, the Bank will continue to support larger energy efficiency investments particularly in the energy intensive industries and municipal infrastructure, by providing energy audits and project implementation support. For smaller and medium sized projects the Bank will continue operation of energy efficiency and renewable energy credit line and direct lending facilities with an intention to cover more sectors and RES.

The Bank will also provide technical assistance for the development of a policy, legal and institutional framework for energy efficiency and renewable energy sources, in close cooperation with donors active in the country, to support the country in the EU pre-accession process.

The Bank will also investigate opportunities for carbon finance.

3.2.2 Financial Sector

Banking sector

The banks are generally well capitalized and liquid. However, the mismatch in assets and liabilities is still present as demand for loans is mainly medium- to long-term while the deposit base remains mostly short-term. This problem is especially acute for small local banks which do not have access to long-term funding from the parent or IFIs. Therefore, the Bank will continue to look at opportunities for providing long-term funding to local banks and sustainable specialised microfinance institutions for on-lending to targeted priority activities such as MSMEs and Energy Efficiency. The Bank will also look to support retail lending, including mortgages and consumer finance provided they are undertaken on a suitably prudent basis and best practice standards are followed.

With the slowdown in trade flow, financing under the TFP will remain of particular importance in order to support clients as the economic recovery increases trade flows.

The Bank will also seek to support the development of the remaining locally owned banks and privatisation of the remaining state owned banks, and it will try to facilitate the entry of

new investors into the sector. Support may be provided in the form of equity to strengthen the capital base of existing banks or new entrants and, through such funding, to expand their product lines such as housing loans or increased support to MSMEs.

Due to the crisis the banks have been more risk averse and have reduced large exposures and projects. The Bank plans to offer risk sharing mechanism such as the Medium term co-financing facility (at individual sub-project or portfolio levels) in order to overcome barriers to the increased risk aversion of banks and spur lending activity.

The supervision of the banking, leasing and micro credit sectors still remains with the entity level agencies. The Bank will seek to engage in the policy dialogue that will specially focus on bringing the banking supervision in line with the EU approximation criteria.

Non-bank financial institutions

The Bank will continue to support the leasing sector as one of the most important alternatives for financing for MSMEs by providing long-term funding to leasing or strengthening the capital base in the form of new equity.

The factoring industry in Bosnia and Herzegovina remains underdeveloped. The Bank will look at opportunities to provide long-term funding or new equity for local factoring companies in order to improve access to short-term liquidity for MSMEs.

The insurance sector has attracted a number of strategic and financial investors which has increased competition. This should be followed by the privatisation of the remaining state owned company in FBiH and further consolidation of the sector. The supervision agencies have been set up at the Entity levels with a weak state level agency which lacks supervision authority.

The Bank will be open to the possibility of participating in the pre-privatisation investment in the state-owned company and will explore further equity investment and opportunities in the existing and new insurance companies along with strategic sponsors.

The pension system is still largely unreformed and a multi-pillar system with private pensions is not yet in place. The Bank will seek to engage in policy dialogue with the government and be ready to assess possible long-term investment opportunities once the reform of the pension system is initiated at the Entity or state level.

Small Business Finance

The Bank will continue supporting microfinance sector with debt instruments. In addition, the Bank will support with targeted equity investments those MFIs that have a strategic goal of consolidating and establishing a microfinance bank. Further, the Bank will continue providing technical assistance to the microfinance sector and to the government as a part of the policy dialogue undertaking. The focus of the policy dialogue will be on the commercialization and transformation of the microfinance institutions.

As a result of the discussions with the government so far, a Memorandum of Understanding has been established to coordinate actions in order to allow for the transformation of micro finance foundations into commercial companies, and, on a selective basis, the transformation of some MFIs into full service micro finance banks. This effort will be supported by the IFC, which will provide a Technical Assistance Program to the government as well.

3.2.3 Industry, Commerce and Agribusiness sector

The Bank will continue its support to strategic local and international investors and in particular will continue support for large enterprise privatisations. The Bank's potential role in the remaining large-scale privatisations in particular in the FBiH (BH Telecom, Aluminij, Bosnalijek) would be important, either on the side of the government as pre-privatisation financing or on the side of potential strategic partners interested to expand into BiH market. The Bank will also seek to support medium-sized local and foreign private companies for which long-term debt (including smaller size transactions) or equity will be envisaged.

The Bank will be highly additional due to decreased availability of financing because of the current crisis, and can facilitate a significant demonstration effect by introducing international standards and practices to various corporate sectors. The Bank will focus its investments in those sectors that embody competitive advantages and enhance the overall competitiveness of the country such as: agribusiness, industrial, property and tourism, wood and metals of the processing. LEF will remain one of the key delivery mechanisms for business with local enterprises. TAM/BAS programmes will continue to provide advisory services to small and medium sized businesses.

4. OTHER IFIs AND MULTILATERAL DONORS

The Bank will continue its excellent cooperation with other IFIs and the international donor community in BiH. The WBIF provides an important tool to consolidate financial resources and instruments at the European level and enhance the cooperation with the EU, EIB and CEB, in particular on infrastructure projects, but increasingly also in other sectors such as SMEs and energy efficiency. The WBIF will provide the best platform for the Bank to plan and prioritise infrastructure projects in BiH, alongside other IFIs and in the context of EU accession process and EU-IPA planning exercise.

In order to achieve the successful implementation of its strategy, the Bank has for a number of years participated in a Donor Coordination Forum, the annual national exercise of mapping of donors' activities in BiH, headed by the BiH Ministry of Finance and Treasury. This Forum involves all multilateral and bilateral donors in the country. Further, the Bank supports the goals of the Paris Declaration on Aid Effectiveness, which are designed to improve delivery of assistance.

The Bank will maintain its close relationship with the Office of the High Representative and the Office of the EU Special Representative, as well as with the Regional Cooperation Council.

ANNEX 1 – POLITICAL ASSESSMENT

Bosnia and Herzegovina (BiH) continues to fulfil the conditions specified in Article 1 of the Agreement Establishing the Bank.

Numerous challenges remain, however, many of which stem from the legacy of the war in 1992-95. The Dayton/Paris Peace Agreement ended the war and paved the way to peace and stability in BiH. At the same time, it created a complex state structure, with two Entities, the Federation of Bosnia and Herzegovina, with predominantly ethnic Bosniak and ethnic Croat population (FBH), and the predominantly ethnic Serb-populated Republika Srpska (RS). The Federation further comprises ten Cantons, each with a considerable degree of self-government (which in turn are sub-divided into municipalities), and has a relatively high degree of decentralization. The RS, which is divided into municipalities, is more centralized. Finally, Brcko, a strategic area in the north of the country, is a self-governing District, which, although currently still formally under the international Brcko Supervisor, should in the future, in accordance with the Final Award reached by Brcko Arbitral Tribunal in 2009, be under the sovereignty of the central government.

The country's complex constitutional set up has generated a fragmented policy-making apparatus. This is additionally complicated by the fact that ethnic-based political parties continue to dominate the political scene in the country's two Entities, FBH and RS. At the central level, the decision-making process is based on a daunting system of checks and balances, which were designed to protect the interests of the three 'constituent' peoples (Bosniaks, Croats, and Serbs) and which encourage their representatives in the central bodies to demonstrate their commitment to their Entity and their constituent people rather than to the State.

Furthermore, the country's system of governance continues to involve the international High Representative (HR), who is at the same time EU Special Representative (EUSR). HR continues to supervise the implementation of the Dayton/Paris Peace Agreement on behalf of the international community and to impose decisions in accordance with the so-called Bonn Powers, although the level of the HR's interference in the work of the government is lower than it used to be in the past. The Office of the HR (OHR) was initially scheduled to be closed in 2007, but this has been postponed since then several times. While the transition from OHR to a reinforced EU presence in BiH remains a goal, there is no agreed timeline, and the prospects here depend on the country meeting specific objectives and conditions established by the Peace Implementation Council.

The major political challenge for the country remains constitutional reform, without which further progress towards a more democratic and efficient state, implementation of a comprehensive reform agenda and EU approximation will be difficult to achieve. Several attempts were made over the last few years to start tentative constitutional reform (the latest being an EU/US-led initiative launched in October 2009, known as Butmir process), but so far without much progress. The process of any constitutional changes is very sensitive, and will take time. It should be noted that differing views on the future of the country prevail among the politicians in the FBH and the RS, ranging from a unitary state to a federal state. Although the reforms towards greater integration and streamlining the government have so far been mainly driven by the international community, the constitutional reform cannot be imposed from outside, it will have to be in the first place a result of consensus among the political stakeholders of Bosnia and Herzegovina. Efforts to reach such internal consensus may intensify after the general elections in BiH scheduled for 3 October 2010.

Political Accountability

Constitutional reform is essential for making BiH a more democratic and functional state. Pending such a reform, the functioning of the state-level executive and legislative bodies may remain deficient, including uneven cooperation between them and with relevant executive and legislative of the Entities. The public administration reform strategy, which is a key European Partnership priority, is being implemented, albeit slowly, particularly regarding limiting the role played by ethnic identity and political affiliation in appointments.

According to the conclusions of the international Observation Mission led by OSCE Office for Democratic Institutions and Human Rights (ODIHR), the last general elections, which took place in 2006, were conducted generally in line with international standards. However, the recent judgement of the European Court of Human Rights highlighted the fact that existing electoral legislation is incompatible with the European Convention on Human Rights, in particular regarding the right of citizens belonging to ethnic communities other than BiH's three 'constituent peoples' (Bosniaks, Croats, and Serbs) to be elected to the Presidency and to the House of Peoples of the national Parliament. BiH authorities undertook in 2010 initial steps to amend relevant legislative provisions, but implementation of the Court's verdict will not be completed in time for the general elections scheduled for 3 October 2010.

Rule of Law

Overall, the judiciary is independent, but it is not completely free from political interference and its independence, accountability and efficiency need to be enhanced. The peculiarities of the judicial system in BiH reflect the above-mentioned problems related to the existing constitutional set-up. Among the obstacles to the efficient operation of the judiciary and to reform in this area are, in particular, the fragmentation of the judicial system (there are four separate jurisdictions and incoherent systems of laws), the absence of a Supreme Court with countrywide jurisdiction, and absence of a single budget. The country continues to employ international prosecutors and judges, whose mandate was further extended at the end of 2009.

Police forces in BiH remain fragmented as the implementation of legislation on the police reform, adopted in 2008 (it was one of the conditions for the signing of the Stabilisation and Association Agreement with EU) was uneven, but recently improved considerably as part of the visa liberalisation dialogue. Some progress was made in the fight against organised crime, on preventing money laundering, and in the fight against drugs. Cooperation with the International Criminal Tribunal for former Yugoslavia (ICTY) has remained satisfactory.

Corruption remains one of the major problems in BiH. Since its inclusion for the first time in 2003 in the Corruption Perception Index (CPI), which is published annually by Transparency International, the ranking of BiH has decreased from the 70th position to 99th in 2009, putting the country last in the south-eastern European region.

A positive development was the establishment of an anti-corruption agency and the implementation of the Strategy and Action Plan for the fight against corruption for 2009-2014. BiH is a member of the Council of Europe Group of States against Corruption (GRECO) and works on implementing its recommendations, but the progress is slow.

Progress has been achieved in border management, migration, asylum and visa policy, as part of the visa liberalisation dialogue. BiH (alongside Albania) was not included among other Western Balkan countries for visa free travel to and through the Schengen area when the Council of EU made its decision in 2009. However, the visa liberalisation dialogue has

continued, and progress has been made in fulfilling the benchmarks set in the visa liberalisation roadmap, making realistic the prospects for including BiH in the visa free travel later in the course of 2010, pending positive decisions by the Council of the EU and the European Parliament.

Protection of Civic and Human Rights

BiH is a signatory and has ratified the major international human rights conventions, including the European Convention on Human Rights and Fundamental Freedoms. The Constitution of BiH guarantees that international conventions supersede any other legislation and are directly applicable. Civil rights are broadly respected, but access to justice in civil trials needs to be improved. The constitutional guarantees of freedom of thought, conscience and religion, freedom of expression and assembly are in place, although the implementation needs improvement.

The legacy of the war of 1992-1995 has continued to define some key human rights issues, particularly accountability for war crimes (see assessment on the refugees' problem under inter-ethnic issue below). In UNDP 2006 Human Development Report (HDP), Bosnia and Herzegovina obtained a ranking of 62 out of 177, which put it among the countries with 'high human development' and ahead of several other Western Balkan countries. The country moved to 76th position out of 182 countries in 2009 HDP.

Freedom of the press was enhanced in the past years as libel and insult provisions were removed from the penal code and defamation and libel cases began to be addressed under the civil code. However, cases of alleged harassment of journalists have increased of late. The latest report by the Freedom House, while assessing BiH as 'partially free', which is on par with a few other Western Balkans countries, noted certain deterioration in the level of rights and liberties. Mass media and especially newspapers largely remain ethnically divided and are also influenced by political parties. Journalists sometimes show a lack of responsibility and sensitivity towards ethnic identity and issues related to vulnerable minorities.

The authorities need to make further efforts to enhance dialogue with the civil society sector and support its development, including allocation of funding in an objective and transparent manner.

BiH ranks 76 out of 186 countries with respect to its Gender Development Index. Women are active at the local level, but their political representation remains uneven. There are currently no female Ministers in the central Government (Council of Ministers) of BiH. The share of women in the two chambers of the national Parliament is 17 and 13 per cent respectively, and the average representation in all country's parliaments is 16.4 per cent. A state-level antidiscrimination law has been adopted but the scope of its implementation remains rather limited. The law prohibits sexual harassment, but sustained efforts are needed regarding the protection of women against all forms of violence. The second biggest gender related problem is gender-based economic vulnerability. Although women make up about 52 per cent of the BiH electorate, the share of economically active women in BiH is among the lowest in the region. Research into the BiH gender wage gap shows that it significantly exceeds the European average.

The situation with human trafficking is comparable to that in other countries of the region. BiH is primarily a source for women and girls trafficked within the country for commercial sexual exploitation, though it is also a destination and transit country for women and girls trafficked to Western Europe for the same purpose. The authorities are making efforts to

improve prevention and prosecution of traffickers. The authorities are implementing the 2008-2012 National Action Plan against trafficking in human beings. However, sentences for trafficking remain low or suspended.

Inter-ethnic issues

The data on the current ethnic composition of BiH are varying and generally not reliable in the absence of a nation-wide census, which has never been conducted after the 1992-1995 war. There was some initial political agreement among the main political forces in BiH about the need for conducting a nation-wide census in 2011, but a relevant state-level law has not been adopted yet and it remains to be seen whether the schedule for a 2011 census holds.

The legacy of the war of 1992-1995 and current constitutional set up continue to affect relations between ethnic communities: there is still lack of mutual trust, and there are unresolved issues related to accountability for war crimes, the problem of the refugees and displaced persons. A country-wide strategy aimed at supporting the return process needs to be implemented in order to achieve durable solutions for refugees and displaced persons. The latest version of the revised Strategy for the Implementation of Annex VII of the General Framework Agreement for Peace (Dayton Agreement), which deals with the questions of refugees and displaced persons, was finally adopted in June 2010. The revised Strategy has the backing not only from UNHCR, but from all other key international players as well. It should be noted that the work on this revised strategy started back in 2007, and the difficulties in completing its adoption highlight the sensitivities related to the displacement that occurred during the 1992-1995 war.

While the security situation regarding refugees and IDPs remains stable, and the achievements in the reconstruction of houses are impressive (over 300,000 housing units have been reconstructed overall with national and international support), the progress in improving their socioeconomic integration has been uneven. According to UNHCR, the most pressing issue in BiH under the Sarajevo Declaration from 2005 is the search for durable solutions for the remaining 117,000 internally displaced persons.

There has been some progress in the area of minority rights, including the establishment of the Council in FBH, which completed the network of the National Minorities Council, and the implementation of the Law on National Minorities. The authorities undertook initial steps to amend the constitution in order to implement the verdict of European Court of Human Rights regarding access of minorities to all political functions, including the right to be elected to the Presidency of BiH and to the Parliament. However, discriminatory provisions will not be removed in time for the next general elections in BiH, scheduled for October 2010.

BiH joined the Decade for Roma in 2009. Despite an increase in resources for the implementation of the Roma strategy, this minority continues to face difficult living conditions and discrimination. Implementation of the Roma action plans on health, employment and housing has improved. Roma displaced during the war have had difficulty repossessing their property as a result of discrimination and because they lacked adequate information on the required procedures. In many cases, Roma families have also lacked documents proving ownership or had never registered their property with local authorities. The lack of documentation has also prevented them from applying for reconstruction assistance.

EU approximation and Euro-Atlantic integration

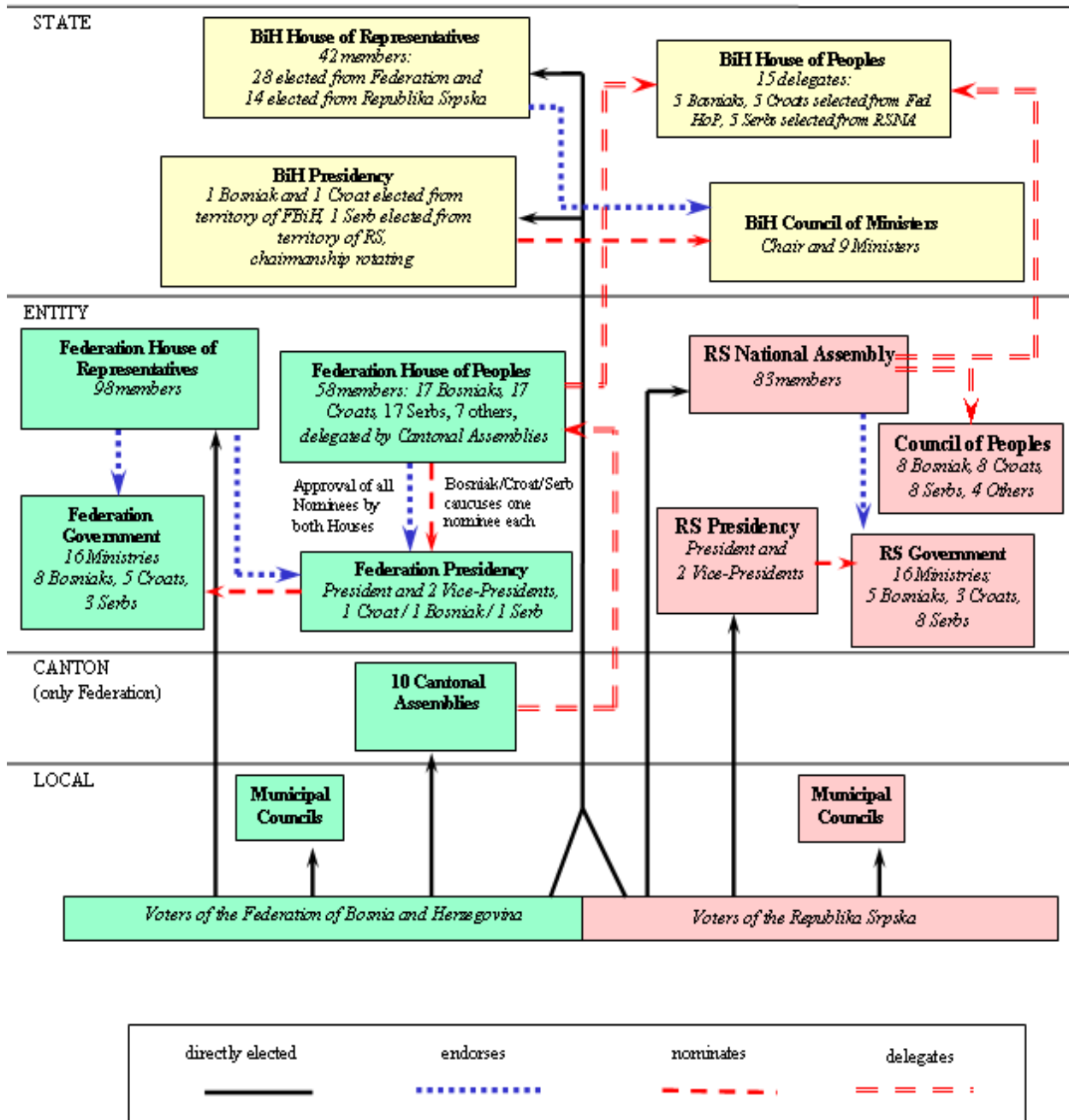
EU approximation remains one of the main external anchors for reform, although specific constitutional set up of BiH creates additional challenges. BiH signed Stabilisation and Association Agreement (SAA) with EU in 2008. The implementation of the Interim Agreement is ongoing. Progress in aligning the legislation and policies with European standards has been uneven, and the administrative capacity needs to be strengthened in order to achieve a strong track record of SAA implementation. The Council of EU stressed that it would not be in position to consider an application for membership by BiH until the closure of the Office of the High Representative (OHR) and its transition to a reinforced EU presence has been decided.

Making progress towards meeting the objectives and conditions which have been set for the closure of the Office of the High Representative (OHR) by the Peace Implementation Council Steering Board remains essential. The EU has continued preparations to further coordinate and reinforce the EU presence and implement the EU agenda.

On 22 April 2010, NATO invited BiH to join Membership Action Plan (MAP), while adding a provision that BiH's first Annual National Programme will only be accepted when BiH meets certain requirements related to the registration of the state property of BiH (part of the above-mentioned objectives and conditions).

BiH has been involved in various cross-border projects and participates in regional cooperation initiatives, including the South East Europe Cooperation Process (SEECF), and hosts the Headquarters of the Regional Cooperation Council.

ANNEX 2 - LEGISLATIVE AND EXECUTIVE BODIES OF BiH



ANNEX 3 – COMMERCIAL LAWS OF BOSNIA AND HERZEGOVINA

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, secured transactions and telecommunications. In 2010, assessments will be conducted for the first time in the judicial capacity and procurement focus areas. The existing tools assess both the quality of the laws “on the books” (also referred to as “extensiveness”) and the actual implementation of such laws (also referred to as “effectiveness”). All available results of these assessments can be found at www.ebrd.com/law. This annex presents a summary of the results for Bosnia and Herzegovina, accompanied by critical comments from the Bank’s legal experts who have conducted the assessments and other research in the relevant areas.

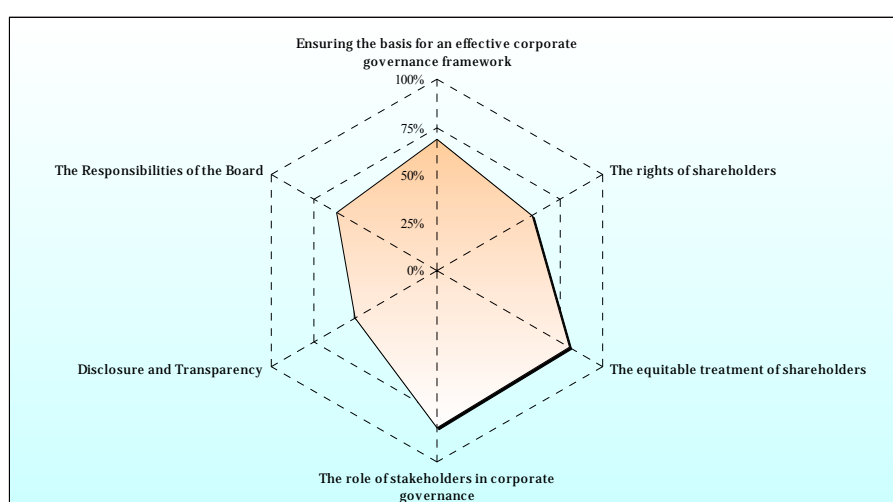
Company Law and Corporate Governance

Corporate governance in Bosnia and Herzegovina (“BiH”) is regulated at the Entity level. In practice, two distinct corporate governance regimes exist and each Entity has its own framework of primary and secondary legislation and Securities Commission.

Federation of Bosnia and Herzegovina (“FBH”)

In the FBH the basic legislation on corporate governance is essentially entrusted in the Law on Business Companies (1999), which was recently deeply amended to align it with EU legislation. According to this law, joint stock companies are organised under a two tier system, where the general shareholders meeting appoints the supervisory board and the latter appoints the management board. In 2006, the Securities Commission issued a Regulation addressing corporate governance in joint stock companies. The Regulation addresses issues as conflict of interests, procedures for the general shareholders meeting, boards’ duties and responsibilities, auditors, risk management, internal audit and dividends. Joint stock companies are required to harmonise their by-laws with the provisions of the Regulations.¹

Quality of corporate governance legislation–Federation of Bosnia and Herzegovina



Note: The extremity of each axis represents an ideal score, i.e., corresponding to OECD Principles of Corporate Governance. The fuller the ‘web’, the more closely the corporate governance laws of the country approximate these principles

Source: EBRD Corporate Governance Sector Assessment, 2007 assessment

According to the results of the EBRD’s 2007 Corporate Governance Sector Assessment, under which the quality of corporate governance legislation in force in November 2007 was

¹ The Regulation is available at: <http://www.ebrd.com/country/sector/law/corpgov/codes/index.htm>

assessed (see chart above), the Federation resulted to be in “*medium compliance*” with the OECD Principles of Corporate Governance, showing some weaknesses especially in the “*right of shareholders*” and “*disclosure and transparency*” categories. It remains to be seen how the recent amendments improve the legal framework.

When considering the effectiveness of corporate governance legislation, the 2005 EBRD’s Legal Indicator Survey revealed that judicial procedures can be complex and lengthy, while enforcement can be troublesome. Company books are generally reliable but statutory auditors might not be fully independent. The statutory background on related party transaction is insufficient, while the competence and experience of courts, prosecutors and market regulators must be improved.

Republika Srpska

In the Republika Srpska, corporate governance legislation is essentially entrusted in the Law on Business Companies, enacted in December 2008, with the aim to align national legislation with the Acquis Communautaire. According to this law, joint stock companies are organised under a two-tier system where the shareholders meeting appoints both the members of the management and supervisory boards. In 2006, the Securities Commission adopted “*The Standards of Corporate Governance*” and listed companies are required to incorporate the standards within their by-laws.

According to the results of the EBRD’s 2007 Corporate Governance Sector Assessment under which the quality of corporate governance legislation in force in November 2007 was assessed, the Republika Srpska resulted to be in “*medium compliance*” with the OECD Principles of Corporate Governance, showing similar results as the Federation.

Concessions

In BiH there exists a policy framework for improving the legal environment and promoting PPP; there also exist a concessions legal framework and a relevant institutional infrastructure.

The 2002 Concessions Law fairly clearly defines its scope of application: it regulates the selection procedures and provides for a flexible framework for the project agreement. It is one of the few Laws in the region to contain a clear reference to the principles of transparency, non-discrimination and proportionality (and to the “equitable relations toward the private sector”) and to refer to consumers’ rights.

Amongst the provisions/areas that still have room for further improvement are those relating to coordination with and functioning of public authorities, certain procedural issues (in particular, the pre-qualification and the publication of contract award, that would improve clarity and transparency), direct negotiations, compensation rules and mechanisms in the event of early termination.

One particular area that is in need of further development is security interests, lenders’ rights and government support issues. Rules governing this important area leave much scope for improvement in order to add certainty and comfort to both public and private sector and ultimately make impact on the price of financing.

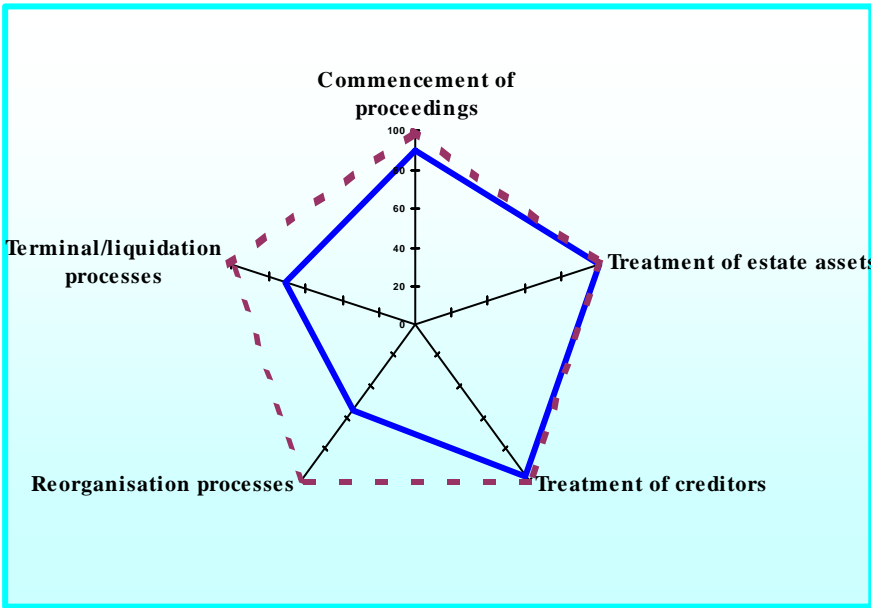
Overall, the Concessions Law constitutes a solid basis for the development of PPP in the country and in practice concessions are being granted in BiH. However, the weak regulatory oversight and the lack of institutional capacity are referred to among elements in need of reform. In particular, the government may wish to consider further clearer delineation of

competences amongst all the institutions involved and between state and entity levels, and effective functioning of the Commission for Concessions and collaboration with the relevant government ministries. The complex state organisation of BiH is likely to add uncertainties and to impede the effective application of the Concessions Law, given the existence of four similar acts in one state (BiH Law, Concession Law of Republika Srpska, Concession Law of the Federation of Bosnia and Herzegovina and Concession Law of Brcko district). The financial crisis and a relevant downturn in economic activities may provide the authorities with an opportunity to further upgrade the laws, procedures and the institutional infrastructure applicable to the granting and monitoring of concessions.

Insolvency

Bankruptcy and insolvency in BiH are governed by the “Law on Bankruptcy of the Federation of BiH” and the “Law on Bankruptcy of the Republika Srpska” of 2005 (the “Insolvency Law”). The Insolvency Law contains many of the elements recognised in international insolvency standards and best practices as being critical to a well-functioning insolvency legal regime. As reflected in the graph below, the EBRD’s 2009 Insolvency Sector Assessment found that the Insolvency Law is in “high compliance” with international standards, based on five core areas most relevant to the sector.

Quality of insolvency legislation – Bosnia and Herzegovina (2009)



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 2009

As the above chart reflects, three core areas of the Insolvency Law performed exceedingly well when compared with international standards: commencement of proceedings, assets of the estate, and treatment of creditors.

In the area of estate assets, comprehensive legislation for the avoidance of pre-bankruptcy transactions remains the most impressive feature. In this regard, the Insolvency Law provides for identification of avoidable transactions and for avoidance of preferential transfers. Moreover, the Insolvency Law requires the debtor and third parties to provide an insolvency administrator (sometimes known as a trustee) with all relevant information concerning the assets and financial affairs of the debtor. However, while the law requires debtors to deliver or make available all estate assets to the administrator, there is no corresponding requirement

for third parties with estate assets in their possession to do the same. This is an area which would benefit from reform.

In the areas of commencement of proceedings and treatment of creditors, the Insolvency Law is similarly very strong. The financial condition precedent to commencing an insolvency case is clear, and the law applies to natural persons, legal entities and state owned enterprises. Alternative remedies of liquidation and reorganisation are contemplated and an automatic stay of actions against the debtor applies upon commencement of proceedings. Creditors enjoy adequate opportunity to participate in insolvency proceedings and the law contains provisions to keep them informed as the case progresses. Further, procedures for submitting and determining allowable claims in the Insolvency Law are adequate, and claims are treated equally within the same class.

Although these core areas performed exceptionally well, the EBRD's Assessment of the Insolvency Law reveals that there is still some room for improvement. In particular, the law is generally weak as regards reorganisation proceedings. Specifically, the law should be reformed to include provision for independent analysis of a proposed plan and for a plan to meet minimum requirements. The Insolvency Law also currently lacks provision for reorganisation financing and fails to prohibit the termination of essential services to a debtor attempting reorganisation. Additionally, the law currently does not contain any restriction on voting by connected parties or provisions for the post-approval modification of a plan.

The results of the 2009 EBRD Assessment also reveal that the legislative framework relating to insolvency administrators is weak and should be addressed. The 2009 Assessment included a separate analysis of the legislative and regulatory framework for insolvency administrators in each of the EBRD's countries of operations. For BiH, this separate analysis revealed that the Insolvency Law is in "low compliance" with internationally recognised standards. The provisions in the Insolvency Law are fair but could be considerably improved as regards the bases for appointment and replacement of insolvency administrators. Currently, there are no provisions for the resignation, retirement or death of an insolvency administrator or for their replacement. Further, there are no provisions for professional standards or ethical codes of conduct relating to insolvency administrators.

Judicial Sector

Bosnia and Herzegovina (BiH) has two separate legal systems and judiciaries for each of its constituent entities, the Federation of Bosnia and Herzegovina (FBH) and Republika Srpska (RS). There is limited coordination at the state level.

In FBH, cantonal courts are the courts of first instance. Appeals lie to the Federation Supreme Court, but only in the Bosniak-majority cantons; the Croat-majority cantons do not recognise its jurisdiction. In those cantons there is no appeal beyond the cantonal level. In RS, municipal and district courts hear cases at first instance, with appeals lying to the Supreme Court of RS. The national level consists of a Ministry of Justice with limited powers, the State Court and State Prosecutor's Office, and the High Judicial and Prosecutorial Council (HJPC). One major problem has been the lack of a Supreme Court that can harmonise the application of legislation across the country. Another is the absence of a single budget for the judiciary.

It is widely believe that there remains political interference in the judicial system. There is a substantial backlog of undecided cases. Public concern about the court system is reflected in the EBRD – World Bank Business Environment and Enterprise Performance Survey 2008-2009 (BEEPS), where only 15 per cent of surveyed business respondents expressed the view

that the court system was fast, and 39 per cent believed the courts were fair, impartial and uncorrupted.

The National Strategy for Development of the Justice Sector for 2008-2012 was adopted in June 2008. The Strategy includes provisions aiming at strengthening the independence, accountability, efficiency, professionalism and harmonisation of the judicial system in both entities. However, due to an absence of consensus, the Strategy makes no provision for establishing a Supreme Court of Bosnia and Herzegovina.

Public Procurement

Public procurement (the “PP”) in BiH is regulated by Public Procurement Law (the PPL), adopted in 2004, which covers national and local government public procurement. Utilities contracting rules are covered only in the water, electricity, transport and telecommunications sectors.

Bosnia & Herzegovina’s public procurement legal framework has been partially modelled on the previous EU public procurement directives and has not been updated yet to incorporate directives 2004/17/EC and 2004/18/EC or international best practice.

The PP framework provide for 4 procurement procedures: (a) open tendering; (b) restricted tendering; (c) negotiation with or without prior publication of a contract notice and (d) direct agreement.

The PPL embrace also framework agreements; however these are not utilised in practice due to restrictiveness of the regulation. Open tendering is default procurement method. The award criteria are both lowest price and economically most advantageous tender. The eligibility rules and qualification criteria would have been in line with international good practice if not for the domestic preferences. The public procurement contract notices and tender documents are not available on the Internet. Both publication of the contract notice and tender documents come at a price, and are reported to be extremely pricey. Tenders are allowed to be submitted in the Bosnia & Herzegovina’s official languages (Bosnian, Serbian and Croatian) only.

The PPL makes little distinction between the rules for lower and higher-value procurement, which leads to excessive delays and increased costs of procurement. The public procurement procedures are complex and inflexible, with a technical specification and awarding criteria set to the advantage of the domestic market.

An extensive list of qualification documents, costly and time-consuming for tenderers is mandatory. The PP framework does not mention the efficiency or economy of the process issues. The review and remedies system is considered the weakest point of the framework.

In general, the Bosnia & Herzegovina’s public procurement legal framework is bureaucratic, but unaccountable.

Secured transactions

Bosnia and Herzegovina is equipped with a modern legal framework for secured transactions (pledge over movable property). The 2004 Framework Pledge Law adopts a so-called “functional” approach to security, providing the same regime for possessory pledges (when the debtor must transfer the collateral to the creditor or a third party), non-possessory pledges, liens, leases and other security rights. A pledge can encompass tangible property, rights such

as shares in a company with limited liability, bank accounts, account receivables, etc. 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).

A pledge is constituted if: the parties have concluded a pledge agreement; the pledgor is the owner or will acquire ownership over the pledged property; the pledgee (or a third party in accordance with the pledge agreement) has given a loan to the pledgor (or a third party in accordance with the pledge agreement); and the pledge has been registered at the Pledge Registry. The Registry is a centrally held register operated by the Ministry of Justice and is available electronically (upon subscription) at www.reg-zaloga-bih.gov.ba.

A pledge must be described with enough specificity in the pledge agreement to enable a subsequent determination of the nature and extent of the pledge. The description of the pledge in the Pledge Registry does not have to be detailed, but in the case of a pledge of specific property, the serial number of the pledged property must be entered into the Register.

In case of default, the pledged property must be sold through a private sale (if so provided in the pledge agreement) or a public auction. The secured creditor will have the right to settle its claim from the proceeds of the sale. The pledge agreement cannot provide that the creditor would acquire ownership over the pledged property upon default.

In fact, enforcement may be the weakest link of the new regime because the judicial system has difficulty coping with the demands, in particular in terms of speed. Debtors thus are often able to obstruct enforcement process.

Securities Markets

The securities markets legal framework in BiH is mostly regulated at Entity level. Each of the Entities has its own legal system, a separate Securities Commission and stock exchange.

Federation of Bosnia and Herzegovina (FBH)

In the FBH the basic legislation on the securities market is entrusted in the Law on Securities Markets, enacted in December 2008. The law regulates trading and issuance of securities and aims at aligning national legislation with the *Acquis Communautaire*.

The securities markets regulator is the Securities Commission in the FBH, while the Banking Agency in FBH is competent for the banking sector. The only stock exchange in the FBH is the Sarajevo Stock Exchange. At the end of 2009, the market capitalisation was about USD 5.26 billion with 529 listed companies.²

In 2007, the EBRD benchmarked the securities markets legislation of the FBH against the “Objectives and Principles of Securities Regulation” published by IOSCO. The assessment showed that national securities markets legislation is in “medium compliance” with international standards.³ Among the major flaws, it is worth noting the lack of comprehensive legislation on bonds and derivatives and a number of weaknesses in the “secondary market” sector. In order to understand how securities markets legislation works in practice, in the same year the EBRD undertook a Legal Indicator Survey asking practitioners in the region to

² Data from the website of the Federation of Euro-Asian Stock Exchanges (<http://www.feas.org/Member.cfm?MemberID=32>), last accessed on April 8, 2010.

³ The assessment is available at: <http://www.ebrd.com/country/sector/law/corpgov/assess/index.htm>

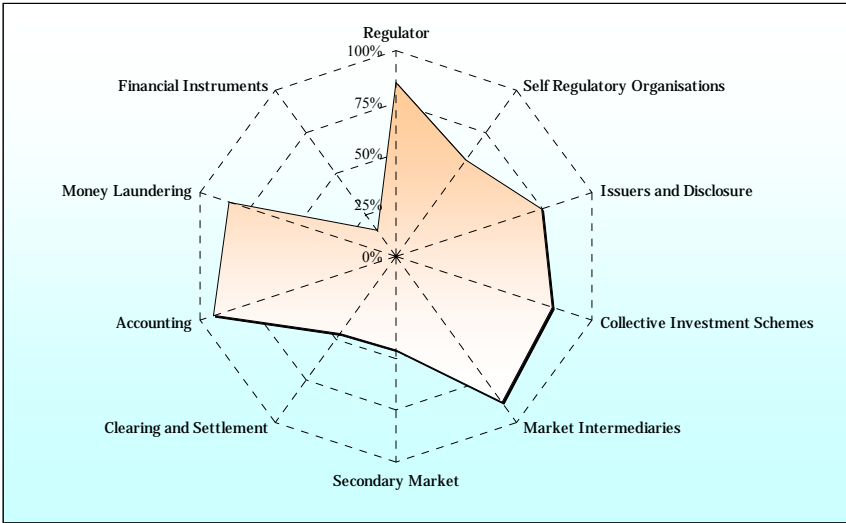
comment on a hypothetical case study. The Survey concentrated on effectiveness of prospectus disclosure requirements, private and public enforcement mechanisms and authority of the market regulator. The Survey revealed that IPOs are not common in the FBH and the prospectus is not considered a proper tool as to identify risks of the proposed investment. Private enforcement mechanisms are generally lengthy and burdensome. The regulator is deemed independent and has the necessary authority to protect investors, but in practice its action has been limited.

Republika Srpska

In the Republika Srpska the basic legislation on the securities markets is essentially entrusted in the Securities Market Law, redrafted in 2006 and then amended in 2009. This Law regulates the issuance and trading of securities, the conduct of participants on the securities market, the functions of the stock exchange and the central registry of securities and details rules for transparency of the market and protection of investors.

The securities market regulator is the Securities Commission of Republika Srpska, while the banking regulator is the Republika Srpska’s Banking Agency. There is only one stock exchange in the Republika Srpska, the Banja Luka Stock Exchange. At the end of 2009, the market capitalisation was about USD 2.82 billion with 862 listed companies.⁴

Quality of securities market legislation – Republika Srpska (2007)



Note: The extremity of each axis represents an ideal score, i.e., corresponding to the standards set forth in IO스코’s *Objectives and Principles for Securities Regulations*. The fuller the ‘web’, the closer the relevant securities market legislation of the country approximates these principles.

Source: EBRD Securities Market Legislation Assessment 2007

In 2007, the EBRD benchmarked the securities markets legislation of the Republika Srpska against the “Objectives and Principles of Securities Regulation” published by IO스코. The assessment showed that national securities markets legislation is in “medium compliance” with international standards (see chart above). Similarly to the FBH, the major flaws are the lack of comprehensive legislation on bonds and derivatives and a number of weaknesses in the “secondary market” category. As far as effectiveness is concerned, the findings of the Legal Indicator Survey revealed a situation similar to that in FBH.

⁴ Data from the website of the Federation of Euro-Asian Stock Exchanges (<http://www.feas.org/Member.cfm?MemberID=31>), last accessed on March 23, 2010.

Telecommunications

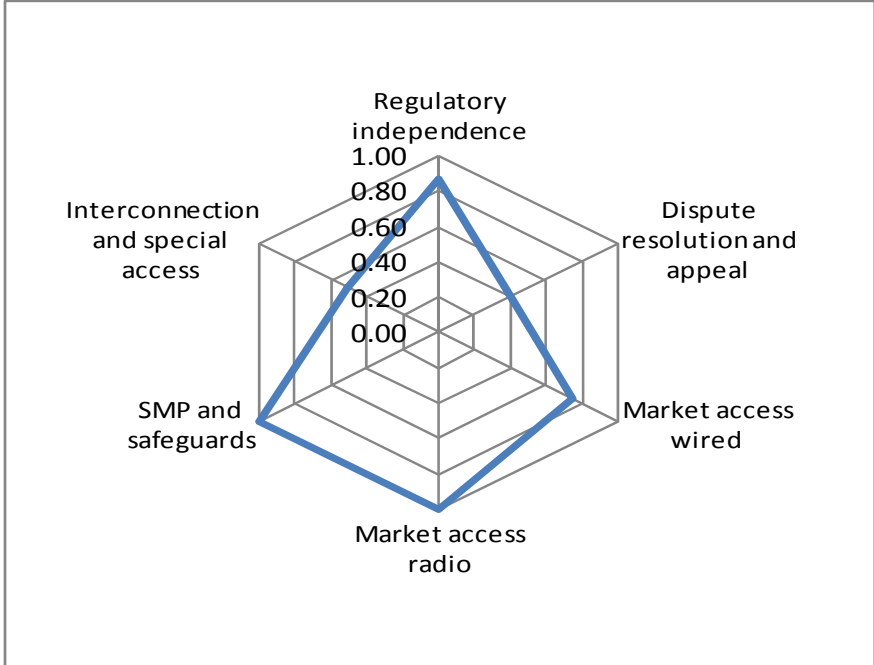
The communications sector in BiH is currently regulated by the Communications Regulatory Agency (the ‘RAK’) and governed by the State Communications Law, 2002 (the ‘2002 Law’), together with associated Sector legislation. The 2002 Law provides for a state based model of regulation, vesting power for regulating the Sector with state-level Bosnian authorities. The Council of Ministers is responsible for policymaking. The most recent sector policy was approved in December 2008.

RAK is a unified regulatory body, responsible for both communications and broadcast regulation (including media content). The specific responsibilities of the RAK include licensing, tariffs, interconnection issues; planning, co-ordinating, allocating and assigning the radio frequency spectrum; management of the numbering plan and assignment of numbering resources. RAK is headed by a Director General, who is proposed by RAK Council and approved by the Council of Ministers. The Parliament has the sole authority to dismiss the members of RAK Council before completion of their mandate. RAK has its own independent budget financed through fees for authorisations, numbering and spectrum.

The key to the development of a liberalised and dynamic environment for communications in BiH is the full and continued implementation of a European Union consistent regulatory framework. While some inroads have been made, overall progress appears patchy. On the positive side, reference interconnection offers have been available since 2005 (recently updated in 2009) and RAK regulations on local loop unbundling (LLU) were adopted in 2008, with the first reference unbundling offer being published in January 2010. The government has also indicated a positive stance towards further competition in the mobile sector with support for mobile virtual network operators in the recent policy declarations. On the negative side, tariff rebalancing remains uncompleted; carrier pre-selection (though introduced in 2007) has yet to make an impact in the market; and number portability in fixed and mobile networks has yet to be implemented. Given the slow progress in implementing the key competitive safeguards, there is clearly a need for further reform of the regulatory framework, including more efforts to harmonise the domestic framework with the EU acquis. The adoption of a new sector policy has given new impetus to this effort and all focus should now be on implementation with the aim of ensuring meaningful competition takes hold, particularly in the fixed market.

Quality of telecommunications regulatory frameworks – Bosnia and Herzegovina (2008)

In a 2008 assessment of the communications sector of EBRD Countries of Operation the sector regulatory regime in BiH was deemed to have “High Compliance” when measured against international best practice⁵.



Note: The diagram shows the combined quality of institutional framework, market access and operational environment when benchmarked against international standards issued by the WTO and the European Union. The extremity of each axis represents an ideal score of 100 per cent, that is, full compliance with international standards. The fuller the “web”, the closer the overall telecommunications regulatory framework of the country approximates these standards. Source: EBRD 2008 Telecoms Regulatory Assessment

⁵ For further detail see <http://www.ebrd.com/country/sector/law/telecoms/assess/index.htm>

ANNEX 4 – ENVIRONMENTAL AND SOCIAL DEVELOPMENTS

Environment

Bosnia and Herzegovina is facing a number of challenging environmental and social issues arising from various factors, including the social and environmental aftermath of the conflict, a complex political and institutional organisation, insufficient environmental control and environmental capacity in respect of the significant economic growth experienced during the first eight years of the past decade, and poverty or vulnerability of certain layers of the population in both rural and urban areas.

EU integration remains a distant perspective as complex constitutional and other political steps have to be made before Bosnia and Herzegovina could possibly be granted the status of a Candidate Country. The environmental regulatory and institutional framework can however be expected to align with EU principles in the coming years and some progress towards this aim has already been achieved. Specifically in the Federation, the harmonization of national legislative framework with that of the EU has started in 2003 with the overarching Law on Environment Protection and other pieces of legislation (Waste Management, Air Protection, Nature Protection and Environmental Protection Fund), but enforcement legislation is lagging behind. Bosnia and Herzegovina has also made progress in the recent years in adherence to international environmental conventions, with most of the significant ones now ratified.

Civil society development is still lagging behind in comparison with what can be observed in neighbouring western Balkan countries, and this is probably the result of what is still an ethnically polarised society and political life. However, in the last two – three years, environmental NGOs and local civil society groups have appeared that raise environmental and social issues to the different levels of Government, to private companies and to IFIs. A significant asset to the country environmental strategy is its good scientific and technical basis, with numerous University based and private experts available to participate in environmental assessments and capacity building activities.

Main environmental and social issues of concern include:

- Urban / industrial environment:
 - Air quality: particulates/SO₂/NO₂ and greenhouse gases, with a few black spots of air pollution associated with aging metallurgical and power generating facilities
 - Hazardous waste associated with inadequately operated or improperly closed industrial and mining operations
 - Wastewater treatment, with inadequate sewage collection and treatment systems
 - Urban waste management, with little or no recycling and inadequate disposal facilities
- Social issues:
 - Shortfalls in urban planning associated with the aftermath of the conflict and related population displacements
 - Illegal/informal occupation of property and land
 - Social and economic vulnerability of IDPs and other layers of the population
 - Lack of proper social care for the elderly and vulnerable people in general
 - Insufficiency of social housing to meet the demand
- Natural resource management:
 - Water resources and watershed management, particularly in relation with the impact of soil erosion and unplanned discharges on surface water quality

- Vulnerability of karstic water resources in Herzegovina
- Threats to forests arising from development, unplanned farming, soil degradation, erosion and fires, and associated threats to biodiversity and threatened habitats
- o Cultural and natural heritage sites:
 - Threat from development (housing, industry, tourism, infrastructure, irrigation and hydropower projects)
 - Poor management of sites and theft.

The Country Strategy identifies operational priorities for further activities of the Bank in Bosnia and Herzegovina. The table below identifies potential environmental and social issues associated with each of these priorities:

Bank's Operational Priorities	Potential Environmental and Social Issues and Associated Mitigations for the Bank and its Clients
<p>1. Transport infrastructure:</p> <ul style="list-style-type: none"> o Sustained priority to both construction and rehabilitation, with strategic support to the key corridors and connecting routes between them o PPP structures where relevant o Continued support to railway companies with focus on restructuring o Expansion of Sarajevo airport and rehabilitation of regional airports 	<ul style="list-style-type: none"> o Issues: <ul style="list-style-type: none"> o Potential inconsistent application of EU directives (EIA and Habitat): alternative analysis and scoping stage consultation may be deficient o Land acquisition (informal occupation and gaps between BiH legislation and Bank requirements) o Impacts on cultural heritage o Impacts on natural resources o Potential social impacts of restructuring in the railway sector o Mitigations: <ul style="list-style-type: none"> o Engage early enough in project development with project sponsors to ensure Bank E&S requirements are integrated into Project concept and development o Mobilise TC funding where necessary (public sector) to facilitate due diligence, monitoring and compliance and provide technical assistance o Build capacity in the public sector in respect of EBRD E&S requirements – local consultants can be used
<p>2. Municipal and Environmental Infrastructure</p> <ul style="list-style-type: none"> o Water and waste water projects o Seek multi-municipal programmes, while also trying to meet the demand of smaller municipalities via smaller municipalities o Increase transparency 	<ul style="list-style-type: none"> o Issues: <ul style="list-style-type: none"> o Lack of capacity at municipal and cantonal levels, particularly on application of EBRD and EU E&S requirements o Impracticality of meeting EU environmental standards upfront for the smaller projects o Potentially inadequate public engagement o Affordability for the most vulnerable households o Mitigations: <ul style="list-style-type: none"> o Capacity building at municipal, multi-municipal, cantonal and regulatory authorities level – local consultants can be used o Mobilise TC funding where necessary (public sector) to facilitate due diligence, monitoring and compliance and provide technical assistance during Project implementation

Bank's Operational Priorities	Potential Environmental and Social Issues and Associated Mitigations for the Bank and its Clients
3. Energy <ul style="list-style-type: none"> ○ Investment in utilities focussing on energy efficiency ○ Renewables ○ Rehabilitation of thermal units to reach compliance with EU emission standards ○ Development of new thermal capacity 	<ul style="list-style-type: none"> ○ Issues: <ul style="list-style-type: none"> ○ Same as 1. above in respect of potential deficiencies in application of EU directives ○ Public engagement ○ Land acquisition ○ Mitigations: <ul style="list-style-type: none"> ○ Policy dialogue with authorities at State level and in both entities on emissions and application of EU legislation ○ Capacity building and TC funding (see 1. above)
4. Banking sector <ul style="list-style-type: none"> ○ Long term funding to local banks and sustainable MFIs ○ Support to privatisation of remaining state owned banks and insurance companies 	<ul style="list-style-type: none"> ○ Issues: <ul style="list-style-type: none"> ○ Application of EBRD requirements for FIs ○ Mitigations: <ul style="list-style-type: none"> ○ Capacity building and monitoring of EBRD clients
5. Industry <ul style="list-style-type: none"> ○ Support privatisation of the few remaining large state owned industrial and services companies ○ Support food processing, wood and metals manufacturing, pharmaceuticals and telecommunications 	<ul style="list-style-type: none"> ○ Issues: <ul style="list-style-type: none"> ○ Application of EU and EBRD standards in the industrial sector, particularly those pertaining to air emissions and labour ○ Potential social impacts of privatisations ○ Mitigations: <ul style="list-style-type: none"> ○ Consistent application of EU/EBRD pollution and labour standards ○ Dedicated action plans to be developed on a case-by-case basis to address labour and social implications of privatisations

Social Developments

a) Social and labour issues

Poverty has been a major issue for people in BiH throughout the post-war era. However, prior to the global economic crisis, living standards had been on the rise, and unemployment levels declining, in line with the strong economic growth that the country enjoyed in much of the last decade. Pre-crisis data show that headcount poverty (the fraction of the population with a monthly income below KM 205, or €105) declined by 20 per cent to 14 per cent between 2004 and 2007 (FBiH 13.4 per cent, RS 15 per cent), according to World Bank data. The same source shows that the poverty headcount ratio, meaning the percentage of the population living on less than USD 2 per day (in purchasing power parity terms), was less than 2 per cent in 2007. However, a detailed examination of household data reveals significant disparities among different social groups. For example, rural poverty is twice as high as in urban areas. Poverty amongst people with elementary or lower education is significantly higher than amongst those with higher education (the poverty rate amongst the lower educated ranges between 17 and 21 per cent). And poverty is particularly persistent amongst the elderly who have been working in the informal sector and hence are not entitled to a pension.

A major problem for policy-makers in BiH is the weak and insufficient targeting of benefits to those in most need. According to one study, only 17 per cent of benefits go to those who actually need them. The proportion of national income that is spent on social assistance is roughly in line with European standards, but its distribution is not. The bottom 20 per cent of

the population receives around 16.9 per cent of total social protection benefits, below most other countries in the transition region. One of the core problems lies in the broad spectrum of entitlements granted to war veterans, as well as the lack of coherent social policies at the state level.

A Law on Labour is in place. However, enforcement of the law is insufficient due to the country's complex administrative structure. This in turn fosters a dual labour market, which can lead to violations of labour standards and hampers workers' mobility. The unemployment rate stood at 24.1 per cent in 2009, one of the highest in the transition region. Activity and employment rates are low by comparison with other countries, standing at 43.6 per cent and 33.1 per cent respectively in 2009. Unemployment is concentrated among the young and less educated, and long-term unemployment is widespread. Also, significant barriers to employment hamper efforts to reduce unemployment. According to the World Bank's "Doing Business" indicators, BiH lies in 111th place (out of 183 countries) in terms of ease of employing workers.

Cases of employment discrimination on the grounds of ethnicity include minority returnees, Roma and other vulnerable minorities. Patterns of discrimination against women in employment persist, with women tending to be concentrated in lower-paid and informal employment and payment of maternity leave allowances not always available.

b) Education

The education system in BiH is characterised by the division of students along ethnic lines. Although coverage is universal, with a gross primary school enrolment rate of 110 per cent, the level of education leaves a lot to be desired. According to recent data, 31 per cent of 15-24 years old have completed primary education only. Many of those who leave school early come from low-income families or children of refugee families. However, the adult literacy rate is 97.6 per cent. Most third-level education is publicly-provided, with a limited degree of private universities.

c) Healthcare

The provision of healthcare is highly problematic in BiH, partly reflecting the legacy of the war and its aftermath. The country operates a non-profit, public insurance system, financed mainly by contributions to health insurance funds. This imposes a significant burden on the employed who are financing healthcare for the unemployed and pensioners. There are 12 regional funds (10 cantonal funds in FBiH, plus RS and the district of Brčko). In addition, cantons in the FBiH are required to set aside 9 per cent of revenue for the social solidarity fund, which covers some healthcare services.

Many people complain about the low quality of the healthcare system and inadequate access to services. According to a 2007 UNDP survey, almost 73 per cent of respondents reported problems related to access to healthcare due to (i) lack of health insurance, (ii) expensive medical costs, (iii) long waiting lists and (iv) administrative problems. There are also significant regional discrepancies and inequalities in terms of coverage. For example, war veterans with high disability receive invalid allowances and are entitled to regular healthcare insurance, whereas those on temporary social benefits are not entitled to paid health insurance. Life expectancy rates at birth (in 2008) are 75 years, below the EU average of 80.7. The mortality rate (under 5 per 1.000) in 2008 is 14.6, compared to the EU average of 4.1.

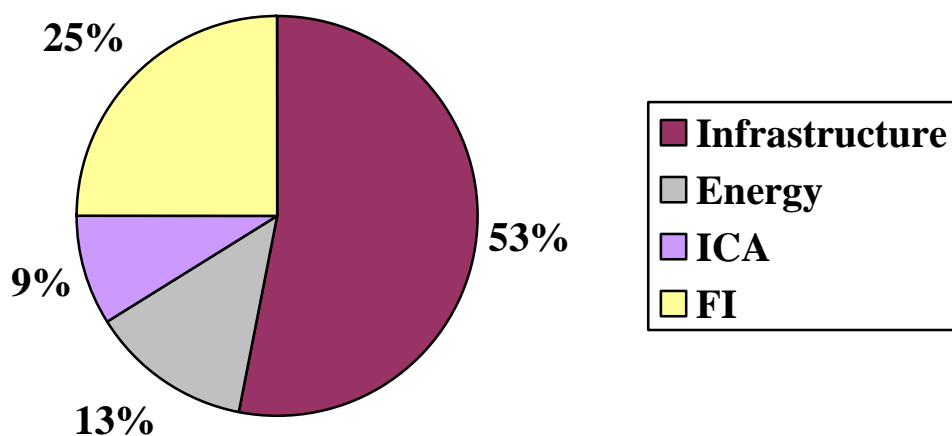
ANNEX 5 - BOSNIA AND HERZEGOVINA PORTFOLIO TREND

BOSNIA AND HERZEGOVINA: PORTFOLIO TRENDS

<i>As of September 2010</i>	2006	2007	2008	2009	2010
Net Cumulative Business Volume	584	724	963	1,054	1,197
Number of operations (#)	52	65	74	83	90
Current Portfolio Stock	479	570	763	799	897
# Projects	39	45	52	58	62
Operating Assets	176	207	292	382	433
% Undrawn	63%	64%	62%	52%	52%
Annual Business Volume	133	156	249	111	141
Number of operations (#)	12	17	12	14	9
Gross Disbursements	66	75	130	148	93
Annual Cancellations	1	9	9	18	0
Active Pipeline Stock	318	330	627	551	296
Private Sector Share (% Portfolio)	30%	28%	25%	30%	28%
Non-Sovereign (% Portfolio)	47%	47%	36%	41%	39%

- Number of projects excludes TFP projects
- Current Portfolio includes active operations only
- Active pipeline stock includes regional projects

Bosnia and Herzegovina Portfolio as of September 2010 (€896.8 million)



ANNEX 6 – CUMULATIVE BUSINESS VOLUME AS OF SEPTEMBER 2010

Op Name	EBRD Finance	Instrument Type	Private/state	Operation Stage
Infrastructure				
Transport				
Emergency Transport Reconstruction Project	26.7	Debt	STATE	Repaying
Bosnia and Herzegovina Regional Railway Project	70.0	Debt	STATE	Repaying
Railways Recovery Project	20.9	Debt	STATE	Repaying
B&H: Regional Road Development Programme	70.0	Debt	STATE	Repaying
Bosnia & Herzegovina Road Rehabilitation Project	75.0	Debt	STATE	Disbursing
Bosnia and Herzegovina Air Traffic Management System	17.0	Debt	STATE	Repaying
Corridor Vc	180.0	Debt	STATE	Disbursing
Mahovljani Interchange	21.0	Debt	STATE	Signed
Sarajevo International Airport	25.0	Debt	STATE	Signed
MEI				
Bijeljina Waste Water Collection System	7.0	Debt	STATE	Disbursing
Bijeljina Phase 2 WWTP	5.0	Debt	STATE	Signed
Energy				
Power and Energy				
Emergency Power System Reconstruction Project	14.1	Debt	STATE	Repaying
Electric Power Reconstruction Project	52.3	Debt	STATE	Repaying
ISO & TRANSCO Loan Novation Project (ref 12413)	15.9	Debt	STATE	Repaying
Power Distribution Reconstruction Project	55.0	Debt	STATE	Repaying
Natural Resources				
Gasification of Central Bosnia Canton	17.0	Debt	STATE	Signed
Financial Institutions				
Bank Equity				
Equity Investment in Zagrebacka Banka, Mostar	1.0	Equity	PRIVATE	Completed
Raiffeisen Bank Bosnia (f. Market) (portage equity)	2.4	Debt	PRIVATE	Completed
Intesa SanPaolo Banka BiH (f. UPI)	7.9	Debt & Equity	PRIVATE	Repaying
Western Balkans MSME FW – Intesa SanPaolo Banka BiH	1.4	Debt	PRIVATE	Disbursing
Bank Lending				
BiH SME FW – Raiffeisen Bank Credit Line	1.7	Debt	PRIVATE	Completed
BiH SME FW – Raiffeisen Bank HPB d.d.	2.5	Debt	PRIVATE	Completed
EU/EBRD WeBSECLF – Raiffeisen Bank BiH	10.0	Debt	PRIVATE	Disbursing
Raiffeisen Bank BH – SME Credit Line	30.0	Debt	PRIVATE	Disbursing
Raiffeisen Bank BH-Senior SME & Retail Loan	20.0	Debt	PRIVATE	Repaying
Raiffeisen Bank d.d. BiH-Syndication	15.0	Debt	PRIVATE	Completed
Raiffeisen Bank dd – Credit Line – 2	5.0	Debt	PRIVATE	Completed
Regional TFP: Raiffeisen Bank d.d.BiH (former Market)	0.4	Debt	PRIVATE	Signed
BiH SME FW – UniCredit Zagrebacka Banka (formerly Zagrebacka)	2.8	Debt	PRIVATE	Completed
BiH SME FW – UPI Banka Credit Line	1.7	Debt	PRIVATE	Completed
Intesa SanPaolo BiH – SME Credit Line	20.0	Debt	PRIVATE	Signed
Intesa SanPaolo Banka dd Third Credit Line	5.0	Debt	PRIVATE	Completed
Regional TFP: Intesa Sanpaolo Banka dd	0.0	Debt	PRIVATE	Signed
UPI Banka – Credit Line II	2.5	Debt	PRIVATE	Completed
BiH SME FW – UniCredit Zagrebacka banka (formerly Universal)	2.5	Debt	PRIVATE	Completed
Regional TFP: UniCredit Zagrebacka Banka BiH	0.0	Debt	PRIVATE	Disbursing
Volksbank FW – Volksbank BH subordinated debt	7.5	Debt	PRIVATE	Disbursing
Volksbank FW – Volksbank BiH Credit Line	2.5	Debt	PRIVATE	Completed
UniCredit Bank d.d. SME Credit Line (Unicredit Group)	30.0	Debt	PRIVATE	Disbursing
UniCredit Zagrebacka banka dd-second credit line	7.5	Debt	PRIVATE	Completed

Small Business Finance				
US/EBRD SME – ProCredit Bank Bosnia	0.5	Equity	PRIVATE	Completed
US/EBRD SME – ProCredit Bank Bosnia	0.3	Equity	PRIVATE	Completed
US/EBRD SME – ProCredit Bank Bosnia	2.7	Debt	PRIVATE	Completed
US/EBRD SME – ProCredit Bank Bosnia	0.4	Equity	PRIVATE	Completed
US/EBRD SME – ProCredit Bank Bosnia	5.9	Debt	PRIVATE	Completed
Western Balkans MSME Framework – MIKROFIN	8.0	Debt	PRIVATE	Completed
Western Balkans MSME FW – EKI (Debt II)	6.0	Debt	PRIVATE	Repaying
Western Balkans MSME FW – Mikrokreditna Organizacija EKI	6.0	Debt	PRIVATE	Completed
Western Balkans MSME FW – Partner	8.0	Debt	PRIVATE	Repaying
Western Balkans and Croatia Financing F/W – Partner II	10.0	Debt	PRIVATE	Repaying
Western Balkans MSME FW – Sunrise	4.0	Debt	PRIVATE	Repaying
Western Balkans MSME FW – Sunrise II	3.0	Debt	PRIVATE	Repaying
Western Balkans MSME F/W – MCO MI-BOSPO	3.0	Debt	PRIVATE	Repaying
Western Balkans MSME F/W – Prizma MKO	4.0	Debt	PRIVATE	Repaying
Western Balkans and Croatia Financing F/W – MI-BOSPO	3.0	Debt	PRIVATE	Repaying
Insurance & Financial Services				
Raiffeisen Leasing BiH - 2nd SME Credit Line	10.0	Debt	PRIVATE	Repaying
Western Balkan SME Framework-Raiffeisen Leasing BiH	10.0	Debt	PRIVATE	Repaying
UNIQA Osiguranje - BiH	1.6	Equity	PRIVATE	Signed
Credit Line to the Deposit Insurance Agency of BiH	50.0	Debt	STATE	Signed
Unicredit Leasing Bosnia (Unicredit Group)	15.0	Debt	PRIVATE	Disbursing
WBCFF - Unicredit Leasing	10.0	DEBT	PRIVATE	Signed
Industry, Commerce & Agribusiness				
Agribusiness				
Sarajevska Pivara	3.1	Debt	PRIVATE	Completed
Pivara Tuzla	6.1	Debt	PRIVATE	Completed
Marbo	3.9	Debt	PRIVATE	Completed
Grand	2.8	Debt	PRIVATE	Completed
VF Komerc Debt	4.0	Debt	PRIVATE	Completed
WBLEF: VF Komerc	4.0	Debt	PRIVATE	Repaying
VF Komerc	6.0	Equity	PRIVATE	Completed
WBLEF: Bimal	8.4	Debt	PRIVATE	Repaying
WBLEF: Bingo	5.9	Debt	PRIVATE	Signed
Konzum BiH	25.0	Debt	PRIVATE	Disbursing
Telecoms Informatics & Media				
Telecommunications emergency Reconstruction Project	17.5	Debt	STATE	Repaying
Pre-privatisation Convertible Loan to Telekom Srpske	29.1	Debt	STATE	Completed
Manufacturing and Services				
DIF - Primus	0.8	Equity	PRIVATE	Disbursing
ArcelorMittal Zenica	23.9	Debt	PRIVATE	Repaying
Tvormica Opeke Sarajevo (TOS)	6.2	Debt	PRIVATE	Repaying
Natron Hayat	11.0	Debt	PRIVATE	Repaying
WBLEF: Suica Terni	1.1	Debt	PRIVATE	Repaying
Equity funds				
Horizonte Bosnia & Herzegovina Enterprise Fund	4.7	Equity	PRIVATE	Repaying
Regional				

Regional operations				
Southeast Europe Equity Fund II	3.7	Equity	PRIVATE	Repaying
Argus Capital Partners II	0.2	Equity	PRIVATE	Repaying
European Fund for Southeast Europe (EFSE)	1.9	Equity	PRIVATE	Repaying
Balkan Accession Fund, C.V.	1.0	Equity	PRIVATE	Disbursing
Europolis 3	1.6	Debt & Equity	PRIVATE	Repaying
GS Hotels and Resort - Debt	2.8	Debt	PRIVATE	Disbursing
GS Hotels and Resorts - Equity	2.1	Equity	PRIVATE	Disbursing
CRG Capital CEE Special Situations Fund	0.6	Equity	PRIVATE	Disbursing
European Fund for SouthEast Europe (EFSE) II - A shares	1.7	Equity	PRIVATE	Signed
ViaOne	1.0	Equity	PRIVATE	Disbursing
Southeast Europe Energy Efficiency Fund (SE4F)	2.5	Equity	PRIVATE	Signed
Raiffeisen International	3.0	Equity	PRIVATE	Repaying
LEF: Lydian International	0.4	Equity	PRIVATE	Disbursing
TOTAL	1,197.4			

ANNEX 7 - PROJECTS SIGNED IN THE PERIOD JANUARY 2007 – SEPTEMBER 2010

Operation Name	Total Project Value	EBRD Finance	Private/Public	Stage
Western Balkans MSME FW – Sunrise	4.0	4.0	private	Repaying
Western Balkans MSME FW – Partner	8.0	8.0	private	Repaying
Bosnia & Herzegovina Road Rehabilitation Project	230.5	75.0	public	Disbursing
Bijeljina Waste Water Collection System	7.0	7.0	public	Disbursing
UNIQA Osiguranje – BiH	1.6	1.6	private	signed
WBLEF: Suica Terzi	1.2	1.1	private	Repaying
WBLEF: VF Komerc	4.0	4.0	private	Repaying
ISO & TRANSCO Loan Novation Project (ref 12413)	15.9	15.9	public	Repaying
Western Balkans MSME F/W – MCO MI-BOSPO	3.0	3.0	private	Repaying
Western Balkans MSME F/W – Prizma MKO	4.0	4.0	private	Repaying
Raiffeisen Bank BH-Senior SME & Retail Loan	10.0	10.0	private	repaying
Western Balkan SME Framework-Raiffeisen Leasing BiH	5.0	5.0	private	repaying
Intesa SanPaolo Banka BiH (f. UPI)	1.0	1.0	private	Repaying
Regional – GS Hotels	5.0	5.0	private	signed
Regional – JP Venture	9.0	9.0	private	signed
Regional – Europolis	1.6	1.6	private	signed
Western Balkans MSME FW – EKI (Debt II)	6.0	6.0	private	Repaying
Western Balkans MSME FW – Sunrise II	3.0	3.0	private	Repaying
Raiffeisen Leasing BiH – 2 nd SME Credit Line	10.0	10.0	private	Repaying
Raiffeisen Bank BH – SME Credit Line	30.0	30.0	private	Disbursing
WBLEF: Bimal	10.0	8.4	private	Repaying
Western Balkans and Croatia Financing F/W – MI-BOSPO	3.0	3.0	private	Repaying
Western Balkans and Croatia Financing F/W – Partner II	10.0	10.0	private	Repaying
Corridor Vc	605.0	180.0	public	Disbursing
Western Balkans MSME FW – Intesa SanPaolo Banka BiH	1.4	1.4	private	Disbursing
Bosnia and Herzegovina Air Traffic Management System loan increase	5.0	5.0	public	Disbursing
EU/EBRD WeBSECLF – Raiffeisen Bank BiH	10.0	10.0	private	Disbursing
UniCredit Bank d.d. SME Credit Line (Unicredit Group)	30.0	30.0	private	Disbursing
Konzum BiH	57.0	25.0	private	Disbursing
Unicredit Leasing Bosnia (Unicredit Group)	15.0	15.0	private	Disbursing
Mahovljani Interchange	33.5	21.0	public	signed
LEF: VF Komerc restructuring	1.3	1.3	private	repaying
Regional: EFSE	1.7	1.7	private	signed
Regional: Energy Efficiency Fund	2.5	2.5	private	signed
Gasification of Central Bosnia Canton	24.7	20.0	public	signed
Credit Line to the Deposit Insurance Agency of BiH	50.0	50.0	public	signed
Intesa SanPaolo BiH – SME Credit Line	20.0	20.0	private	signed
Sarajevo International Airport	32.1	25.0	public	signed
LEF: Bingo	8.0	5.9	private	signed
Bijeljina Phase 2 WWTP	22.7	5.0	public	signed
WBCFF Unicredit leasing	10.0	10.0	private	signed
	1,304.8	646.5		

excluding TFP

ANNEX 8 - SELECTED ECONOMIC INDICATORS

BOSNIA AND HERZEGOVINA

	2003	2004	2005	2006	2007	2008	2009
							<i>Estimate</i>
Output and expenditure							
	<i>(Percentage change in real terms)</i>						
GDP	3.0	6.3	3.9	6.7	6.8	5.4	-3.2
Industrial gross output	3.8	7.2	6.4	5.5	8.2	8.0	na
Agricultural gross output	na	13.3	5.8	6.1	-0.3	3.0	na
Employment							
	<i>(Percentage change)</i>						
Labour force (end-year)	0.8	1.6	0.5	9.6	1.6	-2.8	na
Employment (end-year)	-1.0	0.2	2.1	4.3	30.8	4.7	na
	<i>(In per cent of labour force)</i>						
Unemployment (end-year)	42.1	42.9	42.0	44.8	28.9	23.4	na
Prices and wages							
	<i>(Percentage change)</i>						
Consumer prices (annual average)							
Federation (KM based)	0.1	-0.3	3.0	6.0	1.9	7.7	-2.7
Republika Srpska (KM based)	1.8	1.9	5.2	6.4	1.1	6.9	0.5
Consumer prices (end-year)							
Federation (KM based)	0.3	-0.3	4.4	4.5	5.5	4.0	-0.3
Republika Srpska (KM based)	1.3	2.2	3.7	4.6	4.3	3.6	-0.4
Gross average monthly earnings in economy (annual average)							
Federation	8.6	1.9	4.6	8.0	9.8	13.4	na
Republika Srpska	9.3	11.6	10.0	12.2	10.3	29.4	na
Government sector							
	<i>(In per cent of GDP)</i>						
General government balance	2.3	1.6	2.2	2.2	-0.1	1.4	-4.1
General government expenditure	39.2	38.8	39.9	45.2	47.3	42.7	na
Monetary sector							
	<i>(Percentage change)</i>						
Broad money (M2, end-year)	8.4	24.3	18.2	24.7	21.6	4.3	na
Domestic credit (end-year)	20.7	16.3	27.6	22.3	29.5	22.3	na
	<i>(In per cent of GDP)</i>						
Broad money (M2, end-year)	37.9	43.3	47.7	52.7	56.3	51.7	na
Exchange rates							
	<i>(KM per US dollar)</i>						
Exchange rate (end-year)	1.5	1.4	1.6	1.5	1.3	1.4	na
Exchange rate (annual average)	1.7	1.6	1.5	1.6	1.4	1.3	na
External sector							
	<i>(In millions of US dollars)</i>						
Current account	-1,631.0	-1,639.3	-1,844.5	-981.0	-1,848.5	-2,764.4	-1,279.0
Trade balance	-4,159.3	-4,569.7	-4,898.9	-4,298.1	-5,956.7	-7,092.4	-4,722.4
Merchandise exports	1,477.5	2,086.7	2,555.3	3,381.4	4,243.3	5,194.0	4,053.4
Merchandise imports	5,636.8	6,656.4	7,454.2	7,679.5	10,200.0	12,286.4	8,775.7
Foreign direct investment, net	381.8	708.3	607.8	718.4	2,087.5	1,002.8	495.9
Gross reserves, excluding gold (end-year)	1,611.0	2,208.0	2,530.0	3,371.0	4,524.0	3,515.0	na
External debt stock	4,475.9	5,139.2	5,400.2	6,025.6	7,342.5	7,981.3	na
	<i>(In months of imports of goods and services)</i>						
Gross reserves, excluding gold (end-year)	3.2	3.7	3.8	5.0	5.0	4.2	na
	<i>(In per cent of exports of goods and services)</i>						
Debt service	4.0	3.1	4.2	4.0	3.2	2.8	na
Memorandum items							
	<i>(Denominations as indicated)</i>						
Population (end-year, million) ¹	3.8	3.8	3.8	3.8	3.8	3.8	na
GDP (in millions of markas)	14,505.0	15,786.0	16,928.0	19,121.0	21,760.0	24,702.0	23,950.0
GDP per capita (in US dollars)	2,203.2	2,638.1	2,880.9	3,227.0	4,007.2	4,864.4	na
Share of industry in GDP (in per cent)	16.1	16.4	16.3	16.0	21.0	20.0	na
Share of agriculture in GDP (in per cent)	8.1	8.9	8.7	8.5	7.9	8.0	na
Current account/GDP (in per cent)	-19.5	-16.4	-16.8	-8.0	-12.1	-15.0	-7.5
External debt - reserves (in US\$ million)	2,864.9	2,931.2	2,870.2	2,654.6	0.0	3,457.3	na
External debt/GDP (in per cent)	53.5	51.3	49.3	49.1	48.2	43.2	na
External debt/exports of goods and services (in per cent)	203.6	174.2	152.4	133.3	128.8	116.4	na

¹ Excludes refugees abroad.

ANNEX 9 - OTHER IFIs, MULTILATERALS AND BILATERAL DONORS

1. MULTILATERAL ORGANISATIONS

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

1.1 European Commission (EC)

The main strategic objective of the present assistance to Bosnia and Herzegovina (BiH) is to support the country in its transition from a potential candidate country, through a candidate country, to membership of the European Union.

As a potential candidate country, BiH benefits from the first two components of the Instrument for Pre-accession Assistance (IPA) available to BiH since 2007: component I for Transition Assistance and Institution Building and component II for Cross-Border Cooperation. The indicative allocation to BiH under the Multi-annual Indicative Financial Framework (MIFF) for 2007-2013 amounts to €660 million. Within component I, 30 to 40 per cent is indicatively allocated to assist the country to comply with the political criteria, 25 to 35 per cent to the economic criteria, and 30 to 40 per cent to the *acquis*-related requirements. Since the end of the war in 1995, EC assistance to BiH has totalled €2.8 billion. Between 1995 and 2001, the EC provided more than €540 million for humanitarian assistance. The Poland and Hungary Assistance for Economic Restructuring (PHARE), OBNOVA and Community Assistance to Reconstruction, Development and Stabilization (CARDS) programmes provided more than €1 billion to BiH, of which €503 million under the CARDS programme in the years 2001 to 2006. IPA has provided €211.1 million since 2007.

Since 2007, through its national and multi-beneficiary programmes, IPA addresses the political and economic requirements in the framework of the Stabilization and Association Process (SAP) and approximation to European Standards, mainly to support BiH in establishing regulatory systems and preparing for IPA pre-structural funds, and supports the participation in cross-border cooperation programmes with neighbouring countries and EU Member States.

Assistance under the Cross-Border Cooperation component is supporting BiH's participation in cooperation with its neighbours (Croatia, Montenegro and Serbia), its participation in the Adriatic IPA cross-border programme with EU Member States and other Western Balkan Countries (Albania, Croatia, Montenegro, and Serbia) and in the European Regional Development Fund (ERDF) trans-national programmes 'South East Europe and Mediterranean'.

Medium and Long Term Approach

The EU Delegation will continue to strengthen its partnership with BiH as the country builds its relationship with the EU and prepares for possible accession. IPA will be the main instrument for support. It will continue to support BiH to meet the criteria for membership, as well as BiH efforts in mapping out and implementing its overall reform and development strategies as far as these strategies help to fulfil the requirements for EU integration.

The EC's pre-accession assistance will gradually increase every year until the year 2013. The institution building approach will be maintained, while more investments in agriculture and rural development, regional development and human resources development will be provided through reallocation of funds between IPA components once BiH obtains the candidate status.

Increasing local ownership and gradual decentralization of EC assistance to BiH is essential for effective targeting of the support and achieving the agreed results. With this aim, further efforts will be undertaken to involve BiH's institutions in the planning and programming process of EC assistance.

1.2 European Investment Bank (EIB)

The EIB has provided loans in BiH exceeding €923 million since 2000. The EIB is providing finance in particular to projects in the sectors of Energy, Transport and Environmental Protection, as well as to small and medium-sized enterprises (SMEs) through partner financing institutions operating in the country.

EIB allocated €250 million in 2008 and €218 million in 2009. All allocations are in the form of concessional loans and are applied to either the Economic Development or the Infrastructure sector.

Medium- and long-term approach

EIB has allocated a €150-million loan to Hypo Alpe-Adria Bank AD Banja Luka, Hypo Alpe-Adria-Leasing d.o.o. and Hypo Alpe-Adria-Bank d.d, and has approved a similar credit line of €50 million for the Development Bank of Republika Srpska, for financing limited-scale projects of SMEs and local infrastructure projects of local authorities. The objective of these projects is to make available access to long-term funds at affordable interest rates to sectors of the economy with least availability of financing – SMEs and local authorities. A €60-million credit for Unicredit Leasing d.o.o. Sarajevo is currently under appraisal.

In addition, EIB is currently appraising a loan agreement with JP *Elektroprivreda Hrvatske Zajednice Herceg-Bosne* d.d. for the funding of three wind farms (about 130MW), and four small hydro plants (about 15MW). The purpose is to increase the promoter's own generating capacity, which at present is below demand, raise the use of renewable energy and to broaden the power production base.

This project has a total cost of €260 million of which EIB is looking to finance €130 million.

EIB is also appraising a loan request for the financing of a new motorway section adjacent to those already under preparation or construction, namely Vlakovo-Tarcin, a stretch of about 18km. The project will significantly increase accessibility and reduce travel times, thereby contributing to a balanced economic development of the regions concerned.

1.3 World Bank (WB)

The World Bank portfolio in BiH currently comprises 15 investment operations with total commitments of US\$267.40 million. The portfolio consists of 12 IDA82 credits (US\$224.90 million), one IBRD83 loan (US\$25.00 million), and three GEF84 grants (US\$18.30 million). The portfolio is divided among the following sectors: Infrastructure, Agriculture and Forestry, Environmental Protection, Local Governance, Health, and Good Governance. Of the total, US\$ 49.40 million was approved in 2008.

The World Bank disbursed €15.68 million in 2008 and €30.04 million in 2009.

Medium- and long-term approach

In accordance with priorities outlined in its Country Partnership Strategy for BiH (2008–2011), and in response to spreading of the global economic crisis to BiH, the World Bank will consider approving additional lending of about US\$ 220 million during the period 2009–2011. This financing will be used in support of municipal development, competitiveness of small and medium-sized enterprises, Sava river navigability, social benefits targeting, health

sector enhancement, and irrigation. Budget support in the amount of up to €185 million is also considered in response to economic crisis and in support of the country's reform program.

1.4 International Finance Corporation (IFC)

Bosnia and Herzegovina became a member of IFC in 1996. Since then, IFC has committed more than US\$ 284 million of its own funds and has arranged over US\$ 10 million in syndications. IFC's investment in the country has primarily been in the agribusiness, health and education, manufacturing, and financial sectors

One of their projects includes the modernization and expansion of Fabrika Cementa Lukavac, a privatised cement facility.

In July 2005, IFC opened the new facility to provide advisory services in Southern Europe. Advisory program in Bosnia and Herzegovina is divided in four business lines: valued addition to firms; business enabling environment; access to finance; and infrastructure advisory operations.

1.5 International Monetary Fund (IMF)

BiH became member of IMF as a successor of ex-Yugoslavia on 14 December 1992. The IMF provided financial support to Bosnia and Herzegovina through Stand-by Arrangements. They were built around two key elements: safeguarding the stability of the currency board - which the IMF helped establish in Bosnia and Herzegovina in 1997, appointing the first Governor of the Central Bank - and bringing the public finances into a sustainable position. The current SDR quota amounts to 169.10 million and outstanding loans as at end-September 2009 were SDR 160.89 million.

In response to deteriorating economic environment in view of the global economic crisis as well as the underlying domestic imbalances the authorities concluded a new 3-year Standby Arrangement (SBA) in July 2009 with the IMF to the value of around €1.1 billion. The second and third reviews were completed (after some delay) in March 2010, following the passing of legislation in the Federation on key reforms to transfer payments and war veteran benefits, and the programme remains on track.

1.6 United Nations Development Programme (UNDP)

Since 1996 the UNDP BiH Country Office has delivered more than US\$227 million of assistance. This includes US\$ 143 million from 2001 – 2009, during which annual delivery rates were 90 per cent of approved budgets. While UNDP finances some intervention activities with its core funds, the majority of funding comes from partnerships with donors who recognize UNDP as a reliable, strategic development partner. Hereby, UNDP draws on its significant implementation capacity to effectively deliver programmes, its ability to serve as a neutral facilitator and broker between various institutional stakeholders, and on its expertise to ensure capacity building of the government. Between 2001 and 2009 UNDP BiH delivered US\$ 143 million through its various human development programmes, with management costs of only 9.3 per cent of this amount. The largest donors during this period were the Netherlands, the European Commission, the BiH Government, the Global Fund to Fight AIDS, Tuberculosis, and Malaria, Norway, Spain, and Japan.

UNDP allocated €10.86 million in 2008 and €11.12 million in 2009.

Medium- and long-term approach

In the medium term, UNDP will accelerate the implementation of democratic governance projects using a human rights-based approach in support of accession to the EU. Given the

low participation rates by women in administrative and political processes, gender mainstreaming will be a priority. Attention will be paid at the municipal level to inclusive planning processes and capacity for service delivery. Justice and transitional justice projects will continue, with increased focus on lower-level courts, community reconciliation and witness support, and access to justice.

UNDP will also provide technical assistance for the destruction of weapons and ammunition, and capacity development for de-mining will continue. UNDP will reinforce its institution building for crisis management and disaster response by working sub-regionally with the Regional Cooperation Council based in Sarajevo, and will include cross-border response and compliance with EU standards, including the establishment of a national coordination body and a national strategy for disaster risk management. Capacity building in the health sector and civil society organizations is expected to continue until 2012.

At the regional level, UNDP will continue working in the areas of public sector reform, e-governance, environment and gender and in close cooperation with regional bodies such as the Regional Cooperation Council.

Coordination with other IFIs

The Bank will continue its excellent cooperation with other IFIs and the international donor community in BiH. The Western Balkans Investment Framework provides an important tool to consolidate financial resources and instruments at the European level and enhance the cooperation with the EU, EIB and CEB, in particular on infrastructure projects, but increasingly also in other sectors such as SMEs and energy efficiency. The WBIF will provide the best platform for the Bank to plan and prioritise infrastructure projects in BiH, alongside other IFIs and in the context of EU accession process and EU-IPA planning exercise.

The Bank will continue to participate in the Donor Coordination Forum, the annual national exercise of mapping of donors' activities. This Forum, which involves all multilateral and bilateral donors in the country, was headed by UNDP for several years. Since 2007 BiH government has been increasingly involved in its work and in January 2009 the newly established Sector for Coordination of International Aid within BiH Ministry of Finance and Treasury took the lead in preparation of the annual Donor Mapping Report.

2. BILATERAL ASSISTANCE

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

Austria/Austrian Development Cooperation (ADC)

The Austrian Development Cooperation (ADC) is Austria's international cooperation agency, within the Federal Ministry of Foreign Affairs, responsible for coordination of development activities and cooperation with Eastern Europe, as well as humanitarian aid. The Austrian Development Agency (ADA) is the operative arm of ADC and manages the corresponding budget. Austria/ADC programmes are implemented by ADA in close cooperation with other international development organisations. Austria/ADC is also strongly committed to helping Bosnia and Herzegovina (BiH) harmonize and align itself to European Union (EU) institutions.

In 2009 Austria/ADC defined its mid-term programme for BiH for the period 2009–2014. The main goal of this programme is to aid the individual and social development of people in BiH

through the creation of harmonised socioeconomic development of the country, with established balance between economic growth, poverty reduction and EU-integration.

The annual budget of Austria/ADC country line for 2009 was €1.80 million and was complemented by the additional *NGO Co-financing Line*, the *Regional Cross-Border Programme* and the *Mine Action Programme* in the amounts of €1 million, all three in the form of grants. Thus the total allocation for 2009 was ca. €3 million. Austria/ADC's contribution in 2008 has been €3.78 million.

Canada/Canadian International Development Agency (CIDA)

Canada has provided assistance to Bosnia and Herzegovina (BiH) since 1993. Early programming by Canada/CIDA focused mainly on multilateral peace support operations, reconstruction, and humanitarian assistance. As peace was restored, Canada/CIDA's support evolved to focus on social and economic development.

Canada/CIDA's programming focuses on two sectors that are key to the transition process: Health and Good Governance, with Gender equality, Youth, and Environment as cross-cutting themes.

Through its programming, Canada/CIDA supports the work of partners, both Canadian organisations that specialise in delivering assistance in Health and Judicial Reform, and international organisations including the Organization for Security and Cooperation in Europe, the Council of Europe, the World Health Organization, United Nations agencies, and the European Bank for Reconstruction and Development.

Canada/CIDA allocated €5.50 million in 2008 and €2.10 million in 2009.

Exit strategy

The *CIDA Balkans* programme is currently focusing on the efficient implementation of its final phase of programming to ensure maximum impact as well as to strengthen linkages with other donors, domestic partners and Canadian organizations to continue work in BiH after 2010. The *CIDA Balkans* programme will be phased out by 2010 and no bilateral activities will continue after this date. In order to ensure sustainability after CIDA's exit from the region, each of the remaining operational projects have developed exit strategies to outline future activities that will contribute to the long-term sustainability of project results. Furthermore, the *CIDA Balkans* programme is conducting a sectoral evaluation of its last cycle of health programming in BiH to assess its contribution to the primary health care sector since 1996; identify lessons learned; and assess the sustainability of these outcomes after conclusion of CIDA funding.

France

The French Embassy deals both with classical cooperation assistance (police, justice, administration, non-governmental organizations, exchanges between regions and cities in France and Bosnia and Herzegovina (BiH) and traditional cultural activities (universities, French language teaching, cinema, theatre, dance, visual arts, and literature). The goals of the latter are to promote the French language and cultural diversity. Support to civil society focuses especially on empowering youth and women, by financing education initiatives and creating spaces where young people and women can meet and raise their voices (e.g. youth centres). From a political standpoint, the French Embassy in BiH aims to strengthen the central state. The Embassy does this by promoting the rule of law, supporting institution building and providing education to civil servants, judges and police officers. France's

priority sectors in BiH are: Justice, Education, Culture, Youth, Health and decentralized cooperation.

In 2008 the French Embassy was active in several sectors. France's total direct allocation was €0.92 million and in 2009 €0.93 million.

Medium- and long-term approach

The service of cooperation and cultural action of the French Embassy will go on with its priorities (focusing on youth) in a context of regular reduction of funds due to the global economic crisis.

Germany

Germany is committed to assisting Bosnia and Herzegovina (BiH) in developing into a functioning market economy, in aligning its legal system with the European Union acquis and in overcoming the consequences of the war. To this end, the German Government has mandated several implementing agencies to conduct its development assistance in BiH, out of which the most prominent are KfW Entwicklungsbank (Development Bank) and Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ). Projects are also implemented through integrated experts, twinning projects, political foundations and other German institutions represented in BiH. The Embassy coordinates these efforts and implements directly the funds from the Stability Pact for South Eastern Europe. In addition to the funds provided through the European Fund for Southeast Europe (EFSE), which is also supported by German Financial Cooperation, BiH had by 2007 received Financial Cooperation commitments from the German national budget of over €109 million. Germany allocated €69.40 million in 2008 and in 2009 granted a loan in the amount of €72 million for the country's first wind farm.

Out of the €69.40 million contributed in 2008, €13.40 million was in the form of grants and €56 million in the form of concessional loans. The loan allocations went to the Infrastructure sector.

Compared to 2007, Germany's grant allocation has decreased, but its loan allocation has significantly increased in 2008.

Medium- and long-term approach

The long-term goal of German assistance is BiH's European integration and its independence of further development cooperation funds. To support BiH on that track Germany will continue its successful support in the outlined focal areas. Further growth of cooperation is expected, especially in activities concerning energy efficiency improvements and use of renewable sources of energy, economic reform, foreign trade, legal reform, education and youth.

Italy/Italian Cooperation (IC)

Italy has been active in Bosnia and Herzegovina (BiH) since 1992 via its first emergency programmes which catered to the most urgent social and healthcare problems caused by the war. Since then, the Italian Cooperation (IC)'s action has been developing to include both bilateral initiatives and multilateral programmes implemented by international organisations.

The Italian contribution aims to meet the following important needs: (i) supporting sustainable development, especially through the promotion of private economy and the improvement of facilities; (ii) institutional strengthening aimed at taking responsibility by local institutions in management, planning and development; (iii) protecting the most vulnerable population targets through many grass-roots initiatives.

In BiH, Italy/IC has been entrusting funds to regional initiatives which are being implemented through the adoption of a participatory approach, such as the *Direct Assistance to Victims of Trafficking*, implemented by IOM, the *e-Leadership Programme in the Western Balkans*, implemented by UNDP, and the *Social Development Initiative for South East Europe*, implemented by the World Bank, and funding the Youth Commission within the Ministry of Civil Affairs of BiH.

Italy/IC allocated €6.40 million in 2008 and €10.83 million in 2009. All of Italy/IC's allocations are in the form of grants.

Italy supports the EBRD in developing SMEs, including through the €176 million EBRD-Italy Local Enterprise Facility (LEF), which was established jointly by the EBRD and the Italian Government in 2006. LEF is active in the Western Balkans, Croatia and Turkey. Italy has provided the LEF with €26 million in risk-sharing funds and technical assistance

Medium- and long-term approach

Italy/IC intends to continue focusing on the Cross-cutting sectors (particularly on Youth), on rural development and the Agricultural sector.

Italy/IC will particularly focus its attention on small and medium-sized enterprises – SME development. The General Directorate for the Development Cooperation within the Italian Ministry of Foreign Affairs provided pledged €15 million funding (credit line) to BiH enterprises. The project will be accompanied by a technical assistance programme financed by a grant.

BiH is a country with an impressive potential and a cultural heritage rich in history and traditions. The Italian Government has promptly responded to the country's appeal for the rebuilding and rehabilitation of cultural centres and monuments destroyed during the war. Among the most valuable interventions of the Italian Government, it is worth noting the important project entrusted to UNESCO for the protection, promotion and development of the Ars Aevi Collection representing a reference point and renaissance of the art and the culture of Sarajevo – a cosmopolitan and multicultural symbol for BiH and for the whole Balkan area. In the future, the project will continue with the great intention of establishing the Museum of Contemporary Art to which the Italian Government has committed €0.90 million.

Japan/Japan International Cooperation Agency (JICA)

Japan/JICA started its emergency and reconstruction assistance to Bosnia and Herzegovina (BiH) in 1996, just after the end of the conflict. Since then, Japan/JICA has played an important role in the reconstruction of BiH as one of the largest bilateral donors of the country. Initial Japanese assistance addressed the basic human needs of the BiH population mainly in the sectors of health, infrastructure, and education, etc. where Japan/JICA assisted in the rehabilitation of public transportation in Sarajevo, Banja Luka and Mostar, provided medical equipment to the primary healthcare institutions nationwide; and reconstructed a number of primary schools.

The Japanese Official Development Assistance (ODA) previously consisted of four types of modalities implemented by different agencies: 1) Yen loans by the former Japanese Bank for International Cooperation (JBIC); 2) grant aid by the Ministry of Foreign Affairs; 3) technical cooperation by JICA; and 4) multilateral ODA by other multilateral organizations. However, in October 2008 JICA was merged with JBIC and reorganized as an aid donor agency providing the three modalities of technical cooperation, concessionary loans (ODA loans),

and grant aid, in a more integrated fashion.. Japan/JICA allocated €2.97 million in 2008 and €1.48 million in 2009.

Medium- and long-term approach

Japan/JICA will continue to focus on three targeted issues: consolidation of peace, private sector development, and environmental protection. In the medium term, the ongoing projects will be continued for another two to three years. In the longer term, the EU accession of BiH is regarded as being the goal of Japan's developmental assistance towards this region and Japan/JICA will withdraw gradually after the achievement of this aim, with possible continuation of loan assistance.

The Embassy of the Kingdom of the Netherlands

The Netherlands' strategic plan has the following development cooperation objectives in Bosnia and Herzegovina (BiH): Objective A – more efficient functioning of government: Implementation in BiH of the Stabilization and Association Agreement and fulfilment of the political Copenhagen criteria; Increasing the impact of civil society and municipalities on the reform process; A well-functioning Justice sector, which commands increased public trust in domains such as the prosecution of war crimes, the fight against corruption and the fight against organised crime. Objective B – a better business enabling environment: Removal of regulatory and administrative barriers that hinder starting and doing business; Improving the knowledge and skills for local BiH businesses to strengthen their position. Objective C – better living conditions in Srebrenica and a sustainable solution for remaining refugees and internally displaced persons (IDPs) in the region: Improving the social and economic situation in Srebrenica. A national strategy aiming at a durable solution for the remaining IDPs and refugees will be implemented (conflict prevention and return).

To this end, the Netherlands has allocated €18.10 million in 2008 and €18.58 million in 2009 (out of which €12.5 million was in a form of bilateral expenditure). All of the Netherlands' allocations were in the form of grants.

Exit strategy

The Netherlands' exit with respect to objectives A and B will take place gradually until 2011. After 2011 a budget of €5 million annually will remain available for objective C (Srebrenica). In addition, a small budget will remain available for small Embassy grants. Other instruments that are not part of the bilateral development cooperation programme will also continue.

The Royal Norwegian Embassy in Sarajevo

Norwegian development cooperation with BiH has evolved throughout the years in accordance with the changing needs in the country from a focus on humanitarian assistance, reconstruction and development of infrastructure to the current concentration on supporting reforms and processes to promote stability and bring BiH closer to the Euro-Atlantic structures. This involves support to institution building (state parliament, judicial institutions, security sector, police, and local government) and judicial reform.

When it comes to institutional development, Norway's largest contribution in recent years is to the judiciary, where it has, over the course of several years, provided considerable support to the High Judicial and Prosecutorial Council, the BiH State Court and the reconstruction of local courts. Norway will continue to give high priority to the judiciary, as well as to other parts of the justice and security sector (police, intelligence and defence) and to parliamentary cooperation.

Private sector development, with a particular focus on agriculture and ICT, is a second pillar of Norwegian assistance in BiH. Norway provides significant support to a range of important initiatives involving women, children, youth and education, peace and reconciliation – including efforts to deal with the past and to promote interethnic dialogue and cooperation – and to the social sector and the environment. Furthermore, substantial assistance is given to de-mining.

Norway contributed €12.90 million in 2008 to BiH development. Norway placed special emphasis on the Good Governance and Institution Building (€3.59 million), Conflict Prevention, Resolution, Peace and Security (€2.50 million) and Economic Development and Social Protection (€2.30 million), Education (€1.40 million) and Infrastructure (€1.07 million) sectors

Medium- and long-term approach

In the medium term and long term Norway is expecting stability and supporting reforms and processes which will bring BiH closer to the Euro-Atlantic integration. The main sectors to support are expected to be: Education, Judicial Reform and Economic Development (incl. Agriculture).

Spain/Spanish Agency for International Development Cooperation (AECID)

The global strategic objective of the Spanish Cooperation in Bosnia and Herzegovina (BiH) is to support and accompany the country in its advance towards the European Union with political, economic and social transformations, as well as in the consolidation of peace in the country. In this context the activities of the Spanish Cooperation correspond to the following sectoral strategic goals: 1. Enhancement of Social and Institutional Capacities (Democratic Governance), through the necessary strengthening of civil society organizations, the support to the reforms of judicial and police structures which guarantee the Rule of Law, as well as the necessary reform of Public Administration, including the strengthening of local bodies and all central institutions with direct or indirect responsibility in the process of European integration.

Spain/AECID allocated €26 million in 2008 and €1.40 million in 2009. Of the total allocation in 2008, €4 million was in the form of grants and €22 million in the form of concessional loans, whereas in 2009, €1.40 million is in the form of grants and no loans have been agreed as yet.

Medium- and long-term approach

In the recently published Master Plan for the Spanish Cooperation 2009–2012, BiH is not included as a priority country. This fact implies a progressive and planned reduction of the funds during the upcoming years.

Sweden/Swedish International Development Cooperation Agency (SIDA)

The Cooperation Strategy 2006–2010 has two priority themes: Good Governance (including Local Governance) and Economic Development (including agriculture). In addition, support is given to the Civil Society, Gender, and Minorities (Cross-cutting issues).

During the strategy period, Sweden has phased out the reconstruction and returnee support in favour of efforts and reforms aimed towards the building of a sustainable state, EU integration and improved aid effectiveness. The Sweden/SIDA strategy was upon adoption closely aligned with the BiH medium-term development strategy, which expired at the end of 2007. In the absence of a comprehensive national development strategy in 2008–09, the

Sweden/SIDA spending priorities are primarily guided by the Stabilization and Association Agreement and the European Partnership documents.

Total Sweden/SIDA allocation in 2008 was €17.50 million and €19 million in 2009.

Medium- and long-term approach

Sweden/SIDA will continue to be a major donor in BiH during the coming years. A new strategy will be worked out during 2010 and become valid from 2011 and onwards. The focus will continue to be support to BiH's road towards EU candidate status and EU membership. Also worth mentioning is a major programme in support of sustainable Solid Waste Management which is planned to be implemented during 2010–2013.

Switzerland/Swiss Agency for Development Cooperation (SDC)/State Secretariat for Economic Affairs (SECO)

Switzerland has supported Bosnia and Herzegovina's transition through bilateral cooperation projects and international programmes since 1996. The Swiss Cooperation Office in Sarajevo is responsible for coordinating these efforts. The goals of the Medium Term Programme (MTP) 2004–2008 were to foster conditions for self-determined reforms related to sustainable economic, institutional and social development. The programme focused on three domains, (1) Social Domain; (2) Private Sector Development and Small and Medium Enterprise Promotion; (3) Governance and Basic Services. Cross-cutting MTP themes are Youth and Gender. Switzerland also provides finance for addressing cross-border issues with a regional approach and design. Three Thematic Regional Programmes are currently supported in the fields of security/police, research and culture. Switzerland/SDC/SECO supports the Stability Pact successor organization Regional Cooperation Council with a core contribution. Due to Bosnia and Herzegovina's (BiH) strategic importance for regional development and stability in the Western Balkans, other federal agencies are also active in BiH. Coordinated programmes are implemented by the Political Affairs Divisions IV and I, the Federal Office for Migration, as well as the Federal Department of Defence, Civil Protection and Sport.

In 2008, Switzerland/SDC/SECO/FOM's total allocation was €8.40 million and €8.46 million in 2009. The largest share of Switzerland/SDC/SECO's funding is allocated to the Local Governance sector, primarily the *Integrated Local Development Project (ILDP)*, a joint SDC-UNDP project, the *Governance Project in Municipal Water and Environmental Development (GOV-WADE)*, and the third phase of the *Municipality Development Project in BiH*.

Medium- and long-term approach

The Western Balkans will continue to be a strategic priority region for Switzerland's foreign policies. Therefore, a new mid-term cooperation strategy for the period 2009–2012 has been established, concentrating on mainly four thematic domains: Rule of Law and Democracy: Decentralization and Local Governance, State and Nation Building Processes; Economy and Employment: Investment Promotion, Access to Markets, Youth Employability; Health: Family Medicine, Mental Health; Basic Infrastructure: Municipal Infrastructure; Cross-cutting Themes: Gender, Good Governance; Specific Target Group: Youth In addition, the Swiss Cooperation Office has engaged in a partnership with the state authorities, focusing on issues of migration.

Furthermore, increased emphasis will be placed on Regional Cooperation Programme and Activities in order to improve regional integration, create synergies and foster knowledge management.

United Kingdom/Department for International Development (UK/DFID)

Assistance provided by UK/DFID is governed by Her Majesty's Government priorities and objectives for Bosnia and Herzegovina (BiH) set out in a comprehensive Country Business Plan. The aim for the 2008–2011 period is to help make BiH transform into a country more fit for eventual membership of the European Union (EU) and North Atlantic Treaty Organization (NATO). UK/DFID is further governed by the development priorities, both overall and sector, as set out in country strategies adopted by governments in BiH, such as the Country Development Strategy (former Medium-Term Development Strategy), the Social Inclusion Strategy (currently in preparation), the EU integration and public administration reform strategic documents.

One of DFID's main objectives in BiH is to help improve the overall effectiveness of the international community's engagement and to strengthen the capacity of Governments to plan and manage its own development. This approach is central to the DFID graduation strategy for BiH and planned cessation of bilateral assistance in February 2011.

UK/DFID allocated €4.20 million in 2008 and €4 million in 2009. DFID current main areas of support during the period 2009–2011 are: Public Administration, Economic Development and Social Development.

Medium- and long-term approach

DFID is currently preparing a graduation strategy for its programme in BiH. The draft strategy will be shared with the government representatives and other interested donors to ensure clarity about DFID's exit arrangements, achievements to date and plans for sustainability of its programme. It is planned that all projects will have been completed by the time UK/DFID exits from BiH. On the rare occasion where some activities are necessary beyond the exit date, UK/DFID will make arrangements with the British Embassy to manage any activity until completion.

All current UK/DFID projects have an exit strategy built in to ensure that skills and technical expertise have been adequately transferred to the project beneficiary. All current projects have clear and achievable targets for the remaining period to ensure timely delivery, as clear arrangements to 'scale down' during the last 6–9 months. UK's support will continue through multilaterals and other UK Government departments represented in the British Embassy.

United States of America/United States Agency for International Development (USA/USAID)

The United States Government has provided nearly \$1 billion for the reconstruction of Bosnia-Herzegovina. In support of the Dayton Peace Accords, the U.S. foreign assistance program, implemented primarily by the U.S. Agency for International Development (USAID), is helping to create a multi-ethnic, stable, democratic Bosnia-Herzegovina with a functioning free-market economy. Other U.S. support is being provided in the areas of counter-terrorism, human rights, customs, the state border service, and advice and assistance to the Treasuries. USA/USAID allocated €38.33 million in 2008 and €27.35 million in 2009.

Medium- and long-term approach

To promote a more stable and secure BiH, the USG seeks to promote Bosnia's full integration in Euro-Atlantic institutions – namely the North Atlantic Treaty Organization (NATO) and the EU. Specifically, the USG seeks to consolidate BiH's progress in defence reform to advance BiH along the path towards NATO membership and to support political and economic reforms that will help BiH meet its EU accession requirements. It is imperative that the USG continues work to build the capacity of state-level justice and law enforcement

bodies to strengthen rule of law and security in the country. The USG supports the development of BiH's democratic institutions and civil society to enshrine democratic values and practices; supports building a stronger economy less reliant on foreign assistance; and supports the creation and strengthening of a tolerant society in which all BiH citizens can live in peace and security. The USG focus is on subsuming ethnic differences by primarily (although not exclusively) building effective state-level institutions to achieve many of these objectives. Programmes to improve municipal governance – the level of administration that has the most direct effect on the day-to-day lives of BiH citizens – also add an important grassroots complement to national-level State building efforts.

ANNEX 10 - TECHNICAL COOPERATION PROJECTS

Commitment Name	Fund Short Code	Euro Committed	Euro Disbursed	Fund Approved Date	Commit. Stage Name	Operation Leader	Sector	Team Name	Business Group	Linked to Inv.
Sector Study of the Forestry and Forest Industry in Bosnia & Herzegovina	AUS	278,604	278,604	10/11/05	Closed	Muent H.	Agriculture, Forestry, Fishing	BG/Op. Teams/TEEC CA	TAM/BAS/Other	N
Sector study of the forest and forestry industry in BiH	AUS1	9,345	9,345	17/07/07	Closed	Muent H.	Agriculture, Forestry, Fishing	BG/Op. Teams/TEEC CA	TAM/BAS/Other	N
BiH SME PIU	BOSSME	1,580,105	1,580,105	08/10/99	Closed	Polic J.	Finance, Business	BG/Op. Teams/Financial Institutions	Financial Institutions	Y
BiH SME PIU extension	BOSSME	253,790	253,790	17/12/04	Closed	Mostarac T.	Finance, Business	BG/Op. Teams/Financial Institutions	Financial Institutions	N
Bosnia Railways Recovery Project	BRSF	158,640	158,640	31/10/02	Closed	Polic J.	Transport, Storage	BG/Op. Teams/Transport	Infrastructure	Y
Primus Market Study	BRSF	8,839	8,839	18/06/03	Closed	Muurisepp U.	Finance, Business	BG/Op. Teams/Private Equity	Financial Institutions	Y
Air navigation services upgrading project (extension)	CAN2	13,351	13,351	02/02/98	Closed	O'Grady L.	Transport, Storage	BG/Op. Teams/Transport	Infrastructure	Y
Secretary General of the Commission on Public Corporations	CAN	124,479	124,479	05/03/99	Closed	Hargitai Z.	Community/Social Services	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	N
Railways Recovery Project - Accounts Strengthening and Business Planning	CANSE	453,027	453,027	31/01/01	Closed	Polic J.	Transport, Storage	BG/Op. Teams/Transport	Infrastructure	Y
Bosnia & Herzegovina Railways Recovery Project	CANSE	1,159,742	1,159,742	28/02/01	Closed	Polic J.	Transport, Storage	BG/Op. Teams/Transport	Infrastructure	Y
Assistance with procurement of MIS	CANSE	59,993	59,993	18/05/04	Closed	Kilibarda D.	Transport, Storage	BG/Op. Teams/Transport	Infrastructure	Y
Assistance with procurement of MIS	CANSE	59,993	59,993	18/05/04	Closed	Polic J.	Transport, Storage	BG/Op. Teams/Transport	Infrastructure	Y
Bosnia and Herzegovina: Strategic Environmental Assessment of Development of Small Size Hydropower Plants in the Cetina and Trebizat River Areas	CANSE	149,522	129,166	14/12/07	Disbursing	Ohashi T.	Energy	BG/Op. Teams/Power and Energy	Energy	N
Bosnia and Herzegovina: Strategic Environmental Assessment of the Cetina and Trebizat River Basin Areas	CANSE	478	0	05/11/08	Committed	Ohashi T.	Energy	BG/Op. Teams/Power and Energy	Energy	N
Bosnia and Herzegovina - Strategic Environmental Assessment of the Cetina and Trebizat River Basin Areas - Extension	CAS2	25,000	0	08/09/08	Committed	Ohashi T.	Energy	BG/Op. Teams/Power and Energy	Energy	N
TAM - Enterijer	CAT2	21,346	21,346	21/02/06	Closed	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
TAM - VIS	CAT2	44,505	44,505	15/01/08	Closed	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
Project screening for Bosnia-Herzegovina	CEI	62,683	62,683	09/03/98	Closed	Forbes L.	Community/Social Services	BG/Op. Teams/TEEC CA	TAM/BAS/Other	N
Sarajevo Airport Masterplan study	CEI	167,412	167,412	24/04/98	Closed	Polic J.	Transport, Storage	BG/Op. Teams/Transport	Infrastructure	Y
Business Advisory Services - feasibility study	CEI	19,594	19,594	05/08/98	Closed	Della Rosa V.	Manufacturing	PE/ESE/Turnaround Management Group	SEEC	N
Sarajevo International Airport - Lighting & Equipment	CEI	409,971	409,971	20/07/99	Closed	Hargitai Z.	Transport, Storage	RO/Skopje (FYR Macedonia)	SEEC	Y
BiH Regional Railway Project: Environmental Analysis & Audit	CEI	19,800	19,800	22/08/05	Closed	Polic J.	Transport, Storage	BG/Op. Teams/Transport	Infrastructure	Y
Bosnia - Sector Study of the Forestry Study	CEI	49,103	49,103	21/12/05	Closed	Muent H.	Agriculture, Forestry, Fishing	BG/Op. Teams/TEEC CA	TAM/BAS/Other	N

BiH Regional Railway Project: Assistance with Restructuring	CEI	279,950	279,950	15/12/06	Closed	Polic J.	Transport, Storage	BG/Op. Teams/Transport	Infrastructure	Y
BiH Regional Railway Project: Assistance with Restructuring (extension)	CEI	20,000	20,000	24/08/07	Closed	Polic J.	Transport, Storage	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	Y
BiH Resettlement Framework and Action Plan for Corridor Vc	CEI	79,604	79,604	28/05/08	Closed	Polic J.	Transport, Storage	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	Y
BiH Resettlement Framework and Action Plan for Corridor Vc (Extension)	CEI	12,138	12,138	30/07/08	Closed	Polic J.	Transport, Storage	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	Y
Sarajevo Water & Wastewater - Feasibility Study	CEI	190,840	173,250	14/05/09	Disbursing	Polic J.	Local Authority Services	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	Y
Mahovljani Interchange Feasibility & Environmental Due Diligence	CEI	170,140	170,140	25/06/09	Closed	Polic J.	Construction	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	Y
Sarajevo Water & Wastewater - Feasibility Study-Extension	CEI	37,135	12,040	26/11/09	Committed	Polic J.	Local Authority Services	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	N
TurnAround Management Programme - standard	DEN	47,383	47,383	09/09/98	Closed	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
TurnAround Management Programme - Borja	DEN	39,858	39,858	17/11/98	Closed	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
TurnAround Management Programme (TAM) - Standard Furniture II	DEN	48,301	48,301	07/12/00	Closed	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
JKP Toplane Sarajevo - Emergency District Heating Rehabilitation Programme	DEN	24,587	24,587	23/05/01	Closed	Hobson P.	Energy	BG/Op. Teams/Energy Efficiency and Climate Change	Non-Banking	Y
Western Balkans and Croatia MSME Finance Framework - MI-BOSPO - Transformation into a commercial microfinance company	EBSF	150,000	33,122	10/09/08	Disbursing	Hasic R.	Finance, Business	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	Y
Continuation of the BAS Programme in Bosnia and Herzegovina	EBSF	471,060	401,393	19/09/08	Disbursing	Della Rosa V.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
Regional Airports Emergency Investments Prelim Feasibility	EBSF	41,990	41,990	05/12/08	Closed	di Domenico A.	Transport, Storage	BG/Op. Teams/Transport	Infrastructure	Y
Sarajevo Urban Roads - Elaboration of Transport Model and Traffic Engineering Review	EBSF	93,325	14,217	04/03/09	Committed	Jordan-Tank M.	Transport, Storage	BG/Op. Teams/Municipal & Environmental Infrastructure	Infrastructure	Y
Updating Master Plan for Sarajevo International Airport	EBSF	95,350	90,649	06/03/09	Disbursing	O'Grady L.	Transport, Storage	BG/Op. Teams/Transport	Infrastructure	N
TAM - Energy Efficiency Seminar	EBSF	26,116	23,700	16/04/09	Disbursing	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
Western Balkans and Croatia MSME Finance Framework - Mikrofin SSF funding	EBSF	225,000	0	23/11/09	Committed	de la Mata G.	Finance, Business	BG/Op. Teams/Financial Institutions	Financial Institutions	Y
Credit Line - TC for capital strengthening	ECDI	980,000	0	30/03/10	Committed	Mostarac T.	Finance, Business	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	Y
Emergency power reconstruction project	ECP	82,986	82,986	06/07/98	Closed	Yayikoglu A.	Energy	BG/Op. Teams/Power and Energy	Energy	Y
Emergency power reconstruction project	ECP	76,114	76,114	06/07/98	Closed	Yayikoglu A.	Energy	BG/Op. Teams/Power and Energy	Energy	Y
Twinning for Hrvatska Banka	ECP	68,859	68,859	06/01/00	Closed	McDonald A.	Finance, Business	BG/Op. Teams/Financial Institutions	Financial Institutions	Y
Bosnia Power Sector Management Operation	ECP	219,652	219,652	02/02/00	Closed	Yayikoglu A.	Energy	BG/Op. Teams/Power and Energy	Energy	Y
Market Banka Twinning	ECP	398,648	398,648	07/04/00	Closed	McDonald A.	Finance, Business	BG/Op. Teams/Financial Institutions	Financial Institutions	Y
Bosnia and Herzegovina: Telecommunications regulatory development	ECP	214,567	214,567	07/09/99	Closed	Moffatt P.	Telecommunications	GC/General Counsel/Legal Transition	Non-Banking	Y

Continuation of BAS Bosnia and Herzegovina - EC Funding	ECWB	495,400	0	17/02/10	Committed	Della Rosa V.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
Micro Enterprise Bank - management services (federation assignment)	EUTME	980,977	980,977	14/07/98	Closed	Taylor M.	Finance, Business	BG/Op. Teams/Group for Small Business	Deputy Vice President	Y
Micro Enterprise Bank - management services (Federation of BiH)	EUTME	433,668	433,668	14/07/98	Closed	Taylor M.	Finance, Business	BG/Op. Teams/Group for Small Business	Deputy Vice President	Y
Property and Tourism Study	FRA	314,141	314,141	27/12/06	Closed	Hasic R.	Commerce, Tourism	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	N
BiH-Preparation of a State Transport Strategy	FRB	178,789	178,789	15/06/06	Closed	Polic J.	Construction	BG/Op. Teams/Transport	Infrastructure	Y
Regional Roads Development Programme	FRB	221,081	0	09/06/09	Committed	Polic J.	Construction	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	Y
Technical advisory services for project implementation (extension)	GERK	320,081	320,081	17/09/99	Closed	Stefanescu D.	Telecommunications	BG/Op. Teams/Telecommunications, Informatics and Media	Specialised Industries	Y
Bosnia Power Distribution - Project Preparation	GRE	98,690	98,690	08/06/05	Closed	Chabrier L.	Energy	BG/Op. Teams/Power and Energy	Energy	Y
Road user charges study	HOL	192,913	192,913	15/12/98	Closed	Hargitai Z.	Construction	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	Y
Final Design for Sarajevo International Airport	HOL	725,000	0	05/02/10	Committed	O'Grady L.	Transport, Storage	BG/Op. Teams/Transport	Infrastructure	N
Telecommunications sector policy development III	IRL	9,462	9,462	23/02/98	Closed	Moffatt P.	Telecommunications	GC/General Counsel/Legal Transition	Non-Banking	Y
TurnAround Management Programme (TAM) - UNICO	ITA	48,028	48,028	22/03/00	Closed	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
TAM Programme- Pobjeda	ITA	46,060	46,060	07/05/02	Closed	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
TAM - DITA	ITA	51,697	51,697	27/02/07	Closed	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
Telecommunications Emergency Reconstruction Project - Finance, accounting and billing advisory services (extension)	JPN	599,550	599,550	30/11/99	Closed	Stefanescu D.	Telecommunications	BG/Op. Teams/Telecommunications, Informatics and Media	Specialised Industries	Y
TAM - Unis Kovina	JPN	72,532	72,532	09/03/06	Closed	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
TAM - Konjuh	JPN	73,256	73,256	09/03/06	Closed	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
TAM - Bosnia Hotels & Restaurants	JPN	47,849	47,849	23/06/06	Closed	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
TAM - Energoinvest	JPN	66,477	66,477	31/01/07	Closed	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
Continuation of BAS Bosnia and Herzegovina (Netherlands) - Framework	NEBS	120,050	71,629	06/10/09	Disbursing	Della Rosa V.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
Sarajevo Airport & Strengthening of Aviation Sector	NLT	113,445	113,445	18/09/98	Closed	Knighton R.	Transport, Storage	BG/Op. Teams/Transport	Infrastructure	Y
Bosnia and Herzegovina: Bijeljina Water and Wastewater Collection Systems: PIU Support	SODA	437,028	357,219	20/12/07	Disbursing	Cosic D.	Local Authority Services	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	Y
TAM - Ukus	SPA	28,403	28,403	29/03/05	Closed	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
TAM - Ukus	SPA	13,207	13,207	29/09/06	Closed	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N

								AS Programme		
Bosnia and Herzegovina - Project Scoping for Railway Rehabilitation Project	SWE	199,000	199,000	30/06/00	Closed	O'Grady L.	Transport, Storage	BG/Op. Teams/Transport	Infrastructure	Y
Bosnia and Herzegovina: SEA of River Basins of the Vrbas and Bosna in Republika Srpska	SWI	150,000	37,900	14/12/07	Disbursing	Ohashi T.	Energy	BG/Op. Teams/Power and Energy	Energy	N
Republic of Srpska - Strategic Environmental Review for Small and Medium Hydropower Plants	SWI	25,000	0	06/10/09	Committed	Ohashi T.	Energy	BG/Op. Teams/Power and Energy	Energy	N
TurnAround Management Programme - Standard	UKC	13,331	13,331	18/09/98	Closed	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
TurnAround Management Programme - Borja	UKC	10,859	10,859	17/11/98	Closed	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
Telecommunications Regulatory Development	UKC	18,740	18,740	30/07/99	Closed	Moffatt P.	Telecommunications	GC/General Counsel/Legal Transition	Non-Banking	Y
TurnAround Management Programme (TAM) - UNICO	UKE	11,512	11,512	22/03/00	Closed	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
Primus Technical Due Diligence	UKF	9,913	9,913	24/07/03	Closed	Muurisepp U.	Finance, Business	BG/Op. Teams/Private Equity	Financial Institutions	Y
Primus Legal Due Diligence	UKF	15,980	15,097	08/09/03	Disbursing	Levans G.	Finance, Business	RM/Corporate Recovery Unit	Non-Banking	Y
Primus Financial Audit	UKF	10,000	10,000	12/07/04	Closed	Muurisepp U.	Finance, Business	BG/Op. Teams/Private Equity	Financial Institutions	Y
Business Advisory Service (BAS) Programme in Bosnia and Herzegovina - Framework - Programme Operating Costs	UKF	136,657	136,657	06/10/04	Closed	Della Rosa V.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
Conference on Deposit Insurance in Bosnia and Herzegovina	UKF	10,150	10,150	14/10/05	Closed	Karic Z.	Finance, Business	BG/Op. Teams/Financial Institutions	Financial Institutions	N
DIF Primus	UKF	15,980	0	06/03/09	Committed	Levans G.	Finance, Business	RM/Corporate Recovery Unit	Non-Banking	Y
Sarajevo Airport and strengthening of aviation sector	USA	51,753	51,753	29/06/98	Closed	Knighton R.	Transport, Storage	BG/Op. Teams/Transport	Infrastructure	Y
Bosnia & Herzegovina Micro Enterprise Bank (MEB)	USSP	335,199	335,199	09/08/01	Closed	Taylor M.	Finance, Business	BG/Op. Teams/Group for Small Business	Deputy Vice President	Y
Bosnian Railways: Assistance with Project Implementation	USTDA	484,159	484,159	30/04/01	Closed	Polic J.	Transport, Storage	BG/Op. Teams/Transport	Infrastructure	Y
BiH Air Traffic -Assistance with Procurement and Project Management	USTDA	278,471	258,406	10/04/06	Disbursing	Polic J.	Transport, Storage	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	Y
TAM - Siporex	WEBF	28,046	28,046	30/03/07	Closed	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
TAM - Vispak	WEBF	49,061	49,061	30/04/07	Closed	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
TAM - Unis Tok	WEBF	50,752	50,752	30/04/07	Closed	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
TAM - Blagoleks d.o.o	WEBF	50,070	50,070	21/05/07	Closed	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
TAM - ZIM	WEBF	51,203	51,203	21/05/07	Closed	Otter C.	Manufacturing	BG/Op. Teams/TAM/BAS Programme	SEEC	N
Bosnia and Herzegovina: Technical Assistance for TFP assignments	WEBF	35,000	0	11/09/07	Committed	Bolschun D.	Finance, Business	BG/Op. Teams/Financial Institutions	Financial Institutions	Y
Western Balkans MSME Finance Framework: Partner	WEBF	500,000	115,795	29/11/07	Disbursing	Hasic R.	Finance, Business	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	Y
Western Balkans MSME Finance Framework: EKI	WEBF	300,000	246,255	29/11/07	Disbursing	Iskhakova F.	Finance, Business	BG/Op. Teams/Financial Institutions	Financial Institutions	Y

Western Balkans MSME Finance Framework: Sunrise	WEBF	300,000	151,549	29/11/07	Disbursing	Hasic R.	Finance, Business	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	Y
Bijeljina Water and Wastewater - Financial and Operational Performance Improvement Programme	WEBF	152,220	40,000	18/12/07	Disbursing	Polic J.	Local Authority Services	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	Y
Business Management in Entity Road Companies	WEBF	246,853	139,236	28/03/08	Disbursing	Polic J.	Transport, Storage	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	Y
Bosnia and Herzegovina Corridor Vc Project	WEBF	496,500	132,493	23/04/08	Disbursing	Polic J.	Transport, Storage	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	Y
Bosnia and Herzegovina: Impact Evaluation Study -- Microlending	WEBF	35,000	25,000	30/05/08	Committed	Harmgart H.	Community/Social Services	CE/Chief Economist	Non-Banking	N
Bosnia and Herzegovina: Impact evaluation study - Western Balkans - microlending	WEBF	37,500	0	04/06/08	Committed	Harmgart H.	Community/Social Services	CE/Chief Economist	Non-Banking	N
Impact evaluation study - Western Balkans -- microlending	WEBF	37,500	18,750	04/06/08	Committed	Harmgart H.	Community/Social Services	CE/Chief Economist	Non-Banking	N
Western Balkans and Croatia MSME Finance Framework - MI-BOSPO - Transformation into a commercial microfinance company	WEBF	150,000	41,000	10/09/08	Disbursing	Hasic R.	Finance, Business	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	Y
Impact evaluation study - Western Balkans - Microlending	WEBF	165,000	64,488	19/09/08	Committed	Harmgart H.	Community/Social Services	CE/Chief Economist	Non-Banking	N
Impact evaluation study - Western Balkans -- microlending	WEBF	9,000	9,000	08/12/08	Closed	Harmgart H.	Community/Social Services	CE/Chief Economist	Non-Banking	N
Regional Airports Emergency Investments Preliminary Feasibility Study	WEBF	41,990	41,990	08/12/08	Closed	di Domenico A.	Transport, Storage	BG/Op. Teams/Transport	Infrastructure	Y
Public Company Republika Srpska Roads	WEBF	252,647	142,531	15/01/09	Committed	Polic J.	Transport, Storage	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	N
Sarajevo Urban Roads - Elaboration of Transport Model and Traffic Engineering Review	WEBF	93,325	14,217	05/03/09	Committed	Jordan-Tank M.	Transport, Storage	BG/Op. Teams/Municipal & Environmental Infrastructure	Infrastructure	Y
Merkur - Due Diligence	WEBF	26,975	26,975	13/03/09	Closed	Huchler E.	Commerce, Tourism	BG/Op. Teams/Agribusiness	Specialised Industries	N
Updating Master Plan for Sarajevo International Airport	WEBF	95,350	90,969	16/03/09	Disbursing	O'Grady L.	Transport, Storage	BG/Op. Teams/Transport	Infrastructure	Y
BiH: Sarajevo Urban Roads Development Project - Environmental and Social Impact Assessment	WEBF	150,000	0	06/07/09	Committed	Polic J.	Transport, Storage	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	Y
Western Balkans and Croatia MSME Finance Framework- Mikrofin - Western Balkans Funding	WEBF	225,000	0	18/09/09	Committed	de la Mata G.	Finance, Business	BG/Op. Teams/Financial Institutions	Financial Institutions	N
TC: WBLEF Merkur - Restructuring	WEBF	90,000	42,000	28/09/09	Disbursing	Hasic R.	Commerce, Tourism	RO/Sarajevo (Bosnia-Herzegovina)	SEEC	Y
Assistance to Procurement and Monitoring BH Gas	WEBF	300,000	30,000	25/11/09	Committed	de Lastours G.	Transport, Storage	BG/Op. Teams/Natural Resources	Energy	Y
		20,656,401	14,978,759							
		20,656,401	14,978,759							
No of Commitments:			116							

ANNEX 11 - TAM/BAS ACTIVITY IN BOSNIA AND HERZEGOVINA

The TAM/BAS Programme supports economic transition by achieving enterprise change in potentially viable micro, small and medium enterprises (MSMEs) and contributing to the development of sustainable infrastructures of local business advisory services in the EBRD countries of operations.

1. TAM/BAS in Bosnia and Herzegovina

Previous TAM experience

TAM supports the introduction of international best practice in small and medium-sized enterprises with the potential of becoming future leaders in their market through the introduction of international advisors from developed countries with 15 to 20 years of professional experience in the specific business sector. TAM projects typically last around 18 months.

Since inception in 1997, TAM has received a total of more than €1.3 million in donor funding for projects in Bosnia and Herzegovina. The largest donors to TAM have been Japan, the EU, and multi-donor funds. Additional funding came from Italy, Denmark, Canada, the UK, Spain and Switzerland. The Programme has carried out 26 projects throughout Bosnia and Herzegovina of which one is still in progress. Enterprises assisted have been mainly focused on the Wood Product and Furniture, Motor Vehicles and Components and Textile industries.

Previous BAS experience

BAS acts as a facilitator for the use of local, private-sector consultants by MSMEs to obtain a diverse array of services. BAS works on both the demand and the supply side. By assisting individual enterprises to engage with local consultants on narrowly-based, specific projects with a rapid payback, it stimulates demand and the understanding of the potential benefits of using external consultants. It also directly increases the supply and quality of local advisory services, through targeted market development activities. BAS supported projects typically last around four months.

Since inception in February 2001, BAS Bosnia and Herzegovina has received a total of €3.2 million in donor funding. The main donors have been the Netherlands, the EBRD and the EU. Additional funding came from Italy, the UK, multi-donor funds and Portugal. The Programme has undertaken a total of 421 projects with MSMEs, engaging 208 consultants (98 per cent of which were local). Projects aimed at introducing Quality Management & Certification have been the most common type among all the projects carried out in Bosnia and Herzegovina. The industry spread of enterprises assisted has been wide, with Metal and Equipment and Wood Processing among the most common sectors in the first five years of operations. Textile and Glass/Rubber/Plastic became more common sectors in the last four years while food and beverages remain the most important sector overall.

BAS Programme is assisting smaller enterprises and more than 81.2 per cent of the projects are with enterprises with less than 100 employees. In terms of cross-cutting issues, BAS Bosnia and Herzegovina has focused on facilitating rural development. More than half of the projects were located in rural areas outside the main cities of Sarajevo and Banja Luka. In addition to projects, the BAS Programme in Bosnia and Herzegovina has also undertaken a

number of market development activities (MDAs) geared towards the development of the local consultancy industry.

Linkages with banking

To date, four TAM/BAS-assisted companies in Bosnia and Herzegovina have attracted two investments from the EBRD totalling €6.7 million. At the same time, TAM/BAS companies received two investments amounting to €2.25 million from local financial intermediaries through EBRD extended credit lines. 82 companies attracted external, EBRD unrelated, investments of €60.7 million.

2. MSME and Consulting sector in Bosnia and Herzegovina

The MSME sector

The legacy of the Dayton Accords significantly affects the business climate. According to the BEEPS 2009, one quarter of firms consider political instability to be the most severe obstacle to their business' performance. Lacking government effectiveness and a regulatory framework for SMEs, excessive bureaucracy as well as high social contribution fees are additional major impediments and SMEs cannot operate under the same conditions at various locations across the country. The weak rule of law means that enterprises also suffer from the persistence of the grey economy and wide-spread corruption, which is reflected in the Transparency International CPI, which ranks Bosnia and Herzegovina the lowest within the Western Balkan region. The World Bank Doing Business Report 2010 further highlights the difficult business environment and ranks Bosnia and Herzegovina 116th, below all other countries in the South East Europe region.

Accordingly, actions have been taken to simplify business registration, but a single valid registration for the whole country is not yet operational and starting a business remains time-consuming. In addition, in spite of good progress made in the previous year in terms of registering property and paying taxes, these two aspects remain problematic. On the positive side, the report assesses the environment in Bosnia and Herzegovina relatively well with regard to getting credit, trading across borders and closing of business.

After several years of growth, total assets of the banking sector have stagnated in 2009. Credit growth stood at -3.6 per cent as of January 2010. As a result of the global downturn, payment capacities have decreased and Micro Finance Institutions lending has become more restricted. According to BEEPS, around 10 per cent of the enterprises surveyed consider access to finance the most severe obstacle to a better business performance. Interest rates remain high and overall access of the private sector to capital markets remains limited. A credit registry exists and is well functioning, but the individual's access to their own data is not guaranteed by law.

Government support to the MSME sector

Overall, MSMEs' interests appear to be underrepresented. The main business organisations are the Association of Employers in Bosnia and Herzegovina and the Foreign Trade Chamber, but their work mainly focuses on the needs of larger enterprises. Furthermore, the Chamber of Commerce in the Republika Srpska is very active and provides numerous services to their members. There are various other associations at regional level, though their influence is marginal. In 2009, a consortium of five institutions has also joined the Enterprise Europe Network. Public-private dialogue only exists at entity-level through the Social-Economic

Councils. The state-level SME strategy, if fully implemented, envisages the establishment of a Council for Entrepreneurship and should hence improve the situation in this area. Bosnia and Herzegovina is ranked 109th in the Global Competitiveness Index.

The areas of SME competitiveness and technological capacity training remain mostly at entity-level, while trade-policy is administered at state-level. Five regional development agencies (RDAs) – established with support of the EU - conduct sectoral and regional projects. However, they operate on a limited scale and an effective coordination at state-level to facilitate the exchange of experiences is non-existent. In addition, there are several business incubators operational but the quality of business services remains unsatisfactory. Bosnia and Herzegovina still has a relatively weak ICT infrastructure and performs poorly in the World Bank's Knowledge Economy index. Major challenges remain in the area of innovation and economic incentives. With regard to entrepreneurial education, first steps have been taken to link education and the economy at all levels of governance. Entrepreneurial skills remain at an early stage and the initiative is vital for future development of a lifelong entrepreneurial learning strategy. Finally, vocational training should be addressed more effectively, as many businesses consider the poorly skilled labour force to be a major problem.

Donor support to the MSME and consultancy sector

A variety of international donor organisations support the MSME sector in Bosnia and Herzegovina. Within the framework of the Instrument for Pre-accession Assistance (IPA), the EU is supporting a number of projects focussing on MSME development, notably through providing technical and financial assistance to the RDAs and supporting the development of a comprehensive SME policy at state level. In addition, the EIB has provided significant credit lines to support MSME financing. A renewal of the European Fund for South Eastern Europe (EFSE II), which incorporates a loan programme for MSMEs, is currently being appraised. The World Bank has also recently approved a credit line to assist with the impacts of the economic crisis on the MSME sector. USAID has played a crucial role in addressing the difficult business environment and has supported a range of projects within the framework of its Streamlining Permits and Inspection Regime Activity (SPIRA). Currently, two USAID projects (FIRMA and FARMA) in cooperation with the Swedish International Development Cooperation Agency (SIDA) are in place. The promotion of MSME development is also a priority of the GTZ's activity in Bosnia and Herzegovina. It promotes regional development in the SME sector, vocational training and has supported the reform of the cadastre and land registry.

The Consultancy Market

Due to the large number of donor programmes since the end of the war, the consultancy market in Bosnia and Herzegovina has mainly been donor driven. Only a small part of local consultants do not depend on donor programmes partially or completely. In the past five years, consultants broadened their range of services to focus more on private companies' demand; and the quality and supply of certain consulting services are currently considered to be at a mature stage. However these mature consulting services are limited to quality standards and basic business plans. There have been attempts to professionalise the consulting industry with the support of the donor community. Yet consultancy market remains highly fragmented and relatively weak.

MSME demand for advisory services is important in major cities but is limited to services directly related to quality standards or to lower extent financial information systems. However in line with regional trends, greater demand for more specific quality certification can be

expected in the food industry, as well as more demand in projects related to industrial equipment upgrade and environmental management in line with acquis. Meeting standards in the field of product safety, environmental protection, and occupational health and safety will be a key factor for competition. Moreover, demand for energy efficiency will also grow especially because of the Wood and Steel industry needs but also because of crisis recovery initiatives.

3. TAM/BAS continuation in Bosnia and Herzegovina

Continuation of TAM

In light of the specificities of the local consultancy market, business advice from international experts in certain areas is highly relevant in Bosnia and Herzegovina. Based on the challenges of the Bosnian economy, TAM will concentrate on the following types of projects:

- Trade and business partners : partner search, joint-ventures, export promotion
- Restructuring, M&A, crisis response
- Long term strategic planning
- New technologies, transfer of technologies to reach international standards

TAM will continue delivering assistance responding to the above as well as focusing on energy efficiency and environmental issues. In terms of sectors, Metal, Wood, and Agribusiness are seen as those with the largest potential.

TAM/BAS will focus on addressing these gaps by continuing its operations in Bosnia and Herzegovina. However, the extent of the Programme's activities will depend on funding availability.

Continuation of BAS

MSME Stakeholders unanimously believe that Bosnia and Herzegovina entrepreneurs could benefit strongly from the help of business advisory services.

Given the specificities of the local advisory market, the BAS grant will remain the key component of BAS. A Grant Guideline Matrix is proposed in Bosnia and Herzegovina in order to prioritise intervention, avoid duplication of efforts from international donors and focus on the areas where Bosnia and Herzegovina businesses have needs and no access to advisory services. Depending on funding availability, higher grants will be allocated according to:

- *Size of enterprise*: Higher grants will be given to smaller enterprises.
- *Geographic location*: Higher grants will be given to enterprises outside of Sarajevo and Banja Luka.
- *Type of advisory service*: Higher grants will be given to support projects aiming to improve environmental management and energy efficiency, as well as to projects improving market performance.

BAS assistance at the enterprise level will be complemented with the following market development activities in order to maximise the Programme's transition impact in Bosnia and Herzegovina:

- *Visibility and dissemination:* The BAS Programme will take steps to promote the use of business advisory services by organizing trainings both for consultants and SMEs. For example, trainings for internal auditors in Environment Management or for product development and promotion of products for cheese makers. These will be carried out especially in rural regions where consultancy is low in demand. BAS will organise more seminars related to best practices to demonstrate the potential benefits for MSMEs especially with regards to Energy Efficiency.
- *MSME and consultancy training:* Capacity building for consultants will be organised to help broaden the country's supply and quality of local advisory services. The BAS team will continue to address existing gaps in the supply of advisory services in order to stimulate demand for more sophisticated consultancy services such as a development and implementation of an intensive training course for Energy Managers (targeted to both consultants and SME) or such as the development of a training course on waste management.
- *Support to and development of existing local institutions:* BAS MDAs will continue supporting local institutions that contribute to the development of MSMEs and the business advisory services market. This will include supporting the introduction of international standards for management consultant especially through CMC preparatory training and certification procedures in accordance with ICMC standards.

Continuation of combined TAM/BAS activities

Cross-cutting issues

In order to address cross-cutting issues that are pertinent to Bosnia and Herzegovina's MSME sector development, the TAM/BAS Programme will focus its efforts on projects targeted in the regions outside of the main cities. Moreover, TAM/BAS will also devote efforts to supporting measures that increase energy efficiency and environmental management especially in those areas.

Contribution to EBRD policy dialogue

By thoroughly analysing the business environment and clearly identifying the challenges faced by the MSME sector, TAM/BAS further strengthens the EBRD's policy dialogue toolkit. Future challenges for the government (among others) are identified as improving efficiency of the tax administration, faster granting of business licences and permits, upgrading the infrastructure and continuing to fight corruption. Access to credit for MSMEs remains a major issue of concern following the financial crisis. The TAM/BAS Programme will continue to engage in dialogue with the Bosnia and Herzegovina agencies.

