

Report on

Air Quality Improvement Project
of the Ministry of Finance and Treasury of Bosnia and
Herzegovina
Financed by:
- IBRD 9518-BA
For the year ended 31 december 2025

Air Quality Improvement Project
Ministry of Finance and Treasury of Bosnia and Herzegovina

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Air Quality Improvement Project

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1. Introduction

1.1 Objectives of the Project

The objective of the Project is to strengthen air quality monitoring and management, and reduce air pollutant emissions from the residential heating and transport sectors in the Federation of Bosnia and Herzegovina.

1.2 Components and activities of the Project

The Project is comprised of the following four components:

Component 1: Strengthening Air Quality Monitoring and Management

This component supports improving the air quality monitoring network at the Federation level and downstream improvements at the cantonal level through:

Sub-component: Streamlining of the Information Technology (IT) support for the monitoring system within the Federation;

Sub-component: Harmonizing the data collection, storage and register across the cantons and Federation through provision of relevant equipment;

Sub-component: Providing support to the FHMI's to implement its GHG accounting and air quality monitoring role for the cooperation with lower tier authorities, including IT support, equipment and capacity building.

This component supports strengthening the Air Quality Center in Canton Sarajevo through:

Sub-component: Improving the organizational structure and capacity building of the Center;

Sub-component: Improving monitoring network through combination of more efficient practices and supplementing the network with stand-alone analyzers;

Sub-component: Improving data collection, storage and management of the Center;

Sub-component: Conducting series of modelling, research and databases produced in an inter-connected and more usable platform; and

Sub-component: Providing support to knowledge exchange, awareness raising, strengthening enforcement and cooperation amongst key stakeholders.

This component supports strengthening the air quality monitoring and management practices in Participating Cantons through:

Sub-component: Providing technical assistance to propose solution of strengthening existing air quality management practices into air quality management institutional structures as per the relevant legislation;

Sub-component: Optimization and development of a monitoring plan for pollutants, including procurement of additional stations or single-pollutant analyzers, and enabling information and data collection, storage and sharing platforms, as needed;

Sub-component: Conducting communication and knowledge exchange;

Sub-component: Strengthening coordination role for implementation of air quality improvement measures to strengthen (A) the lead role in coordinating measures that need to be implemented, along with cooperation between all stakeholders in the air quality management process, and (B) inspections and supervision on the ground based on the needs of the individual cantons, and

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Sub-component: Strengthening of the capacity of relevant institutions to develop and implement compliance mechanisms for air quality.

Component 2: Scaling Up Sustainable Heating and Energy Efficiency in Residential Houses

The Component aims provision of (a) Grants to support Investments in distributed sustainable heating and energy efficiency for Eligible Households in Participating Cantons; and (b) technical assistance, including the verification mechanism, to support the implementation of activities under paragraph (a).

Component 3: Supporting the Transition to Low-Emission Transport

The Component supports improvement of the bicycling infrastructure and facilities in Canton Sarajevo through inter alia:

Sub-component: carrying out the design and civil works for bicycle infrastructure and installation of facilities, through inter alia building missing links and expansions, improving existing infrastructure, improving traffic management, and installing parking facilities;

Sub-component: carrying out design guidelines, feasibility studies, digitization of an open-source bicycling map, public promotion, and capacity building; and

Sub-component: supplying and installing bicycling traffic counting equipment, and conducting user surveys.

Development of approaches to implement low-emission measures for Canton Sarajevo through:

Sub-component: supplying and installing monitoring equipment and road signs; and

Sub-component: providing (A) carrying out public education events to raise awareness on air quality issues and transport's contribution to air pollution; (B) carrying out a phased implementation plan for low emission measures; and (C) capacity building through trainings and educational packages for the municipalities, cantonal and other government entities.

Provision of low-emission public transport vehicles and improvement of bus fleet management through:

Sub-component: investments in low emission (combination of Euro 6 diesel and electric) buses and related infrastructure; and

Sub-component: providing technical assistance in fleet management and service improvement.

Component 4: Project Implementation Support

Carrying out project management and sector reform coordination through, inter alia: (i) supporting the FMoET PMU and PITs carrying out of Project management and implementation, including monitoring and evaluation; (ii) carrying out all Project requirements including audits, training, environmental and social, and fiduciary management, including financing Operating Costs; and (iii) carrying out beneficiary satisfaction surveys and managing a beneficiary feedback mechanism, including a grievance redress mechanism.

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1.3 Financing of the Project:

1.3.1 IBRD 9518-BA

The State of Bosnia and Herzegovina ("B&H") is the borrower of the International Bank for Reconstruction and Development IBRD 9518-BA amounting to the equivalent of EUR 46,100,000.

Under the terms of a subsidiary finance agreement between B&H and FBIH funds of the equivalent of EURO 46,100,000 have been lent to FBIH.

1.3.2 Financing of the Project

Categories of cost items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each category and the percentage of expenditure for cost items so to be financed in each category are as follows:

| Category | Amount of the Loan Allocated (expressed in Euro) | Percentage of Expenditures to be financed (inclusive of Taxes) |
|---|---|--|
| Goods, works, non-consulting services, consulting services, Operating Costs and Training for Parts 1 and 4 of the Project | 7,721,750 | 100% |
| Goods and works under Grants for Investments, consulting services under part 2 of the project | 29,043,000 | 100% |
| Goods, works, non-consulting services, and consulting services under Part 3 of the Project | 9,220,000 | 100% |
| Front-end Fee | 115,250 | Amount payable pursuant to Section 2.03 under Article II of this Agreement in accordance with Section 2.07 (b) of the General Conditions |
| TOTAL AMOUNT | 46,100,000 | |

IBRD 9518-BA became effective 180 days after the signing date as of 22 November 2023. Planned closing date is scheduled for 30 June 2029.



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Independent Auditor's Report

To the State of Bosnia and Herzegovina,
Ministry of Finance and Treasury
Attn. of Minister of Finance and Treasury

Report on the Project Financial Statements

Opinion

We have audited the accompanying project financial statements of the Federation of Bosnia and Herzegovina the Air Quality Improvement Project, which comprise of Summary of sources and uses of funds, Balance sheet, Designated account, Statement of loan withdrawals as of and for the year ended 31 December 2025, and a summary of significant accounting policies and other explanatory notes for the year then ended, financed under IBRD Credit No. 9518 - BA.

In our opinion, the accompanying project financial statements present fairly, in all material aspects, the financial position of the Project as of 31 December 2025, and of the funds received and disbursed during the year then ended, in accordance with the cash basis of accounting based on International Public Sector Accounting Standard ("IPSAS"), as described in Note 4.1.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and "Guidelines: Annual Financial Reporting and Auditing for World Bank – Financed Activities" issued by FMSB. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Ministry of Finance and Treasury in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Project Financial Statements

The management of project coordination unit is responsible for the preparation of these project financial statements in accordance with the cash basis of accounting based on IPSAS, as described in Note 4.1., and for such internal control as management determines is necessary to enable the preparation of project financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the

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Project or to cease operations or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the financial reporting process.

Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the project financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detected a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the project financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Project to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the project financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other requirements

In addition, with respect to the Statement of Expenditure, adequate supporting documentation has been maintained to support claims to the World Bank for reimbursements of expenditure incurred; and all expenditure included in withdrawal applications and reimbursed against are eligible for financing under the project.

Signed on behalf of Baker Tilly Re Opinion d.o.o. Sarajevo


Jasmina Orucević, Director




Aldijana Gabela, Certified Auditor

Sarajevo, 13 May 2026

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 Project financial statements for the year ended 31 December 2025

(all amounts in EUR, unless otherwise stated)

3. Project financial statements for the year 2025

3.1 Summary of sources and uses of funds under the IBRD Credit No. 9518 - BA

| | Ref. | Actual 2025 | Cumulative 2025 | Cumulative 2024 | Cumulative budget | Cumulative variance |
|---|------|----------------|--------------------|--------------------|----------------------|------------------------|
| FINANCING | | | | | | |
| <i>IBRD Credit No.9518-BA</i> | | | | | | |
| Initial deposit | | - | 1,500,000 | 1,500,000 | 46,100,000 | |
| Direct payments | | - | - | - | - | |
| Reimbursement | | - | - | - | - | |
| SoE replenishments | | - | - | - | - | |
| Front-end Fee | | - | 115,250 | 115,250 | - | |
| TOTAL FINANCING | 3.1 | - | 1,615,250 | 1,615,250 | 46,100,000 | 44,484,750 |
| PROJECT EXPENDITURE | | | | | | |
| <i>By Category</i> | | | | | | |
| Goods, works nonconsulting services, consultants' services, Operating Costs and Training | | 191,310 | 224,052 | 32,742 | - | |
| Front-end Fee | | - | 115,250 | 115,250 | - | |
| TOTAL EXPENDITURE | 3.1 | 191,310 | 339,301 | 147,990 | 46,100,000 | 45,760,699 |
| PROJECT EXPENDITURE | | | | | | |
| <i>By Component</i> | | | | | | |
| Air Quality improvement | | 167,956 | 195,336 | 27,380 | - | |
| Operating costs | | 23,354 | 28,716 | 5,362 | - | |
| Front-end fee | | - | 115,250 | 115,250 | - | |
| TOTAL EXPENDITURE | 3.2 | 191,310 | 339,301 | 147,990 | 46,100,000 | 45,760,699 |

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3. Project financial statements for the year 2025 (continued)

3.2 Balance sheet as of 31 December 2025 showing accumulated funds of the Project and bank balances concerning World Bank funding

| | Ref. | 31 December 2025 | 31 December 2024 |
|--|------|---------------------|---------------------|
| ASSETS | | | |
| Project expenditure under IBRD Credit No. 9518 - BA | 3.1 | 339,301 | 147,991 |
| | | 339,301 | 147,991 |
| Designated bank account - IBRD Credit No. 9518 - BA | A | 1,275,949 | 1,467,259 |
| | | 1,275,949 | 1,467,259 |
| Total assets | | 1,615,250 | 1,615,250 |
| LIABILITIES | | | |
| IBRD Credit No. 9518 - BA | C | 1,615,250 | 1,615,250 |
| Total liabilities | | 1,615,250 | 1,615,250 |

Signed and authorised by:



Nasiha Pozder
 Minister of Federal Ministry of environment and tourism
 Sarajevo, 13 May 2026

Atifa Halilović
 Atifa Halilović
 Financial Expert

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4. Notes to the project financial statements

4.1 Basis of preparation and accounting records

These project financial statements have been prepared in accordance with the International Public Sector Accounting Standard: "Financial Reporting under the Cash Basis of Accounting" issued by the Public Sector Committee of the International Federation of Accountants, and incorporate the accounting policies below, which have been consistently followed in all material respects and comply with the "Guidelines: Annual Financial Reporting and Auditing for World Bank – Financed Activities", issued by the Financial Management Sector Board.

4.2 Accounting policies

The Project's fiscal year is 1 January to 31 December for the recording of all transactions.

Cash basis of accounting

All receipts and expenses under IBRD Credit are recorded on actual receipt and payment basis of accounting as per approved categories.

Project expenditure is stated at original cost on the balance sheet.

Direct payments

Direct payments concern the amounts paid directly from the Credit account of the World Bank.

Statement of Expenditure (SoE)

Statements of Expenditure are used to state the expenditure under IDA Credit during a certain period. These statements are sent to the World Bank's disbursement specialist who authorises the payment of the expenditure through the Designated account.

Currency conversions

The reporting currency is EUR. Sources and use of funds (payments to suppliers and contractors) in currencies other than EUR have been converted to EUR using the currency rate at the moment of the transaction.

Bank balances, recorded on the balance sheet at year-end, have been converted at year-end rate.

Designated account

This is the total amount of the withdrawals from the Credit account for the Project. The Credit account is in EUR.

Interest on Designated account

Interest earned on the Designated account belongs to the Borrower.

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APPENDIX A.2

TRANSACTION BANK ACCOUNT STATEMENT

Account owned by: Ministry of Finance and Treasury of Bosnia and Herzegovina

Account No.: 1994 9900 0735 0191

Depository Bank: Sparkasse Bank d.d. BiH

Address: Trg BiH 1 Sarajevo

Related Credit: IBRD Credit No. 9518 - BA

Currency: BAM

| | Ref. | EUR |
|--|------|----------------|
| Opening balance 1 January 2025 | 3.2 | - |
| Add: | | |
| Transfer from designated account | A.1 | 191,350 |
| | | <u>191,350</u> |
| Deduct: | | |
| Transfers to designated account | A.1 | 40 |
| Expenditures from the period | | 191,310 |
| | | <u>191,310</u> |
| Ending balance 31 December 2025 | 3.2 | - |

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APPENDIX B SoE Withdrawal Schedule of IBRD Credit No. 9518 - BA

| | Changes in IBRD Credit (in EUR) |
|--|--|
| Original amount | |
| Disbursed in previous years | |
| Front-end Fee | 115,250 |
| Withdrawal 01 | 1,500,000 |
| Total disbursed in 2024 | 1,615,250 |
| Withdrawal | - |
| Total disbursed in 2025 | - |
| Cumulative disbursements as of 31 December, 2025 | 1,615,250 |
| Calculated undisbursed balance as of 31 December, 2025 | 44,484,750 |
| Undisbursed balance as per World Bank Summary for December 2025 | 44,484,750 |

No disbursements were made during 2025, as funds were disbursed in 2024 and were partially utilized during the reporting period.

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APPENDIX C Reconciliation between World Bank's disbursement statements in EUR and IBRD Credit account in EUR according to the balance sheet; SoE Withdrawal Schedule of IBRD Credit No. 9518 - BA

| | Initial deposit | Goods, works nonconsulting services, consultants' services, Operating Costs and Training for Parts 1 2 3 4 | Front-end Fee | Total application | Total replenished |
|-------------------------------|------------------|---|----------------|----------------------|----------------------|
| Previous years | 1,500,000 | 32,741 | 115,250 | 147,991 | 1,615,250 |
| Application 4 | - | 61,675 | - | 61,675 | - |
| Application 5 | - | 53,275 | - | 53,275 | - |
| Application 6 | - | 38,801 | - | 38,801 | - |
| Application 7 | - | 37,559 | - | 37,559 | - |
| Total 2025 | - | 191,310 | - | 191,310 | - |
| As of 31 December 2025 | - | 224,051 | 115,250 | 339,301 | 1,615,250 |