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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL FINANCE CORPORATION

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP FRAMEWORK

FOR

BOSNIA AND HERZEGOVINA

FOR THE PERIOD FY16-FY20

November 14, 2015

**South East Europe Country Management Unit
Europe and Central Asia**

**The International Finance Corporation
Europe and Central Asia**

The Multilateral Investment Guarantee Agency

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CURRENCY EQUIVALENTS

Exchange Rate Effective August 1, 2015
 Currency Unit – Convertible Mark (BAM)
 BAM 1.00 = US\$ 0.56
 SDR 1.00 = US\$ 1.39

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ASA	Analytical Services and Advisory	IPA	Instrument for Pre-Accession
B40	Bottom 40 percent of the population	IPARD	Instrument for Pre-Accession in Rural Development
BAM	BiH national currency, the Convertible Mark	MIGA	Multilateral Investment Guarantee Agency
BD	Brcko District	MoFT	Ministry of Finance and Treasury
BHAS	Bosnia and Herzegovina Agency for Statistics	MSME	Micro, Small and Medium Enterprises
BiH	Bosnia and Herzegovina	MTDS	Medium Term Debt Strategy
CAD	Current Active Deficit	NPL	Non-performing Loan
CAS	Country Assistance Strategy	PA	Protected Areas
CoM	Council of Ministers	PEFA	Public Expenditures and Financial Accountability
CPF	Country Partnership Framework	PES	Public Employment Services
CPS	Country Partnership Strategy	PFM	Public Financial Management
DEI	Directorate for European Integration	PPP	Public-Private Partnership
DPL	Development Policy Loan	PRB	Procurement Review Board
DPO	Development Policy Operation	RE	Renewable Energy
DRB	Drina River Basin	RERP	Real Estate Registration Project
EBRD	European Bank for Reconstruction and Development	ROSC	Report on the Observance of Standards and Codes for the Insolvency and Creditor/Debtor
EC	European Commission	RS	Republika Srpska
ECA	Europe and Central Asia	SAA	Stabilization and Association Agreement
ECAPOV	Europe and Central Asia Poverty Global Practice	SBA	Stand-by Arrangement
ECE	Early Childhood Education	SCD	Systematic Country Diagnostic
EHBS	Extended Household Budget Survey	SEE	South East Europe
EIB	European Investment Bank	SFLM	Sustainable and Forestry and Landscape Management Project
EP	Elektroprivreda	SHPP	Small Hydropower Projects
EU	European Union	SIDA	Swedish International Development Agency
EUR	Euro	SME	Small and Medium Enterprises
FBiH	Federation of Bosnia and Herzegovina	SOE	State-Owned Enterprises
FDI	Foreign Direct Investment	SORT	Standardized Operations Risk-rating Tool
FY	Fiscal Year	T60	Top 60 percent of the population
GDP	Gross Domestic Product	TA	Technical Assistance
GEF	Global Environment Facility	TF	Trust Fund
HMC	Health Management Centers	UNDP	United Nations Development Programme
IBRD	International Bank for Reconstruction and Development	USAID	United States Agency for International Development
ICT	Information and Communication Technology	VAT	Value Added Tax
IDA	International Development Agency	WB	The World Bank
IEG	Independent Evaluation Group	WBG	The World Bank Group
IFC	International Finance Corporation	WEF	World Economic Forum
IFI	International Financial Institution	WHO	World Health Organization
IMF	International Monetary Fund	WWTP	Waste Water Treatment Plants

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BOSNIA AND HERZEGOVINA COUNTRY PARTNERSHIP FRAMEWORK

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FY16-20 COUNTRY PARTNERSHIP FRAMEWORK FOR BOSNIA AND HERZEGOVINA

EXECUTIVE SUMMARY

- i. Bosnia and Herzegovina has an opportunity to change its development path.** The country has been at peace for the past twenty years, and despite a complex political setup has been able to achieve significant results. Much of infrastructure destroyed in the war has been rebuilt, and institutions have been established to govern the country at all levels of authority. A framework for economic and fiscal management has been established that has brought lasting macroeconomic stability. Multiple reform efforts have improved economic links between the Federation of Bosnia and Herzegovina and Republika Srpska, and some progress has been made in creating a better environment for private sector development and job creation. Much more now needs to be done if Bosnia and Herzegovina (BiH) is to achieve sustainable prosperity for its citizens and join the ranks of the European Union. BiH's public sector is large and inefficient, both as a result of complicated post-war governance structures and as a legacy of the former Federal Republic of Yugoslavia. Despite some improvements, the private sector is still hampered by a lackluster business environment, high labor taxes, inflexible labor market policies, uneven transport infrastructure, energy inefficiency and other constraints. Unemployment is over 27 percent, and only about half of working age people are economically active. The poverty rate is 15 percent, and has not declined since the global financial crisis in 2008. A consensus is emerging at different levels of society that the time has come for the country to change course and unleash its growth potential. Elections in late 2014 brought to power a new BiH Council of Ministers, Government of Republika Srpska, and Government of the Federation of Bosnia and Herzegovina which are focused on economic reforms to stimulate growth and create jobs. The recently adopted medium-term BiH Reform Agenda represents a broad consensus among all governing institutions on the key priorities for economic and social development that would place Bosnia and Herzegovina on a more sustainable growth trajectory. The BiH Council of Ministers, Government of Republika Srpska, and Government of the Federation of Bosnia and Herzegovina have officially endorsed the Reform Agenda, and progress in its implementation will underpin the country's application for EU membership.
- ii. The Systematic Country Diagnostic (SCD) for Bosnia and Herzegovina concludes that BiH could end poverty and achieve shared prosperity within one or two generations if it were to rebalance its development model.** First, it needs to unleash the potential of the private sector while reducing the footprint of the large public sector. Second, the economy needs to shift from an inward focus driven by domestic consumption, remittances and imports to an outward focus of attracting foreign investments, boosting exports and advancing regional and global market integration. Higher economic growth is necessary for Bosnia and Herzegovina to win the fight against poverty because the poor have benefitted the most from faster growth, including through employment.
- iii. The SCD identifies ten priorities, of which the top four focus on accelerating growth in order to create and sustain more and better jobs.** They include: i) reforming the labor market, improving delivery of social protection to vulnerable groups and reducing the cost of labor; ii)

improving competitiveness, entrepreneurship and the investment climate; iii) reducing the size of the public sector while ensuring fiscal sustainability and improving public service delivery; and, iv) investing in economic infrastructure for growth and inclusion. The implementation of these reforms would *realign incentives and policies* toward the private sector with a focus on regional and international integration. A second set of high priorities would *accelerate BiH's social and economic development* once the country is on the right track by increasing its resilience. These include: i) helping BiH cope with adverse natural events; ii) improving education and labor market skills; and, iii) improving health services and access to water and sanitation. A final set of three medium priorities concerns long-term efforts to create *stable and sustainable economic opportunities*. They include: i) maintaining financial stability and expanding access to finance; ii) reducing pollution and protecting the environment; and iii) increasing agricultural productivity.

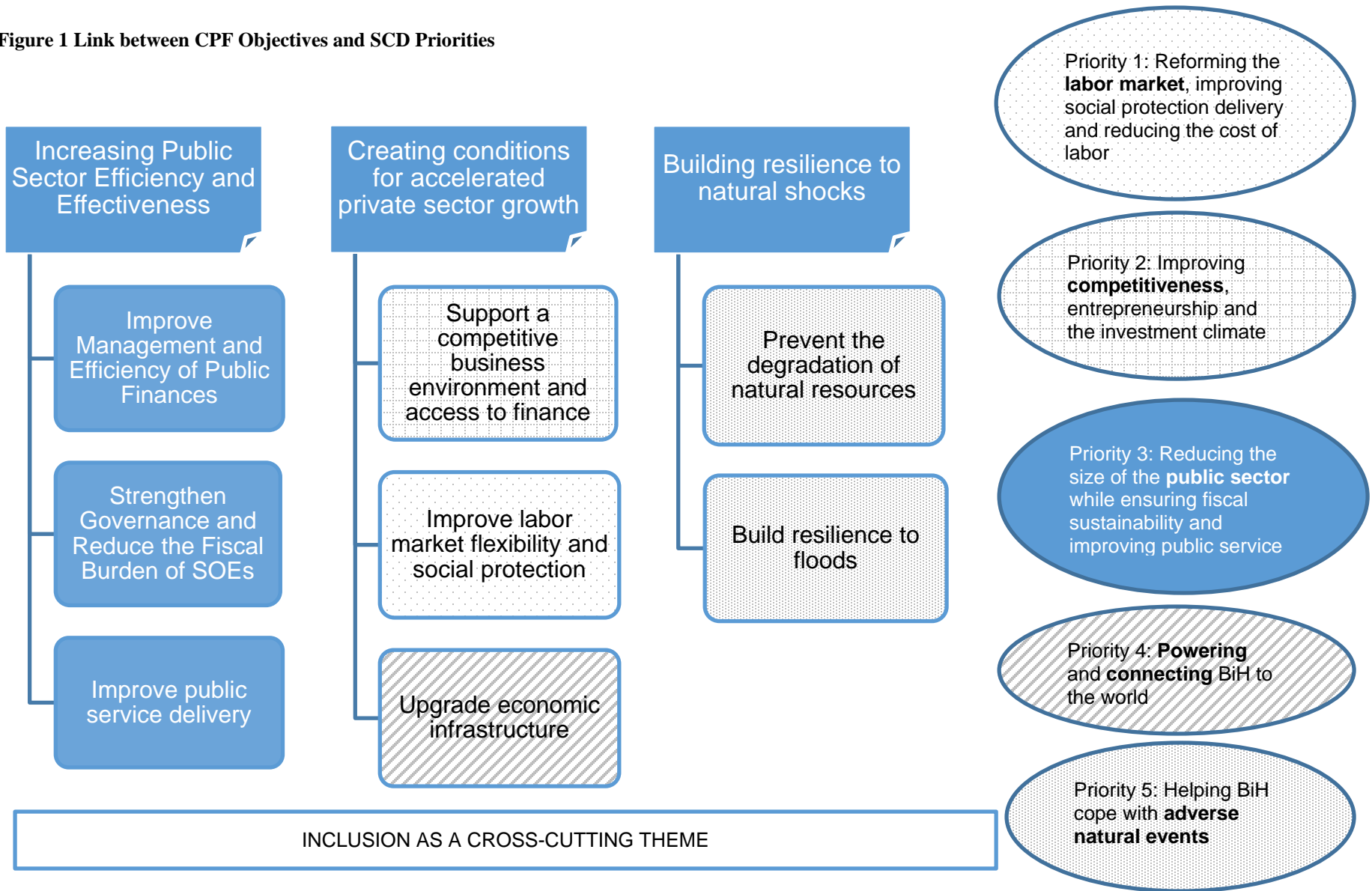
iv. **SCD priorities closely match the agenda of structural reforms that the** BiH Council of Ministers, Government of Republika Srpska, and Government of the Federation of Bosnia and Herzegovina are pursuing. The Reform Agenda aims to foster economic growth, create jobs, and improve the efficiency of social assistance, while staying on a path towards fiscal consolidation and preserving macroeconomic stability. The Agenda targets six areas for reform: fiscal sustainability and consolidation; business climate and competitiveness; labor market reform; targeting of social assistance and pension system reform; rule of law; and public administration reform. In addition, the BiH Council of Ministers, Government of Republika Srpska, and Government of the Federation of Bosnia and Herzegovina are focusing on investments in energy and transport, as well as mitigation of adverse natural events such as floods and droughts. Finally, BiH Council of Ministers, Government of Republika Srpska, and Government of the Federation of Bosnia and Herzegovina are placing the emphasis on social sustainability of reform, recognizing that a significant part of the BiH population is at risk of social exclusion. They are aware of the importance of balancing the need for transformational change with an understanding of possible social costs of reform, and designing mitigation measures as necessary.

v. **The new World Bank Group Country Partnership Framework (CPF) aims to support this modest momentum on advancing long-delayed structural reform.** It is built selectively around five of the ten SCD priorities, including the top four aimed at accelerating growth and the fifth, aimed at building resilience to external shocks, including climate-induced natural disasters. The CPF is drawn from the Systematic Country Diagnostic, reflects the BiH Council of Ministers, Government of Republika Srpska, and Government of the Federation of Bosnia and Herzegovina's Reform Agenda, and is informed by lessons of experience, coordination with development partners and consultations with diverse stakeholders. The strategy has three focus areas: (1) *increasing public sector efficiency and effectiveness*, (2) *creating conditions for accelerated private sector growth*, and (3) *building resilience to natural shocks*. A cross-cutting theme of *inclusion* will inform the choice and design of specific interventions under the strategy, to ensure that reforms are socially sustainable, and that vulnerable groups are not left behind as new opportunities open. Within the three focus areas, the strategy will contribute to eight specific CPF objectives (see Figure 1).

- vi. **Selectivity of the WBG program is based on development priorities as defined in the SCD, and then further refined on the basis of: i) political commitment/championship; ii) Bank comparative advantage and historic engagement; and, iii) division of labor with other key partners.** The CPF tackles all four “top” priorities identified in the SCD, namely, reforming the labor market; improving business environment; strengthening effectiveness and efficiency of the public sector; and investing in economic infrastructure for growth and inclusion. One of the “high” priorities will also be targeted directly, namely, helping BiH build resilience to adverse natural events. Other high and medium SCD priorities will only be included selectively, where they contribute significantly to the achievement of the top SCD priorities. For example, targeted interventions related to health services and water supply and sanitation are needed to achieve fiscal consolidation and improve public service delivery—a top SCD priority. The CPF will not include a substantive engagement on education (despite its importance for Bosnia and Herzegovina’s long term growth) because political will and championship would require significant strengthening in order to achieve results in this area. Nor will the CPF include a substantive engagement in two crucial areas of the Reform Agenda: Rule of Law and Public Administration Reform, because the European Commission will be taking the lead.
- vii. **The framework is ambitious in the country’s historical context, and its success will depend critically on whether the reform effort is sustained.** As such, this is a high risk and high reward program that could play a catalytic role in changing the development trajectory of BiH if it doesn’t stall. Success would mean only incremental change in the short run, and commitment would need to be sustained until the full effect of growth and employment generation can be seen, which will take time. While reform momentum is relatively strong today, all of the factors that undermined earlier efforts are still in place: strong vested interests have the capacity to delay or derail reforms, while the complex, decentralized governance structure of BiH may hinder coordinated preparation and implementation of development programs. The window of political opportunity is also narrow, with the next election cycle only a year away (local elections are planned for 2016). Social tensions remain high given elevated levels of unemployment and a narrowing scope for out-migration. Should any of these risks materialize, reform momentum may stall and the WBG would be unable to provide the full scope of planned support. WBG support – and in particular budget support for catalytic policy change—will be calibrated to reform commitment, and could be downsized, postponed or eliminated if the country’s reform agenda goes off track.
- viii. **SOE reform, a new area for WBG engagement in BiH, presents especially high risks and opportunities.** BiH has not reformed its SOE sector since the breakup of Yugoslavia, and tackling this agenda could lead to significant changes in the country’s economic landscape. This is also an area where our knowledge gaps are greatest, which makes it hard to assess both the scope of the problem and the likelihood of its resolution – or even reasonable expectations for progress – within the timeframe of the CPF. The Bank will therefore start its engagement with a comprehensive analysis of the issues in the SOE sector, including a detailed assessment of the railway companies in both Entities. It will also undertake an assessment of the opportunities and constraints for Public-Private Partnerships (PPPs) in the provision and delivery of infrastructure and social services. Once the results of this work are available and recommendations for the sector’s restructuring are clear, the CPF may be modified as part of the regular CPF monitoring and mid-term review process to reflect an operational engagement on SOE reform.

- ix. **Though the CPF program involves actions to mitigate risks of natural disasters, these risks remain significant.** Recovery from the devastating floods of May 2014 has only just begun, after substantial resources have been funneled towards recovery efforts. Vulnerability to floods, droughts and harsh winters is high, and could put severe strain on the implementation of programs and the timely achievement of CPF objectives.
- x. **The opportunity for transformational change justifies the high risks associated with this CPF strategy.** It is a unique moment in BiH that should not be wasted. Broad consensus within BiH and among its development partners, and a shared understanding of challenges and priorities, allow all efforts to be aligned behind a clearly defined reform agenda. In support of this historic opportunity, the World Bank Group will deploy the full range of its knowledge and financing instruments in collaboration with the IMF, EU and other development partners.

Figure 1 Link between CPF Objectives and SCD Priorities



FY16-20 COUNTRY PARTNERSHIP FRAMEWORK FOR BOSNIA AND HERZEGOVINA

I. INTRODUCTION

1. The proposed Country Partnership Framework (CPF) for Bosnia and Herzegovina (BiH) covers the period from July 2015 to June 2020. It builds on the lessons and results of the previous World Bank Group Country Partnership Strategy (CPS) for FY12-15¹, as well as on the recommendations of the CPS Progress Report of May 30, 2014². The CPF is closely linked to the priorities identified in the recently completed Systematic Country Diagnostic (SCD), and seeks to focus World Bank Group support to Bosnia and Herzegovina on the top priorities that the country needs to tackle on the road to shared prosperity and sustainable development, namely, accelerating growth and creating jobs.

2. The new framework will support a critical part of the Reform Agenda, a joint program of structural reforms adopted by the BiH Council of Ministers, Government of Republika Srpska, and Government of the Federation of Bosnia and Herzegovina in July 2015. After years of policy stagnation, a new shared understanding and resolve has emerged at governing bodies to move forward on a series of catalytic reforms that could unleash the country's growth potential. The World Bank Group program under the new CPF will selectively support these reforms, focusing on areas where political will for reform is strongest, and in close coordination with other development partners, most notably the European Commission.

3. The CPF has been prepared as a result of extensive consultations with a broad range of stakeholders. In addition to BiH Council of Ministers, Government of Republika Srpska, Government of the Federation of Bosnia and Herzegovina and Government of the Brcko District, the WBG team sought feedback from a wide range of representatives of civil society, academia, private sector and international community. The resulting proposal reflects a broad consensus of stakeholders in the reform process and a shared understanding of development priorities and challenges facing the country.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

2.1 Social and Political Context

4. The political system in BiH is complex, reflecting the provisions of the country's constitution established to end ethnic conflict and subsequent changes to the system introduced under the guidance of the international community through the Office of the High Representative. The Dayton Accords brought peace that has lasted twenty years. It also

¹ *International Development Association and International Finance Corporation Country Partnership Strategy for Bosnia and Herzegovina for the Period FY12-FY15* (Report No. 64428-BA) was discussed by the Board of Directors on October 4th 2011. Completion and Learning Review for that strategy is attached as Annex 2.

² Report No. 87928-BA

brought a fragmented institutional structure, which allows for a significant degree of self-determination of BiH's constituent peoples. The general government sector consists of four units: BiH Council of Ministers, Government of Republika Srpska, Government of the Federation of Bosnia and Herzegovina, and Government of the Brcko District. Federation of Bosnia and Herzegovina consists of 10 cantons, each with their own government. As a result, and as discussed below, many public services are delivered at highly localized levels.

5. The economic structure and organization of the country was also altered as a consequence of the war. Before the war, the economy in BiH was dominated by 12 conglomerates, producing for the domestic (BiH and other Republics of Social Federal Republic of Yugoslavia) and foreign markets.³ Estimates suggest these 12 conglomerates produced about 35 percent of GDP, while 4 of them accounted for some 40 percent of exports in prewar period.⁴ These included a variety of sectors – from energy, furniture and car parts to food processing and agriculture. The rest of the market was taken up by small and medium enterprises, often working for the large companies that were the pillars of BiH's economy. Conglomerates employed a lot of workers: Mining and Metallurgical Combined Company Zenica alone used to employ around 63 thousand people in manufacturing and processing of iron and steel. The devastating effect of the war meant not only physical damage to capital assets, but also inter-entity fragmentation of companies, loss of markets, supply and value chains, and reliance on obsolete technologies. Twenty years after Dayton, BiH economy remains not only fragmented among its entities, but also burdened by almost 600 public enterprises that are a large drag on public resources.

6. Moreover, the country has been plagued by governance and institutional dysfunction and political disagreements. Some of the consequences included a slow pace in reforming the economy, delays in formation of the BiH Council of Ministers, Government of the Federation of Bosnia and Herzegovina and governments of 10 Cantons in the Federation of Bosnia and Herzegovina, and fragile government coalitions. Socio-economic and political cohesion is weak, and a widespread perception remains that corruption and clientelism in allocation of public resources and jobs also are challenges.

7. Creating a well-functioning market economy in BiH will require reducing the size of the public sector, strengthening the institutional environment and carrying out deep structural reforms to address allocative inefficiencies in the factors of production. Gradually reducing the public sector's role in the economy, including through cutting the number of SOEs, in particular those that no longer function, would help to re-allocate resources such as land, buildings and labor to more productive use. Better efficiency of expenditures would help improve the quality of public services, benefitting society including its poorest strata. Any expenditure cuts need to be implemented in conjunction with efforts to strengthen the social protection system to provide an effective social safety net for low income households.

8. Like much of Eastern Europe, BiH society is experiencing population decline and aging, with Republika Srpska and Federation of Bosnia and Herzegovina exhibiting similar

³ Post-conflict Privatization; A Review of Developments in Serbia and Bosnia Herzegovina Kate Bayliss Economic and Statistics Analysis Unit. August 2005. ESAU Working Paper 12. Overseas Development Institute. London. <http://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/2519.pdf>

⁴ Bosnia and Herzegovina: From Recovery to Sustainable Growth: 1997.

patterns. At 3.8 million inhabitants, the population of BiH is already relatively small. Yet it is among the fastest shrinking and aging populations in the world, with the population down from an estimated 4.5 million prior to the war. Due to continued emigration and low fertility, by 2020 BiH will likely be home to only 3.5 million people. Since 2014, the number of old people has exceeded the young. These demographic trends create challenges for service delivery, especially in rural areas.

9. On a positive note, BiH has shown recent progress in reaching consensus on priorities for structural reform, which also helps the country to draw closer to the EU. The Stabilization and Association Agreement (SAA) with BiH was signed in June 2008 and has been ratified by all EU Member States. However, the SAA entered into force only in June 2015, following the adoption by the BiH Presidency, and endorsement by Parliament, of a written commitment on EU-required reforms consistent with the requirements set out in the Conclusions of the EU Foreign Affairs Council of December 15, 2014. Subsequently, the adoption of the medium-term BiH Reform Agenda represents a broad consensus among all levels of government on the key priorities of economic and social development that would take Bosnia and Herzegovina to a more sustainable growth trajectory. The BiH Council of Ministers and the Government of Republika Srpska and Government of the Federation of Bosnia and Herzegovina have officially endorsed the Agenda, and progress in its implementation will underpin the country's application for EU membership.

2.2 Recent Economic Developments

10. Economic growth has slowed and along with it the rate of convergence to EU income levels. Growth hovered around 0.4 percent (2009-2015) and average income per capita based on international PPP relative to the EU remained stagnant at 26-27 percent of average income since 2008. Following a double-dip contraction of the economy between 2008 and 2012, the country experienced the beginning of a moderate economic recovery in 2013 when growth reached 2.5 percent. This was interrupted by the floods of May 2014.⁵ Almost all sectors of the economy were impacted, particularly agriculture and energy. This undermined the economic recovery, dragging down growth to only 0.8 percent in 2014.⁶

11. In 2015, the economy is showing nascent signs of recovery and is expected to grow at 1.9 percent. Indirect revenue collection, industrial production and the net trade balance are all exhibiting positive trends in 2015 while growth in industry, construction and services are projected to be central to this year's recovery. However, agriculture, mining and transportation have all experienced significant drops in output. The summer drought in 2015 is partially responsible for the difficult situation in agriculture.

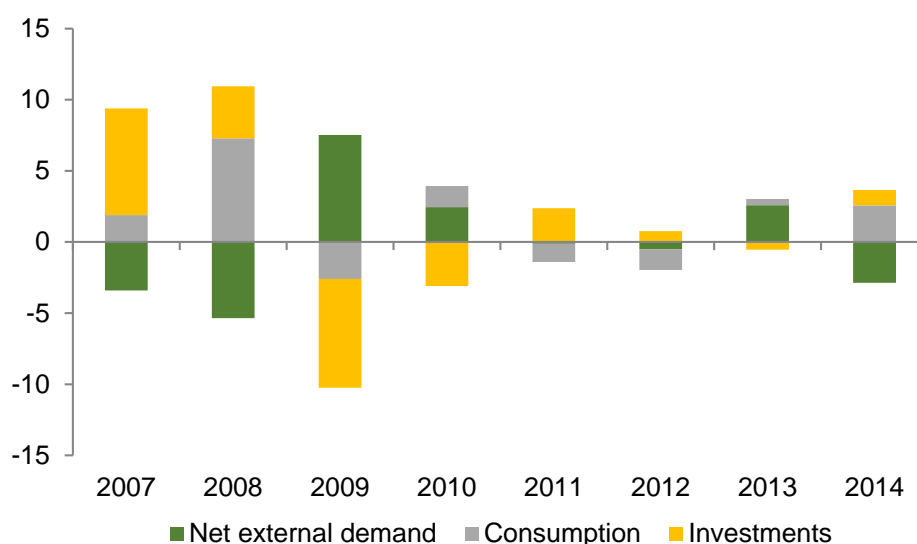
12. While subdued since the global financial crisis, consumption remains the key driver of growth in BiH. Consumption stands at close to 100 percent of GDP and, fueled by remittances and public wages and transfers, supported high growth rates prior to the global financial crisis. The introduction of the value added tax in 2006 allowed for a large increase in public sector employment and social benefits, supporting consumption. While remittances fell markedly following the global financial crisis (from 17 percent of GDP in 2007 to 11 percent in 2010),

⁵ The estimated cost of the floods in terms of lost output and damages was equivalent to 15 percent of GDP.

⁶ BiH Agency for Statistics first release July 2, 2015

depressing consumption and overall growth (see Figure 2), the public sector remains large (close to 50 percent of GDP). With public spending focused on wages and transfers (some 30 percent of GDP), and higher taxes stifling the private sector, the bias towards consumption relative to investment remains. Public investments remain low despite record high public expenditures and investment's contribution to growth, which was positive prior to the crisis (5 percent in 2008), turned negative between 2009 and 2014 (-0.4 percent on average). In terms of net external demand, while imports are growing at a slower pace than prior to 2008 (for example, imports of consumer goods grew by 7 percent in 2014 compared to over 19 percent in 2008), exports continue to provide limited support to growth.

Figure 2 Domestic and external demand⁷ (2007-2014, contributions to real GDP growth, 2010 prices)



Source: BiH Agency for Statistics and World Bank staff calculations.

13. The unemployment rate is stubbornly high. Slow progress in advancing economic reforms has contributed to a persistently high unemployment rate (27.7 percent in 2015 according to the Labor Force Survey, up from 2014) and constant gross earnings over 2014 to 2015. Unemployment among youth (those aged 15-24) was an extremely high 62 percent. Unemployment among women (30.7 percent in 2014) is higher than for men (25.2 percent for men in 2014). While some improvement in employment was seen in 2015, much of it originated in public administration.

14. Imported deflationary pressures further continue to push down consumer prices. Deflation moderated in the first half of 2015 but consumer prices continued to fall, down by 0.5 percent year-on-year (versus a fall of 1.5 percent a year earlier). The biggest drivers of the fall were the prices of imported goods, for example, for transport, reflecting weak oil prices, food, clothing and footwear. In contrast, prices of alcohol and tobacco, as well as of education, health, housing and water rose in June. The currency board continues to support monetary policy. International reserves remained at a comfortable level in the first half of 2015, at around 6 months

⁷ The expenditure approach to GDP in BiH is still an estimate for 2014. Real GDP growth data in the indicators table are based on production approach, which differ from estimates and projections based on expenditure approach. Please see Annex 9 for more details.

of imports. Given its linkage to the Euro, the BiH convertible mark (BAM) has seen sustained depreciation against the dollar, but recent appreciation vis-à-vis the currencies of some of its main trading partners. Overall, both the nominal and real effective exchange rates have depreciated slightly, supporting price competitiveness of the domestic economy.

Table 1 Key Macroeconomic Indicators and Projections

	2009	2010	2011	2012	2013	2014	2015 ^f	2016 ^f	2017 ^f
Real economy									
Annual percentage change, unless otherwise indicated									
Real GDP	-3.0	0.8	1.0	-1.2	2.5	0.8	1.9	2.3	3.1
Contributions to real growth:									
Agriculture	-0.1	-0.4	0.0	-1.0	1.2	-0.8	-0.2	0.2	0.2
Industry	-1.6	0.6	-0.2	-0.7	1.0	-0.4	0.8	0.8	0.9
Services	-1.3	0.6	1.2	0.4	0.3	2.0	1.3	1.3	2.0
Exports	-8.3	34.1	21.0	1.2	10.0	3.0	4.9	1.9	1.6
Imports	-22.0	9.0	13.6	-0.1	-0.7	7.1	-0.2	1.7	-1.1
Unemployment rate (LFS)	24.1	27.2	27.6	28	27.5	27.5	27.7	27.0	26.9
CPI (eop/ ^a)	0.0	3.1	3.2	1.7	-1.4	-0.5	-0.5	0.0	1.0
Nominal GDP	-2.7	2.4	3.6	-0.1	2.1	2.6	1.5	2.0	1.9
Fiscal Accounts									
Percent of GDP, unless otherwise indicated									
Expenditures	47.0	46.1	45.3	46.6	45.6	46.5	45.8	45.2	44.9
Revenues	42.5	43.7	44.1	44.5	43.4	44.4	43.9	43.4	43.2
General Government Balance	-4.5	-2.4	-1.2	-2.0	-2.2	-2.1	-1.9	-1.8	-1.7
Selected Monetary Accounts									
Percent of GDP, unless otherwise indicated									
M0 (% GDP)	23.2	23.7	22.7	22.5	24.3	26.0	25.5	25.5	25.5
M2 (% GDP)	52.8	55.0	55.9	57.9	61.0	64.2	64.2	64.2	64.2
Balance of payments									
Percent of GDP, unless otherwise indicated									
Current Account Balance	-6.5	-6.2	-9.6	-8.9	-5.7	-7.7	-7.9	-6.0	-6.5
Imports	46.0	49.0	53.8	53.8	52.3	54.6	51.9	52.3	52.0
Exports	14.6	19.2	22.4	22.7	24.5	24.6	25.1	25.1	25.0
Foreign Direct Investment	1.4	2.1	2.6	2.0	1.6	2.9	2.4	2.5	2.5
Gross Reserves (in US\$ bill, eop/ ^a)	4.6	4.4	4.2	4.4	5.0	4.9	5.0	5.0	5.0
In months of imports	6.7	6.4	5.6	5.6	6.2	6.4	7.2	6.6	6.5
Government External Debt	21.5	25.3	25.8	27.8	28.2	30.4	30.8	31.2	31.4
Exchange Rate, USD (eop/ ^a)	1.4	1.5	1.5	1.5	1.4	1.6
Exchange Rate, EUR (eop/ ^a)	2.0	2.0	2.0	2.0	2.0	2.0
Other memo items									
GDP nominal in US\$ billion	17.8	16.9	17.0	17.3	18.5	16.8	16.1	17.4	17.8

Note: ^f- forecast; ^{/a}-eop: end of period

Source: BiH Ministry of Finance, BiH Agency for Statistics, Central Bank of BiH, WB staff estimates

15. The financial sector's support to economic activity has been constrained by deleveraging and rising asset quality concerns. While the banking sector remains stable and has reduced its reliance on foreign financing, many of the foreign-owned banks, which dominate the banking system, have, as in many other emerging markets, been gradually deleveraging. This has contributed to the decline in the rate of credit expansion relative to the pre-global financial crisis period. In addition, the share of nonperforming loans in commercial banks' portfolios is high, reaching 14.1 percent at end-June 2015. Banks' profitability has deteriorated, partly due to high provisioning. Asset quality is becoming a key obstacle for reestablishing bank profitability mainly due to poor corporate resolution and insolvency frameworks. Nonetheless, the capital adequacy ratio of 16.3 percent at end-June 2015 remains above the prescribed level of 12 percent. While stress tests show an adequate level of capitalization, some small domestically-owned banks are struggling to meet capital requirements, while some others rely on quasi-fiscal support.⁸

16. BiH runs moderate current account deficits, primarily financed by foreign direct investment (FDI) and external borrowing. Recent export performance was hampered by the floods, rising by only 3.0 percent in 2014. Exports are projected to recover slowly with improved external demand from Europe. Overall the current account deficit in 2015 is projected to remain under 8 percent of GDP and come down gradually in the medium term, supported in particular by improved remittance inflows as the external environment improves. Around one-third of the net financing comes from net FDI, and the rest from other investments and external borrowing.

17. The general government deficit has narrowed since 2009 mainly due to improved revenues performance, but key structural rigidities in public expenditures remain unaddressed. The general government deficit in 2014 was 2.1 percent of GDP, down from 4.5 in 2009. Revenue collection continued to improve in 2014 and 2015 compared to previous years, mainly due to indirect tax performance. Indirect tax revenue was up 8.3 percent year-on-year in June 2015, reflecting results from expanded cooperation between four tax agencies on the exchange of taxpayer information as well as improved excise tax revenues. Overall, gains in revenues continue to be offset by a rise in public expenditures in Bosnia and Herzegovina, which in 2015 are estimated to stand at 45.8 percent of GDP. Efforts to contain current spending remain weak. Fiscal consolidation efforts will not be effective if structural rigidities on the expenditure side remain unaddressed, e.g. large public wage, poorly targeted social assistance.

18. In addition, public arrears hinder the ability of the authorities to strategically manage fiscal affairs. Underlying weaknesses in public finances management system, especially formulation of unrealistic budgets and poor cash flow management, weaknesses in fiscal reporting, as well as weaknesses in the management of SOEs are among the causes of accumulating arrears. Currently, monitoring and reporting of overall expenditure arrears is limited and the data are not publicly available. Missing pension contributions for employees hamper SOE restructuring. This issue is particularly evident in F BiH. One dimension is that of employers (both SOEs and private enterprises) that have *de facto* ceased operations, but still owe contributions to the pension fund, so their employees cannot retire even if they meet time in service and age requirements. Other

⁸ Bosnia and Herzegovina: Financial Sector Assessment Program, 2015.

SOEs are open, but have similarly not been making systematic pension contributions. Some local governments and institutions fall into this category. These issues represent a significant ongoing contingent liability for the authorities, and hence an elevated fiscal risk, which endangers the ability to manage public finances in strategic manner.

19. While still sustainable, the size and complexity of public debt have increased in recent years. The ratio of government external debt as percentage of GDP has been on an upward trend from 25.3 percent in 2010 to 30.4 percent in 2014. Multilateral and bilateral sources (57.3 percent and 18.5 percent of the total, respectively) account for the largest share of external debt, of which around 60 percent is fixed rate. BiH has limited domestic public debt as bonds were first issued only in 2007. Public sector debt is expected to grow in 2015, but remains sustainable in the medium term: simulations suggests that BiH is a moderately indebted country in terms of public debt, with instability observed only under the most extreme scenario.

20. The macroeconomic outlook faces risks from both external and internal sources. The baseline projection is for gradual broad-based growth of around 3 percent by 2017. The pick-up in economic activity in Europe is expected to support growth in Bosnia and Herzegovina (although aggregate exports-to-GDP are projected as broadly stable over the near term); domestic demand, and especially consumption, is expected to remain moderate, additionally supported by relatively low fuel prices. However, around this baseline, several risks remain. External risks are related to possible delays in Europe's economic recovery, which would impact exports, remittances and capital flows since EU countries are BiH's largest trading partner. Improving the competitiveness of export-oriented businesses can play a role in mitigating this risk and boosting the potential support to the economy from external demand. Internally, BiH's challenging political environment complicates structural reform implementation, including SOE restructuring. Risks also arise from natural disasters such as floods and droughts, which can have a large impact on economic growth.

2.3 Poverty Profile

21. Poverty incidence and the level of inequality in BiH remained stable during 2007-2011. According to latest (2011) Extended Household Budget Survey (EHBS) data, 15 percent of the population in BiH were below the poverty threshold.⁹ This is slightly higher but not statistically different from the pre-crisis 2007 estimate of 14 percent. The incidence of poverty remained stable both in urban and rural areas of BiH as well as in Federation of BiH and Republika Srpska. In 2011, similar incidence of poverty was registered in FBiH and in RS, but poverty is much more prevalent in rural areas, compared to urban areas.

22. The level of inequality in BiH is one of the highest in the Western Balkans. Cross-country comparable estimates of household expenditures based on the ECAPOV harmonization project suggest that at 33.4¹⁰, the Gini index¹¹ of inequality in BiH is some 4 or 5 points higher than in

⁹ Based on the WB poverty methodology and LSMS poverty threshold of 205KM per person per month in 2007 prices.

¹⁰ 2011 data.

¹¹ The Gini index which takes a value of 0 if there is no inequality and 100 if there is complete inequality.

Albania, Kosovo¹²,), Montenegro or Serbia. Across Entities, inequality is higher in FBiH than in RS; it is also higher in urban than rural areas (both differences are statistically significant).

23. Poverty incidence is highest among the young and in large households, and its prevalence in these groups increased since 2007. The poverty incidence was highest for the 0-14 age cohort, and lowest for the 50+ age group. Moreover, the prevalence of poverty among children (ages 0-14) and youth (ages 15-24) increased between 2007 and 2011. Poverty incidence increases with the number of children under the age of 15 in the household: in 2011 only 9 percent of households without children were poor, compared to 22 percent for households with 2 children and 35 percent for households with 3 children. More generally, poverty prevalence is greater for larger households, as these have fewer working age adults relative to household size. On the other hand, there were no notable differences in the poverty incidence among men and women either in 2007 or in 2011, although in 2011 poverty was slightly lower in female-headed households¹³.

24. Education and labor market participation are important determinants of poverty status. People with primary education or less are much more likely to be poor, and poverty for this group increased significantly during 2007-2011 in the aftermath of the financial crisis. There are two reasons why more education means better income: better education improves the chances of employment, and it also gives access to better jobs. In 2011 in BiH, over 60 percent of people aged 25+ with tertiary education were employed, compared to 22 percent of those with primary education, and only 7 percent of those with no education. Among the employed in the same age group, 58 percent of those with tertiary education had professional jobs and only 2 percent low-skilled jobs. In contrast, very few people without tertiary education have professional occupations, while one-third of those with primary education are in unskilled jobs. Poverty incidence also varies considerably across occupational categories and economic sectors. As expected, poverty is low among high skill jobs and sectors, and much higher in areas such as agriculture and construction, or in non-skilled jobs. Poverty in agriculture and construction increased between 2007 and 2011 due to output decline in both areas. Contract type also matters: poverty incidence is very low among workers with permanent contract but high among those with seasonal or no contract. Younger employees generally have less secure contracts: in 2011 permanent contracts were held by 59 percent of those in the 25-44 age group and by 68 percent of those in the 45+ age group.

2.4 Drivers of Poverty and Development Challenges

25. Between 2004 and 2007, when BiH economy experienced high growth rates, poverty fell and incomes of the B40 grew rapidly, and at a higher pace than the incomes of T60. Poverty (measured against a 205BAM monthly threshold) fell from 17.7 to 14 percent of the population between 2004 and 2007. The drop was most pronounced in FBiH, where poverty fell from almost 19 percent in 2004 to just over 13 percent in 2007. More generally, the population in the bottom 40 percent (B40) saw average annual consumption growth of around 3.7 percent during the 2004-07 period, compared to 3.2 percent for the top 60 percent (T60).

¹² This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo Declaration of Independence

¹³ World Bank. 2015. Poverty and inequality in Bosnia and Herzegovina 2007-2011. Washington, D.C. : World Bank Group.

26. Overall growth in consumption expenditures accounted for three quarters of total poverty reduction during 2004-07. During periods of economic growth, people also had a greater chance to get a good job. Around a third of the overall growth in incomes of the B40 over 2004-07 came from labor earnings. This reflects growth in sectors that can employ lower skilled people. Growth in services (wholesale/retail trade, real estate, construction, transportation, administration, accommodation/restaurants, public services and other services) contributed over two thirds of overall growth during the 2001-07 period. The remainder came primarily from growth in manufacturing, electricity, mining and agriculture.

27. The B40 also benefited from an expansion of public and private transfers. Pensions and social assistance both made up a larger proportion of income among the B40 than among the T60. During the 2004-07 period, almost half of the overall income growth of the B40 was due to social assistance transfers – a more important contribution than that of labor earnings. Between 2004 and 2007 domestic pension coverage in FBiH expanded from 38 percent of the population to 45 percent of the population, and from 39 percent to 49 percent in RS. The average pension value also rose by 78 percent in FBiH and 89 percent in RS during 2004-07. Finally, the incidence of remittances (both foreign and domestic) and the coverage of non-contributory transfers increased in FBiH during 2004-07 and declined in RS, which contributed to the faster pace of poverty reduction in FBiH between 2004 and 2007 (World Bank, 2010).

28. During the crisis, consumption of the B40 fell less than those of the T60 group, with some sources of income – notably pensions and social assistance – providing a cushion. Between 2007 and 2011 consumption fell at an annualized rate of 1.1 percent nationally, but expenditures for the B40 group fell by an average of 0.8 percent. The increase in the relative importance of pensions during 2007-2011 was most prominent in rural areas and urban areas outside of the capital. On the other hand, composition of non-contributory transfers is skewed toward non-targeted benefits. A recent study (Papic et al., 2013)¹⁴ finds that only 17 percent of all non-contributory benefits in Bosnia and Herzegovina go to the poorest quintile of the population, reach less than a quarter of that group, and have virtually no effect on poverty reduction.

29. Shared prosperity in BiH, both pre- and post-crisis, is tied to the characteristics of the B40 group that persist over time despite pre-crisis income convergence. BiH has one of the lowest shares of employed among working age population in the B40 in SEE (World Bank, 2014). Those in the B40 are less likely to be employed than those in the T60. The gap between the two groups in terms of employment increased between 2007 and 2011. Among those in the B40 who are employed, a much higher share are in low-skilled occupations and/or sectors. These patterns explain, on the one hand, why the strong employment performance pre-crisis was beneficial to the B40 group, and on the other, the contribution of transfers to income dynamics in the B40 group, which relies on transfers more heavily.

30. Women in BiH, particularly the less well-off, have low access to economic opportunities. Gender inequalities persist in many dimensions, especially related to women's access to jobs (Box 1). These gender gaps in the labor market are estimated to cause an aggregate income loss of 16.4 percent for BiH (Cuberes and Teignier, 2015). Low labor market participation among women

¹⁴ Papic, Z., Mira Cuk, Fikret Zuko and Stevo Pucar (2013) “Non-contributory cash benefits for social protection in BiH: What works and what does not.” Initiative for Better and Humane Inclusion, Bosnia and Herzegovina.

is particularly pronounced among the B40. Differences in male labor market participation across B40 and T60 groups exist, but are muted. Meanwhile, women in the B40 are less than half as likely to participate in the labor market as their T60 counterparts (15 versus 32 percent). Accordingly, gender gap in the labor force participation among B40 is large: only 15 percent of women are active, compared to 42 percent of men. The gap is especially large in rural areas. Women face many barriers to work in BiH related to social norms on the role of women in the household, lack of access to child care services, access to productive inputs (including land and credit), and others.

Box 1. Integrating gender in the World Bank's engagement

The 2015 World Bank gender assessment for Bosnia and Herzegovina finds that despite progress in gender equality in endowments such as education, large gender gaps remain in access to economic opportunities. Girls and boys have similarly high enrollment rates in primary and secondary education, and more women than men enroll in tertiary education. Yet gender gaps in the labor market persist and are estimated to result in a 16 percent loss in gross national income. At 41 percent, female labor force participation is significantly lower than expected for the country's level of development, and the resulting gender gap in participation is high compared to the region. Women's employment levels trail men's at all ages, and women face unequal opportunities due to social norms concerning the type of work and level of managerial responsibility considered suitable for women. Women also face employment discrimination if they marry and have children, despite the existence of laws intended to prevent such discrimination. Additionally, at 19.5 percentage points, Bosnia and Herzegovina has one of the region's highest gender gaps in account holders at a formal financial institution.

The World Bank's analytical gender work for Bosnia and Herzegovina has therefore focused on the barriers women face in labor market participation and employment. The Bank manages a Trust Fund (supported by the Swiss Agency for Development and Cooperation) aimed at building a knowledge base and promoting evidence-based policymaking to tackle gender inequalities. Under the Trust Fund, the World Bank is exploring in more depth barriers that women face to access more and better jobs. For instance, a qualitative survey was carried out to explore the obstacles to employment that women and men face that are often missed by traditional analyses, such as those related to social norms. This analysis is complemented with a study on the supply and demand of child and elder care, which also showed lack of access to care services as a barrier to female employment. The following statements from Bosnian women in BiH illustrate some of the obstacles that many experience in the labor market:

"They don't want to hire women because they think they will get married. They mostly hire experienced women who have children and will not take maternity leaves. Women cannot take maternity leaves here. They immediately get fired"

"Why would women go to work? The wages are from 400 to 500-600 KM [200-300 Euros]. It is not worthwhile to work when you have a child and need to pay a woman who will take care of the child."

"You cannot open a business if you have a husband, two children, too many family duties (...). It's not working, at least not here."

Additional analysis mapping gender-related interventions focused on women's economic empowerment in BiH shows that more needs to be done to better coordinate, monitor and evaluate projects across stakeholders in the country to learn what works for addressing gender gaps.

III. WORLD BANK GROUP PARTNERSHIP FRAMEWORK

A Government Program and Medium-term Strategy

31. The CPF comes at the time when the BiH Council of Ministers, Government of Republika Srpska and Government of the Federation of Bosnia and Herzegovina have taken important steps towards a joint engagement in the economic reform program. The Reform Agenda is the result of recommendations that emerged from the Compact for Growth and Jobs, an outline of key necessary reforms developed by the Forum for Prosperity and Jobs in May 2014. The WBG made an important contribution to this process through analysis and priority setting in the Systematic Country Diagnostic. Building on the Compact for Growth work, the authorities supported by the international community drafted a more detailed list of priority actions necessary to promote growth and job creation in BiH. In July 2015 the Reform Agenda document was agreed and endorsed by the BiH Council of Ministers (CoM), Government of Republika Srpska and Government of the Federation of Bosnia and Herzegovina. Following the signing of the Reform Agenda document, the BiH CoM adopted a Strategic Framework for BiH for the period 2015-2018, Republika Srpska and the Federation of Bosnia and Herzegovina developed detailed Action Plans to implement the Reform Agenda.

32. The Reform Agenda aims to foster economic growth, create jobs, and improve the efficiency of social assistance, while setting a path towards fiscal consolidation and preserving macroeconomic stability. The Agenda targets six areas of reform. First, *fiscal sustainability* will be fostered through decreasing public debt while creating room for public investment and reducing the size of the public sector in the economy. Fiscal consolidation is part of the fiscal sustainability agenda, and it will be carried out by reducing public spending and increasing public revenues. Second, *business climate and competitiveness* will be boosted through the elimination of barriers to investment, removing hidden subsidies, creating a more stable and accessible financial sector, improving bankruptcy procedures and addressing inconsistencies in the regulatory and tax framework. Third, the *labor market* will be reformed in order to unleash the potential of the workforce. Fourth, *targeting of social assistance* will be improved and pension systems will be put on a sustainable financial path. Fifth, the *rule of law* will be solidified through progress in fighting organized crime, terrorism, and corruption. Sixth, *public administration* will be reformed to support the fiscal sustainability agenda, while ensuring the quality of public service delivery to citizens. EU accession and adherence to EU *acquis* will be the anchor for all aforementioned reforms, and progress on the implementation of the Reform Agenda will be necessary for a membership application to be considered by the EU. In addition to Reform Agenda priorities, leaders in BiH have planned for investments in the *energy and transport sectors*, and committed to *mitigation of adverse natural events* such as floods and droughts.

33. BiH Council of Ministers, Government of Republika Srpska and Government of the Federation of Bosnia and Herzegovina have also recognized that a significant part of the BiH population is at risk of social exclusion. Some potentially at-risk groups include rural dwellers, women, youth, and ethnic minorities such as Roma. By and large, these groups face similar challenges to those of the rest of the population, namely, finding a job, setting up a business in a complicated business environment, dealing with corruption and poor public services. This suggests that tackling the challenges noted above will benefit socially excluded groups. However, some groups face specific issues, e.g. higher poverty among children (in households with more children)

and very low rates of early childhood education, especially in rural areas. Together, this presents a very real risk of inter-generational poverty transfer.

B Systematic Country Diagnostic

34. The Systematic Country Diagnostic (SCD) for Bosnia and Herzegovina¹⁵ concludes that BiH could end poverty and achieve shared prosperity within one or two generations. For this to happen, the country needs to rebalance its development model in two fundamental ways. First, it needs to unleash the potential of the private sector while reducing the footprint of the large public sector. Second, the economy needs to shift from an inward focus on local consumption and imports to an outward focus on investments, exports and integration in regional and global markets. Higher economic growth is necessary for Bosnia and Herzegovina to win the fight against poverty because the poor have benefitted most from faster growth, including by gaining employment.

35. The SCD identifies three sets of priorities for the country’s inclusive development and poverty reduction. The top set of priorities focus on the rebalancing of the economy to accelerate growth and create and sustain more and better jobs. The implementation of these reforms would realign incentives and policies toward the private sector with a specific focus on successful international integration. A second set of three priorities would accelerate BiH’s social and economic development once the “economic train” is put on the right track to make the reforms sustainable. A final set of three medium priorities concerns long-term investments to create stable and sustainable economic opportunities. They include: i) maintaining financial stability and expanding access to finance; ii) reducing pollution and protecting the environment; and, iii) increasing agricultural productivity and opportunities for excluded and disadvantaged groups.

Table 2 Summary of SCD Priorities

Priority	Rationale
<i>Top priorities – Accelerating growth and creating jobs</i>	
Putting BiH to work: reforming the labor market, improving social protection delivery and reducing the cost of labor	Labor market rules and the tax system are reinforcing BiH’s consumption driven economy, protecting insiders often at the expense of the young or socially excluded. The tax system discourages (formal) employment – especially of the lower-paid – and production for export, and encourages consumption and imports. The linked health insurance and unemployment discourages (formal) employment and increases budget costs. Inflexible labor market rules also make it difficult for enterprises to adjust in changing economic conditions, which means that they do not hire in the first place.
Making it easier to do business: improving competitiveness, entrepreneurship and the investment climate	The country has begun business climate reforms, but remains poorly ranked by both global and regional standards. Investors mostly engage in investments with quick pay-offs (e.g. construction, services) due to concerns about institutions and policies. Investments in key sectors like agro-processing, forestry, manufacturing or tourism need a stable investment climate with a long-term perspective. Basic business needs such as building facilities, securing land ownership and/or access rights, getting electricity, importing and exporting, and paying taxes are still too challenging. Entrepreneurship also remains weak, including in the services and IT industries where BiH could shine.
Creating an efficient and effective government: reducing the size of the public sector while ensuring fiscal sustainability and improving public service delivery	With expenditures at close to half of GDP and SOEs adding even more government control to the economy, BiH has one of the world’s largest public sectors. Its size harms economic growth and employment, particularly affecting the prospects of the B40. Much of public expenditure is inefficient, failing to reach the people or areas that most need it. This also breeds opportunities for poor governance, clientelism and corruption.
Investing in economic	Key economic infrastructure is poor and at risk of further deterioration. Improving transport

¹⁵ Report number 95733-BA

infrastructure for growth and inclusion: powering and connecting BiH to the world	and ICT infrastructure would give exporters easier access to markets and generate employment. It would also strengthen rural connectivity and enhance the marketability of production, boosting shared prosperity by improving the quality of life in rural areas, where many of the poor and B40 live. BiH's reasonable headline energy performance disguises one of Europe's most energy inefficient and carbon intensive economies, harming firm competitiveness and contributing to high urban pollution, while at the same time losing major export opportunities.
High priorities – Securing a resilient and long-term future	
Building resilience: helping BiH cope with adverse natural events	BiH is highly vulnerable to adverse natural events such as floods and droughts, resulting from climate change or environmental degradation. Boosting resilience would help to reduce the social and economic impacts of such shocks and especially support the B40, many of whom still depend on agriculture.
Boosting brains: improving education and labor market skills	Education is closely linked to poverty. Some groups suffer in particular, including the B40 and Roma communities. BiH is lagging in early childhood education (ECE), posing risks for inter-generational poverty transfer, and quality standards are mixed in secondary and tertiary education. More analysis is needed on identifying private sector demand for skills.
Living healthy lives: improving health services and access to water and sanitation	Despite reasonable life expectancy, many health outcomes are poor, particularly with regards to non-communicable diseases, partly resulting from high tobacco consumption. Health outcomes are worse among poorer groups. There is much waste in pharmaceutical procurement. Rural poor also have low access to water and sanitation, forcing many to rely on expensive private facilities.
Medium priorities – Ensuring stable and sustainable economic opportunities	
Adding financial firepower: maintaining financial stability and expanding access to finance	While financial sector stability has been maintained, new risks are emerging, including from non-performing loans (NPLs). Firms also face financial constraints to growth. Resolution of NPLs may help make additional financial resources available for credit. Access to finance could be improved for some groups at risk of exclusion. Although the banking system appears broadly sound, significant pockets of vulnerability exist among banks. A number of smaller banks are struggling to meet capital requirements, with some facing high concentration risks and heavy reliance on public sector support. Moreover, significant deficiencies remain in the financial safety net, including with respect to resolution powers, institutional responsibility for resolution, and resolution funding.
Cleaning BiH: reducing pollution and protecting the environment	BiH is wasting a lot of its resources and air pollution remains a major challenge, especially in cities, due to the use of traditional heating in the winter. This also contributes to BiH's high number of respiratory diseases, and international evidence suggests that the poor are most likely to shoulder the burden. In addition, large amounts of solid and liquid waste pollute BiH's waterways and countryside. This poses health concerns directly and indirectly through contamination of drinking water and agricultural produce, particularly during floods.
Boosting agriculture: increasing agricultural productivity and opportunities	Most of the poor live in rural areas, rural poverty rates are higher than urban, and the poor are more likely to work in agriculture than wealthier groups. Improving agricultural productivity would improve their livelihoods. Agriculture would also receive a boost by reforming the land market and upgrading rural transportation networks.
Source: Bosnia and Herzegovina Systematic Country Diagnostic	

C Proposed WBG Country Partnership Framework

3.C.1 Lessons from the CPS Completion Report, IEG Evaluation, and Stakeholder Consultations

36. The FY12-FY15 Country Partnership Strategy (CPS) was designed to support BiH's economic growth and social inclusion in the framework of EU accession agenda. Objectives of the WBG Program were to (i) support economic growth by improving productivity and competitiveness, (ii) improve social inclusion by strengthening the targeting and fiscal sustainability of social benefits and improving delivery of basic public services, and (iii) strengthen the sustainable use of key natural resources and improve climate change adaptation.

37. Outcomes of the previous CPS program are deemed Moderately Satisfactory. Good progress was made in strengthening competitiveness and business climate, and improving energy

and transport infrastructure. There have been notable results in strengthening agriculture services, despite relative lack of progress on institutional framework. Basic service delivery outcomes were strong in the health sector, while the implementation of the solid waste management operations was delayed due to political and administrative complications. The ambitious agenda of improving the overall targeting of social expenditures did not advance due to changes in political environment. Nevertheless, some aspects of the social assistance spending, such as better targeting of the major social assistance programs and employment support to hard-to-employ, have been improved as a result of WBG's support. WBG also contributed to improved natural resources management, and in particular more sustainable forests management and reduction of water pollution. The following key lessons from implementing the FY12-15 CPS were taken into account in the design of the FY16-20 CPF:

- **WBG should take advantage of the new window of opportunity to pursue a more selective approach, focusing on catalytic reforms.** In the absence of strong political commitment, the last strategy pursued a wide range of opportunities in many sectors. Placing a stronger focus on areas where WBG engagement can provide substantial support for structural reform effort could lead to a stronger transformational impact.
- **A flexible approach to CPS programming has worked well.** WBG was able to react quickly to shifts in circumstances. For example, the program was adjusted to proceed with a business environment DPO that had strong ownership (as support for the originally planned fiscal DPO waned), and additional financing was provided to the SME program as demand grew. The Bank was also able to move swiftly to provide much needed assistance following severe floods in May 2014, allowing the country to access favorable IDA financing. Given that both political and external risks persist, WBG engagement needs to stay flexible.
- **Client ownership, engagement, and open dialogue with a broad range of stakeholders play a pivotal role in successful project design and implementation.** Allowing adequate time for project preparation and implementation is critical, in particular for operations designed to support reforms involving institutions. Integrating local stakeholders and end users of investments early on in the preparation, and securing their continued engagement during implementation, are preconditions for the projects' success and sustainability.

38. These lessons are consistent with the findings of recent CAS/CPS completion reports for the neighboring countries, such as Albania, FYR Macedonia, and Serbia. Reports in these countries also recommend that the WBG should focus on areas of highest priority for client governments that enjoy the strongest political commitment; collaborate effectively with all relevant stakeholders and development partners; stay flexible and responsive as circumstances change; and focus on areas where the Bank has a strong comparative advantage, such as capacity building, implementation support and knowledge sharing.

39. IEG project evaluations also underline the importance of project ownership, solid planning and coordination. In complex administrative environment, as is the case in BiH where responsibilities are often divided between central, cantonal and municipal governments, the coordination and decision-making processes can be delayed and results and sustainability of investments are harder to achieve. Promoting a shared understanding of goals and strategies –

including on economic benefits of project interventions to local communities – should therefore be built in early in the process, and stakeholders from all levels engaged in consultations.

40. The FY14 Country Opinion Survey is another important document that informs the CPF. According to the survey, the WBG is seen as a reliable and accessible development partner. Stakeholders believe that WBG twin goals—poverty reduction and shared prosperity—could be achieved in BiH through creating jobs and employment opportunities, in particular for the youth, and maintaining consistent economic growth. They believe WBG could add most value by supporting jobs, public financial management and capacity of state institutions. While the respondents are positive about WBG’s collaboration with the authorities and development partners, in particular the EC, they would like to see the Bank reach out and collaborate more with civil society and private sector.

41. Finally, the design of the proposed CPF has been substantially informed by a series of consultations with many levels of government, private sector, academia and civil society, and international development community. These consultations confirmed a broad consensus across the many groups in society with respect to the key development priorities for Bosnia and Herzegovina. There is also a widely shared understanding of the current political window of opportunity for long overdue reform, and desire for the World Bank Group to play an active role in supporting it. At the same time, many participants warned of the high risks associated with this strategy, including possible reversal of political will and formidable implementation challenges. The need to focus on political economy of reform, and critical importance of improved governance have been stressed on several occasions. The World Bank Group was particularly encouraged to promote private sector and reduce the role of the state in the economy through the SOE reform, and remaining large scale privatization, support greater efficiency, transparency and accountability of the public sector, and engage more directly with the private sector to support competitiveness and job creation. Private sector views reduction of administrative burden for businesses, in particular linked to permitting and bankruptcy, more systematic infrastructure development, with a special focus on PPP model, and support to competitive sub-sectors, such as energy, wood, metal industry and agriculture as top priorities to be tackled in the medium term. The team received a large number of specific proposals for engagement in a wide variety of sectors, from transport and energy to agriculture and rural development, health, education and social protection. Finally, many stakeholders urged the World Bank Group to take a more active role in public debates on the structural reform agenda, providing more information on the challenges, options, and global and regional experience to the public in Bosnia and Herzegovina.

3.C.2 Overview of World Bank Group strategy

42. The new World Bank Group Country Partnership Framework supports the emerging momentum of structural reform. It is built selectively around five of the ten SCD priorities, including the top four aimed at accelerating growth and the fifth, aimed at building resilience to climate-related shocks. The CPF is drawn from the Systematic Country Diagnostic, reflects the Reform Agenda, and is informed by lessons of experience, coordination with development partners, and consultations with diverse stakeholders. The strategy has three focus areas: (1) increasing public sector efficiency and effectiveness, (2) creating conditions for accelerated private sector growth, and (3) building resilience to natural shocks. A cross-cutting theme of inclusion will inform the choice and design of specific interventions under the strategy, to ensure that

reforms are socially sustainable, and that vulnerable groups are not left behind as new opportunities open. Within the three focus areas, the strategy will contribute to eight CPF objectives (see Figure 1 in Executive Summary).

43. The overarching objective of the CPF – and of the Reform Agenda that it supports – is to put the country on a better development track. To grow and improve the standard of living in the long run, BiH needs to become more competitive, and to export more: international experience shows that countries with less than 10 million people needed to generate at least 50 percent of their wealth through exports in order to become rich. The reforms the CPF will support are all contributing to this objective. In particular, maintaining a stable macroeconomic environment, reducing the footprint of the public sector and supporting conditions for private sector growth are all helpful for promoting growth, job creation and exports. While these reforms may not produce large effects on exports in the near term, they are important for rebalancing the economic model, and in time will bear fruit in terms of growth, exports, jobs, and higher incomes.

44. Selectivity of the WBG program is based on development priorities as defined in the SCD, and then further refined on the basis of: i) political commitment/championship; ii) Bank comparative advantage and historic engagement; and iii) division of labor with other key partners. The CPF tackles all four “top” priorities identified in the SCD, namely, reforming the labor market, improving social protection delivery and reducing the cost of labor; improving competitiveness, entrepreneurship and the investment climate; reducing the size of the public sector while ensuring fiscal sustainability and improving public service delivery; and powering and connecting BiH to the world. One of the “high” priorities will also be targeted directly, namely, helping BiH cope with adverse natural events. Other high and medium SCD priorities will be addressed only selectively where they contribute significantly to the achievement of the top SCD priorities. For example, targeted interventions related to health services and water supply and sanitation are needed to achieve fiscal consolidation and improve public service delivery—a top SCD priority.

45. The CPF will not include a substantive engagement in sectors where political championship is unclear, or where other partners are taking the lead. Although the WBG will be involved in building skills as part of our support for creating jobs, we will not have a broader involvement in the education sector, where partners such as the EU have an active engagement. Similarly, agriculture will not be targeted as a sector, but may benefit as part of the resilience theme within the water resources management agenda. The CPF will also not include a substantive engagement in two crucial areas of the Reform Agenda: Rule of Law and Public Administration Reform, as the European Commission will be taking the lead in these sectors.

46. The main evolution since the last strategy is a stronger focus on support for structural reform. For example, we plan to consolidate and deepen our engagement on public financial management and debt sustainability, which will be supported through a series of new Development Policy Operations as well as advice and lending to rationalize key public expenditures. Support for labor market reform will be delivered through policy advice, budget support and possible parallel investments in active labor market policies. The WBG is also entering a new area, SOE reform, where we will start with a thorough diagnostic of the issues, including a special focus on the railways sector, which Republika Srpska and the Federation of Bosnia and Herzegovina see as

a priority. Once the analysis and recommendations are finalized, and assuming that the Government of Republika Srpska, and Government of the Federation of Bosnia and Herzegovina shares WBG's conclusions, WBG will stand ready to support the transformation of the SOE sector, including through Bank lending and/or support for privatization and Public-Private Partnerships (PPPs), if applicable. While the WBG will help to assess the degree of legislative, institutional readiness and execution capacity of authorities for PPPs, IFC will focus on helping the authorities with implementation of transactions in sectors where the needs are greatest, playing an important role as lead advisor based on its global experience. In parallel, opportunities for a greater MIGA presence will be explored.

47. At the same time, the new strategy will provide continuity with the current program.

IFC's engagement on business environment, competitiveness will continue through focused advisory programs and investment support in real and financial sectors. Firm level assistance will be provided to strengthen corporate governance practices, resource efficiency, leading to increased competitiveness of the private sector. The Bank is also contemplating the use of results based lending in support of the next generation of business environment reforms. WBG teams will continue supporting development of better economic infrastructure ensuring longer term sustainability and increased economic activity, either through existing advisory programs, or potential investments. In the area of building resilience to natural shocks, including water resources management, the focus will be on successful implementation of the existing large portfolio rather than on scaling up new engagement, as happened under the previous strategy. Main knowledge gaps that we will seek to fill in the new cycle include the above mentioned analytic work on SOEs, a better grasp of education sector challenges, such as understanding the skills constraints that private employers may be facing; as well as a clearer view of the social impact of various structural reforms, to ensure that all groups of society have a chance to benefit from the new opportunities while the vulnerable are sufficiently protected.

48. The proposed Country Partnership Framework has three focus areas for WBG support: increasing public sector efficiency and effectiveness, creating conditions for accelerated private sector growth, and building resilience to natural shocks. Support to *increasing public sector efficiency and effectiveness* includes improving the management and efficiency of public finances; strengthening governance and reducing fiscal burden of state owned enterprises; and improving public service delivery, such as health, water supply and sanitation. *Creating conditions for accelerated private sector growth* will include continued work on competitiveness and business environment, including building a more stable and accessible financial sector, particularly for underserved segments in the market, corporate governance and resource efficiency improvements, as well as support for greater labor market flexibility so that private companies can create more and better jobs, and upgrading key economic infrastructure, such as transport, energy and possibly ICT. Finally, *building resilience to natural shocks* will largely focus on the successful implementation of the existing portfolio of water resource management operations as well as analytic and advisory work to identify key challenges and opportunities in disaster risk management and sustainable management of natural resources. *Strengthening inclusion* will be a cross-cutting theme for the entire strategy, informing the choice and design of specific operations so as to ensure that many groups in society can benefit from the structural reforms the WBG program supports. Figure 1 in the Executive

Summary shows the structure of the CPF, as well as its linkages to top and high priorities of the SCD.

49. The three focus areas are closely interrelated, underpin the Reform Agenda, and will jointly contribute to creating jobs and improving prosperity and inclusion in BiH. In particular, the CPF program will support the implementation of SCD recommendation to rebalance the economic model in BiH, which implies both making the public sector more efficient (and less expensive) and creating conditions for private sector investment and growth, thereby enhancing the overall quality of investment and supporting improved domestic and export-market competitiveness. Improving the governance and reducing the cost of SOEs supported under Focus Area 1 is closely linked to the success of labor market and social protection reform under Focus Area 2, which should create mechanisms to facilitate the transition of excess SOE workers to private sector jobs. Building resilience to natural shocks under Focus Area 3 would improve the efficiency of the public sector by reducing the costs of future disasters, and create a more stable environment for private business, particularly in agriculture and in flood prone zones.

50. The cross-cutting theme of inclusion is also an essential part of the proposed strategy: structural reforms that the CPF is seeking to support will not succeed unless they are socially sustainable, therefore the WBG program will be designed with particular focus on distributional and poverty aspects of each operation, to ensure that the vulnerable groups are not left behind. This theme will be integrated into the strategy through both the choice and design of WBG interventions, wherever possible. For example, under Focus Area 1 (increasing public sector effectiveness and efficiency), inclusion will inform both the design on the planned analytic work on options for SOE reform, to ensure that social impacts of such reform are both well understood and fairly managed, and the selection and design of operations to improve the provision of public services, so that vulnerable groups are not left behind in these efforts. Under Focus Area 2 (creating conditions for accelerated private sector growth), measures to strengthen the business environment will be designed with due consideration to special challenges faced by women entrepreneurs and by the youth, so that they have an equal opportunity to take advantage of any future operations. Similarly, support for flexible labor market policies and strengthening of the social protection system will integrate a better understanding of its impacts on the different social groups, to maximize the benefits to the poor and the vulnerable. Finally, under Focus Area 3 (building resilience to natural shocks) implementation of the ongoing portfolio will stress the benefits for the B40 and other vulnerable groups who are often disproportionately affected by natural disasters and have fewer opportunities to rebuild their livelihoods in the aftermath.

3.C.3 Objectives supported by the WBG Program

Focus Area 1: Increasing Public Sector Efficiency and Effectiveness

51. The large and inefficient public sector in BiH is holding back the country's growth and prosperity. It crowds out the private sector and suppresses its development, both in terms of domestic and export performance, by capturing physical and human factors of production and using them in inefficient way. Making the public expenditures more efficient while maintaining the macroeconomic stability can save significant resources, relieve the burden on the economy, support overall competitiveness (and hence facilitate improvements in exports), and at the same time improve the quality of the services that the authorities provide to its citizens. The challenge

for fiscal policy will be to secure medium-term sustainability while supporting the needed recovery in growth. Fiscal consolidation will need to be gradually introduced in order to absorb the shock caused by the floods. Sustainability of public debts needs to be closely monitored as its scope, size and complexity has increased since global financial crises. In addition, particular focus will be needed on documentation of the arrears, full accounting of which does not exist.

CPF Objective 1a: Improve management and efficiency of public finances

52. Sustainable fiscal consolidation, transparency and accountability in public financial management are necessary to create the fiscal space and macro-fiscal stability in support of the planned structural reform. Addressing the challenges of size and efficiency of the public sector requires measures to reduce public expenditures and improve the management of public finances in BiH. Consolidated expenditures are approximately 50 percent of GDP and dominated by current expenses and social transfers. The introduction of value added taxation in 2006 generated the fiscal resources for large increases in public sector employment and in public wages and social benefits, fueling consumption and retail sector expansion. Lackluster growth in the years following the global financial crisis was unable to support the large size of the public spending, leading to fiscal deficits averaging 2.4 percent of GDP since 2009 and continued increases in public debt.

53. Management of public finances is impaired not only by chronic fiscal deficits, but also by sizeable presence of arrears in all parts of the public sector in BiH. And while the precise size of arrears is unknown, there are indications that they are large, especially at the lower tiers of government (e.g. cantons). Arrears stem from formulation of unrealistic budgets and poor cash flow management, weaknesses in the fiscal reporting system, as well as poor management of SOEs. Accumulated arrears threaten sustainability of public finances through unexpected bills and higher cost for goods and services, and can also harm the private sector. Reporting and monitoring of expenditure arrears is weak in BiH. It should include not only central government data, but also regular reporting of arrears incurred in budgetary funds, extra-budgetary funds, autonomous agencies, cantonal and municipal governments, and state-owned enterprises. The World Bank is undertaking field work at cantonal level in FBiH to help the authorities properly account for and classify arrears.

54. In addition, there is a need to address the challenge of managing the scope, size and complexity of public debt portfolios that have significantly increased in recent years. While public debt was maintained at a reasonably low levels until the 2008 global crisis (21 percent of GDP in 2006), it has more than doubled since then (43 percent of GDP in 2014). However, debt management has not been governed by medium-term strategic documents. A medium term debt strategies (MTDS) are necessary in order to achieve the desired composition of the public debt portfolios. Such MTDSs would allow for the assessment and recognition of the cost-risk characteristics of the existing debt portfolio, fully incorporating direct liabilities as well as identifying potential sources of financing, and alternative borrowing strategies. Governments are taking the initial steps to tackle this issue by strengthening the work of fiscal council and introducing fiscal rules. The BiH Council of Ministers jointly with the governments of the two Entities and Brcko District plan to identify, maintain and publish public debt strategies and debt sustainability analyses at the national and entity levels. In FBiH changes to budget law are

proposed to tackle the issues of accumulated deficits and these should be eliminated during the five years period. In the RS the fiscal responsibility law is in parliamentary procedure. In addition the government of FBiH is working on the pension reform, an issue of particular importance in terms of public contingent liabilities. The three new laws in this area nearing finalization: the Law on Pension Insurance and the Law on Pension Administration are expected to be submitted to Parliament shortly, and the Law on Missing Service Period is undergoing revisions to align it with international good practice.

55. The WB will continue its support to strengthening capacity to manage public resources efficiently. The focus of the WBG budget support and TA activities under this area of the CPF is on: (i) further consolidation of public finances through both expenditure and revenue measures, (ii) recognition and resolution of the arrears problem, and (iii) strengthening public debt management. The main immediate vehicle for WBG engagement in this area is the Fiscal Resources for Growth Development Policy Loan (DPL), currently in preparation, which will focus on: (i) improving the operational management and transparency of use of public resources through improved medium-term fiscal planning, debt management, public investment management, recognition and eventual clearance of arrears, and (ii) strengthening regulatory frameworks for decreasing the fiscal burden of the public sector in the medium term by tackling structural rigidities in pensions, public employment and public enterprises. In addition, the Bank will continue to provide technical assistance in support of the ongoing reform efforts to develop medium term debt management strategy (MDTS), debt sustainability analysis and pension reform implementation. Special attention will be paid to continuing the work on consolidating the data on public sector arrears, which represent a significant and not fully understood risk to the sustainability of public finances. In the future the Bank is also planning to analyze the distributional impact of various fiscal policies, subject to data availability. As reforms for fiscal sustainability and public financial management progress, the Bank will stand ready to support these efforts with additional advisory and financing operations, as necessary.

56. Maintaining stability of the financial sector is a fundamental condition for maintaining macro-fiscal stability in the country. The recent World Bank/IMF Financial Sector Assessment Program (FSAP) found a number of vulnerabilities in the BiH financial sector. System-wide NPL ratios remain high at 14.1 percent at end-June 2015, and a number of domestically-owned banks are struggling to meet capital requirements, while some others rely on quasi-fiscal support. Against this backdrop, it is essential that the financial safety net is further strengthened by developing a comprehensive resolution regime to deal with the weakest banks. The main areas of deficiency are the inadequacy of resolution powers and the ability to provide emergency liquidity support to soundly capitalized, well managed banks. The current weaknesses in the banking sector also pose a threat to the existing financial safety net in BiH stemming from the possibility of not having adequate resources to cover costs for recovery or resolution of its weakest banks. This was further confirmed by the recent liquidation of a domestic bank resulting in the first insured depositor payout in the history of the Deposit Insurance Agency (DIA). The WBG can provide advisory and if necessary, financial support to the DIA to support the stability of the financial sector in BiH.

Results indicators for Objective 1a
<i>Indicator 1:</i> Public sector arrears are documented, publicly available and updated on a regular basis and the level of such arrears is reduced as a share of GDP.

CPF Objective 1b: Strengthen the governance and reduce the fiscal burden of SOEs

57. State-Owned Enterprises (SOEs) are plagued by inefficiencies. According to data published by Entity-level bodies that manage privatization, 574 companies remain in public hands. Of those, 174 are in the jurisdiction of RS, and 400 of FBiH. Some SOEs are loss-making, requiring subsidies, while some reportedly no longer function but remain a formal employer of many workers. Managers are often not accountable for their performance, key information for many companies is not available, the duties of the boards are not always clear. This diverts resources away from productive activities: land remains in the hands of non-functioning or loss-making SOEs, human and capital assets are trapped in unproductive or obsolete activities. SOEs have few incentives to reduce their losses or restructure. While losses and liabilities keep piling up, the governments rarely allow for bankruptcies, and the taxpayer ultimately foots the bill.

58. Notable fiscal risks stem from SOE-related explicit and contingent liabilities. The former comprise subsidies, direct transfers, and state aid. In 2015, Republika Srpska and the Federation of BiH budgeted subsidies amounting to approximately BAM158.2 million, out of which at least a third is budgeted for SOE subsidies. It is difficult to quantify potential indirect liabilities of SOEs. What is known is that many SOEs do not perform economic activities but continue to employ people, building up arrears, including to the social welfare system. In FBiH, 29 SOEs in four sectors (energy, mining, industry and military industry) employed 24,240 workers in 2013. It is estimated that in FBiH alone the size of SOEs' debt since 1992 amounts to BAM one billion, and this debt keeps increasing. For example, since December 2014 net arrears of railways grew by BAM10 million, and of Sarajevo public transport company GRAS by BAM 33 million.

59. In an effort to manage SOEs more effectively, the authorities are applying a differentiated approach to the three groups of companies. The first group is strategic companies, such as for example public utilities and railroads, which will likely remain in public ownership even though they may need restructuring and better governance structure. The second group are companies that the authorities could sell, either directly or after restructuring. The final group is those that cannot be salvaged and have to be liquidated. Work is underway to classify SOEs into these groups.

60. Given the complexity of the SOE reform, WBG has started its engagement in this area with a thorough analysis of underlying issues. As highlighted in the SCD, SOEs are one of the areas where significant knowledge gaps exist. The proposed analytical and advisory work program under the CPF would aim to fill some of these gaps, for example, with work on SOE reforms and public expenditure more generally as well as targeted sectoral work, of which the first example is the ongoing analytic work on options for rail sector restructuring. To the extent that this analysis yields clear actionable recommendations, including preconditions to facilitate restructuring or privatization, SOE reform measures may also be supported through WBG policy lending and investments, possibly in conjunction with other development partners such as EBRD. In the future there is also potential for targeted corporate governance advisory services, mainly through sector level capacity building interventions.

61. Inclusion is an important aspect of future SOE reforms. While SOE reform is at an early stage, and while more data is needed to define possible options and scope of reform, it is clear that many people currently employed in the sector will be substantially affected. It is therefore imperative that the analysis identify both the social impact and possible mitigation measures before the reform is launched. In this respect the program supported under CPF Objective 1b will be closely coordinated with the progress under CPF Objective 2b (Improve Labor Market Flexibility and Social Protection) so that any staff reductions due to SOE reform are carried out in a responsible and sustainable manner, with a fair chance for everybody to integrate into private sector economy.

Results indicator for Objective 1b
<i>Indicator:</i> Fiscal burden of SOEs is substantially reduced

CPF Objective 1c: Improve public service delivery

62. High quality public services is a key element of a fiscally sustainable and efficient public sector. Improved public service delivery is particularly relevant for BiH given the need to respond to challenges of its shrinking and aging population. As in other European countries, aging means fewer working age people and less resources for pensions in a pay-as-you-go system, shifts in public spending (more health, less education) and public service delivery (more lifelong learning and old-age health, less child health and primary education). In addition the large rural population poses a challenge for public service delivery and connectivity.

63. Public social spending in general does not yield results commensurate with costs. For example, public spending on health is high relative to GDP and health outcomes. Despite reasonable life expectancy, many health outcomes are poor, particularly with regards to non-communicable diseases, partly resulting from high tobacco consumption. While progress was made in primary health care, hospital service provision remains inefficient. Health centers and hospitals are accumulating debts and arrears which may be sizable, while costs of pharmaceuticals and medical devices remain high. Although the number of hospitals in Republika Srpska and the Federation of BiH are comparable to regional norms, hospital service provision is inefficient, with low bed occupancy rates; relatively high average length of stay; unnecessary admissions of cases that could be treated at primary levels; and limited accountability or autonomy by hospital managers to improve efficiency, quality, and stay within budgets. Reforms are needed in management, organization, and financing of hospitals. In Republika Srpska and the Federation of BiH, hospitals are accumulating substantial arrears, due to both inefficiencies and lack of accountability and financial discipline for hospitals. The governments of both Entities are planning to analyze the liabilities in the health sector, introduce a better treasury system to ensure improved financial discipline, and develop a new funding system for the health sector. The new Bosnia and Herzegovina Health Sectors Project (under preparation) will address this set of challenges by ensuring a better flow of information within health systems; modernizing the health sectors for greater efficiency; and facilitating policy reforms, promoting innovation and quality assurance. The challenge of managing high public costs of healthcare will also be addressed under the planned Fiscal Resources for Growth DPL, which includes measures to make pharmaceutical procurement more efficient.

64. Basic infrastructure service delivery is weak given its cost. The municipal sector is mostly unreformed resulting in poor quality of services and financially unsustainable operation. Administrative service delivery has been enhanced at the local level through the establishment of citizen service centers supported by donors including USAID, the Netherland, and GiZ. Building on these results by delivering additional services, streamlining service procedures, and introducing e-services can increase access to services, reduce administrative burden for citizens and businesses, and reduce opportunities for corruption. Many utilities have yet to implement commercial principles to ensure solid waste management sustainability. Only 76 percent of the poorest quintile of the population have access to piped water in the home or yard, compared to 85 to 93 percent for all other wealth quintiles. Much of the access is from small systems not subject to quality control. Access to sewer systems is much lower, especially in rural areas. Just 21 percent of households in the poorest quintile and around 37 percent of the B40, but close to 80 percent of the wealthiest quintile, are connected to a piped sewer system¹⁶. Over half of households in the B40 use septic tanks, which endangers water sources used for supply and generates extra financial burden on the household, but also directly endangers hygiene and health of the poorest. Better access to water, sanitation and wastewater treatment is also a requirement of the EU. Given the limited cost recovery of service providers, it will be necessary to improve public service efficiency and sustainability of investment. The WBG will continue its ongoing support in this area, primarily through investment project financing. Future engagement through both advisory and financial services is also possible, subject to satisfactory implementation of the existing portfolio and client demand. In particular, there may be scope for future analytic and advisory support to PPP development for public service delivery, e.g. WBG could undertake stocktaking of scope of PPP in water and waste water service delivery and management. If progress is made on the enabling environment, there is possibility for private sector investments with IFC support.

Results indicators for Objective 1c
<i>Indicator 1:</i> Tobacco excise taxes aligned with EU standards.
<i>Indicator 2:</i> Reduced expenditures on pharmaceuticals.
<i>Indicator 3:</i> Improved delivery of water and wastewater services.

Focus Area 2: Creating Conditions for Accelerated Private Sector Growth

65. BiH needs to shift its engine of growth and job creation from public to private sector in order to create prosperity for its citizens. To attract private investment, be it foreign or domestic, BiH needs to create better conditions for businesses to set up, grow, create jobs, and export. As described in the Systematic Country Diagnostic, this means improving business environment – both regulations and their implementation, as well as other factors such as better access to finance; make the labor market more flexible and conducive to job creation; and fix crucial economic infrastructure, such as transport and energy network.

CPF Objective 2a: Support a competitive business environment and access to finance

¹⁶ The World Bank. 2015. *Bosnia and Herzegovina Systematic Country Diagnostic*.

66. BiH is one of the most difficult places to do business in Europe despite a well-educated labor force and proximity to the EU. In order to stimulate foreign and domestic investment and job creation, it is necessary to create better conditions for businesses to thrive. Key reform areas, identified by the SCD, include: business licensing, inspections, access to finance, quality infrastructure and standards for trading across borders, improving corporate insolvency process, paying taxes, and registering real properties. In addition, BiH is now facing increased pressure to upgrade policies, standards and systems so that its goods (and services) can enter international markets, especially the EU. All these obstacles collectively contribute to lower competitiveness in the foreign and domestic market.

67. The WBG has been actively involved in supporting improvements in the business environment through advisory and financing services, such as the recently disbursed Business Environment DPL, and this work will continue under the new CPF. Accounting and auditing reform is a key element to developing a stronger corporate sector, and WB will continue to advise BiH on accounting and auditing frameworks that are to be aligned with the EU acquis through the EU REPARIS program. In particular, discussions are underway to design the Business Environment Results-Based Lending operation that could address business environment regulatory bottlenecks, support SME development and trade facilitation. This operation would specifically target job creation in the private sector as one of its objectives. Its design will be informed by the ongoing analytic and advisory work on trade and competitiveness as well as by the lessons of prior engagement on business environment and SME support by both WB and IFC. WBG advisory programs will focus on sub-national investment climate, improving business environment, competitiveness and regional integration in selected value chains and export in general, and will complement results based lending. Advisory work will focus on improving national quality infrastructure and create conditions for more competitive exports. Streamlining export procedures, aligning sanitary and phytosanitary (SPS) border agencies and introducing risk-based inspections will reduce cross border trade costs and create better business conditions for more exports. Additionally, through firm level interventions WBG will support domestic industry by means of direct investment and advisory support to increase operational efficiencies, strengthen corporate governance practices, sustain job base and boost trade activity. Pipeline programs designed in support of these objectives are Corporate Governance private sector advisory; Energy and Water Efficiency for Corporates, while two other projects will be delivered under joint GP platform: Subnational Investment Climate and Competitiveness and Agribusiness projects. IFC will target its investments in export oriented companies with a focus on competitive sectors including in agribusiness and manufacturing companies. IFC will also support FDI's with its financing.

68. Legislative, institutional and regulatory changes are required to improve the corporate resolution and insolvency frameworks. The bankruptcy regime in BiH is relatively comprehensive, but it is ridden with a number of deficiencies as identified by the recent World Bank Report on the Observance of Standards and Codes for the Insolvency and Creditor/Debtor Regimes (ICR ROSC). There is a need to streamline execution procedures, introduce tools and incentives to facilitate corporate debt restructurings and resolution, and adopt out-of-court restructuring guidelines. The institutional framework could be further improved through hiring and properly training more commercial court judges and improving the regulation of the insolvency profession. Republika Srpska has embraced the ICR ROSC recommendations and is preparing a

new, modern bankruptcy law for adoption by end of 2015. The WBG is supporting these efforts through the Fiscal Resources for Growth DPL and Debt resolution and Business Exit advisory program. F BiH can also use the ICR ROSC recommendations to create a robust corporate resolution and insolvency framework while providing for equal treatment of the debtors and creditors across BiH.

69. Secure land rights and accurate real estate records are key prerequisites for investment and private sector growth. According to the 2015 Doing Business report, BiH's real estate registration system ranks 88th in the world and the costs of property registration are double compared to the average of the ECA region. . There have been improvements over the last years. Between 2011 and 2015, BiH has reduced the average time to register commercial properties from 33 days to 24 days. Since 2015, BiH, with the support of the Real Estate Registration project, has also embarked on an ambitious program whereby cadaster and land registry records are updated and integrated in urban areas. The project also supports upgrades in the real estate registration infrastructure, the expansion of e-services, improvements in the legal and institutional frameworks, and capacity development. While these efforts are expected to further improve BiH's land administration services, in the future BiH will need to interlink cadaster and land registry records in rural areas, as well as and further streamline and automate land administration services. BiH will also need to ensure that its cadaster and land registry records are used for broader land management applications, such as real property valuation and taxation, land consolidation, and the regularization of illegal developments. This can also help with strengthening fiscal sustainability and the development of a housing finance system.

70. Access to finance remains a constraint for enterprise development, especially for some groups such as women. Firms in BiH identified access to finance as the second biggest constraint after political instability in the Enterprise Survey 2013. Banks report a segmentation of their Small and Medium Enterprise (SME) clients, and smaller enterprises with less complete or formal documentation and lacking collateral tend to be excluded from the market. Banks are not interested to serve the microfinance segment of the market as the opportunities for cross-selling of products and services are limited. The WBG is already supporting the SME sector with an ongoing SME Access to Finance project, through a portfolio of IFC investments, both with banks and microcredit institutions, as well through advisory program supporting the microfinance sector. This work will continue in the future, with WB and IFC jointly discussing options for designing new and well-coordinated engagements in this area, learning from the experience of the current portfolio. The WBG will integrate the principles of inclusion by ensuring that the next MSME support operation is designed with a due regard for the particular challenges that women entrepreneurs and other groups at risk of exclusion are facing, to ensure that they are not disadvantaged when it comes to access to finance. In addition, IFC will boost access to finance through programs targeting underserved segments of economy, particularly MSMEs, agribusiness, renewable energy and housing finance. Advisory assistance will be provided to the banks in need of support to improve their risk management systems, and develop new approaches for underserved segment of the market.

71. BiH needs to harness its export competitiveness to find new sources of growth. As a small middle- income economy, BiH's greatest potential is in trade – with the EU, in the region, and internationally. BiH has many advantages, most particularly its geographic location at the door to

Europe and plentiful natural resources, as well as an educated workforce. A focus on better investment climate can draw higher investment to make these advantages work. There is also promise in advancing the competitiveness of specific value chains where BiH has a competitive advantage, such as agribusiness, ultimately leading to increased economic activity and jobs. The sector needs modernization and help to overcome the challenges faced by family farms in increasing investments and focusing on more commercially oriented production, and promoting the climate smart agriculture. WBG will support the country to build on and expand the institutional capacities established at the level of BiH and the entities to focus on assisting family farms increase their productivity and competitiveness. In parallel, through WBG programs, more attention will be paid to making the food safety system more functional and to improve access of BiH food products in the EU market and regain market share of higher value added agricultural produce in local markets. Work will focus on advancing trade facilitation reforms that will enable more trade and create better conditions for companies for cross-border trade. Finally, improved resource efficiency and corporate governance of companies in BiH will directly contribute to competitiveness of food processing and other manufacturing sectors. IFC will contribute to this agenda through the Western Balkan Investment Climate, Competitiveness and Agribusiness Project, as well as, through direct firm level resource efficiency and corporate governance support to companies to boost their competitiveness.

Results indicators for Objective 2a
<i>Indicator 1:</i> Improve Doing Business Distance to Frontier
<i>Indicator 2:</i> New and sustained jobs through real sector investments
<i>Indicator 3:</i> By FY20 at least double outstanding MSME and housing finance of IFC portfolio clients

CPF Objective 2b: Improve labor market flexibility and social protection

72. Employment rates are low in BiH—and unemployment rates high—particularly among the poor and B40. In 2014, 28 percent of the working age population (aged 15 to 64) was unemployed, which is one of the highest unemployment rates in the region.¹⁷ Arguably, an even bigger problem is the high level in inactivity—that is the share of the adult population that is neither working nor looking for work—which currently stands at 45.5 percent. Inactivity rates are considerably higher among women, youth, and Roma. Consequently, only 38.9 percent of the working age population is employed, yet even among these only few have formal jobs, and even fewer have private sector formal jobs. Among the unemployed, 84.7 percent have been looking for work for more than a year, pointing towards deep structural problems in the labor market, with a large share of job seekers not having the right qualifications for the jobs offered by employers. An astonishing 43.9 percent of the unemployed were not able to find a job for more than 5 years. Public Employment Services (PES) are not able to respond effectively to these challenges: they are overwhelmed with non-core administrative tasks of registering citizens as unemployed and facilitating access to social benefits (primarily free health insurance) whilst unable to adequately provide job intermediation services, or re-train and motivate those who need it.

73. Poor employment outcomes in BiH are not only the result of low economic growth, but a poor business environment hindered by restrictive labor regulations, high labor taxation

¹⁷ Source: Statistics Agency of Bosnia and Hercegovina (2014). “Labor force Survey 2014. Final Results.” *Thematic Bulletin 10*.

and misaligned social benefit system. Firms in BiH have cited labor legislation as one of the biggest constraints to hiring. Indeed, the country has the most rigid labor market regulations in the region, and is rated as most difficult in hiring, most difficult in firing, and has the highest minimum wage among its regional peers. In addition, the tax wedge, compared to EU countries, is relatively high, especially at low wage levels, which affects primarily lower skilled work common for the B40. Labor taxes finance pensions, health insurance and social transfers. With only 28 percent of the adult population in formal jobs, the social burden on formal workers is substantial. This creates problems not only for employees, but employers too, as payroll absorbs two thirds of total value of firm output.

74. The BiH Council of Ministers, Government of Republika Srpska, and Government of the Federation of Bosnia and Herzegovina have started tackling some of these issues and are developing a longer term policy reform agenda. Creating a more flexible labor market and reducing the burden of labor taxation are among the key priorities of the Reform Agenda. A new labor code which provides more flexibility to employers on hiring and firing, and equally provides protection for workers aligned with European standards has been approved in FBH. A new labor code with similar provisions is scheduled for Parliament approval in the RS by the end of 2015. The BiH Council of Ministers, Government of Republika Srpska, and Government of the Federation of Bosnia and Herzegovina are also planning reforms on labor taxation, improving employment support services and active labor market measures, improving labor inspections, and improving unemployment insurance. There are currently a few employment schemes targeting socially vulnerable groups including single parents (most of whom are women) with children, Roma, and long-term unemployed (5 years and above) all of whom have low-skills. One particular scheme which offers skills training, on-the-job training and support for self-employment has demonstrated positive results with about 55 percent of beneficiaries still employed 18 months after the intervention. The BiH Council of Ministers, Government of Republika Srpska, and Government of the Federation of Bosnia and Herzegovina is planning to support a larger employment scheme with a slightly different initial focus on youth and long term unemployed starting from 2016. Improvements on the business processes of the public employment services, with a particular focus on improved counseling, are expected to accompany the targeted employment schemes. These measures are expected to improve employment outcomes for population groups whose attachment to the labor market is most precarious.

75. Improving labor market flexibility and social inclusion is also the focus of a wide WBG program of support. WBG team is conducting a high level policy dialogue with the BiH authorities on the jobs agenda, providing analytic and just-in-time advisory support on issues such as labor law reform. Policy actions in this area will be further supported through the Fiscal Resources for Growth DPL as well as through a separate Employment Support project that will pilot a mechanism for various active labor market policies, particularly those targeting the young entrants into the labor market, with a special focus on results. The new operation will also build on the results of the closing Social Safety Nets & Employment Support Project to improve the effectiveness and responsiveness of the PES by creating stronger incentives and streamlining the business processes to shift weight from administrative tasks (e.g. facilitation to access social benefits) towards employer and jobseeker services (e.g. jobseeker profiling, counseling and tracking, and vacancy canvassing).

76. In order to successfully implement labor market reforms and ensure effective participation of the B40 in the labor market, the entity governments will have to ensure an adequate and efficient safety net, including social assistance. At the moment, the social assistance system (including unemployment and other cash benefits) provides benefits to a small proportion of the poor and does not provide incentives to work. A shift from a rights-based to a needs-based system can help to ensure not only efficiency, but also equity of social protection. Sustainability of the social protection system can come about only by completing pension reforms and improving the targeting of social assistance. At the moment, redistributive fiscal policy is both unsustainable and inequitable, benefitting the rich almost as much as the poor: only 37 percent of social spending goes to the poorest 20 percent and 56 percent to the B40, significantly worse than any other country in SEE. While BiH spends around 4 percent of GDP on non-contributory social assistance (the highest in SEE), less than 10 percent of social transfers are means-tested. The poorest population quintile receives only 17 percent of non-contributory benefits, while the wealthiest quintile receives 20 percent. The authorities are beginning to address these issues. For example, pension reforms in FBiH will aim to introduce a new points system appropriate for countries with low replacement rates. In FBiH, two new laws – on the principles of social protection and on protection of families with children – have also been drafted incorporating a Proxy-Means Test formula as a targeting method. In the RS, there will be an evaluation of the implementation of social assistance legislation conducted with a view to introduce amendments. The World Bank is initiating the design of the STEP Skills Measurement Program (STEP) to understand gender-related skills gaps, including employers’ perception on women’s skills. The Bank will continue to support these efforts through country dialogue and advice, and subject to client demand, through new financing, for example to support pension reform implementation.

Results indicators for Objective 2b
<i>Indicator 1:</i> Decrease the number of inactive persons by 10 percent (disaggregated by sex)
<i>Indicator 2:</i> Increase in private sector formal employment by 10 percent (disaggregated by sex)
<i>Indicator 3:</i> Improve targeting accuracy of last resort social assistance: percentage of last resort social assistance benefits reaching the poorest quintile.

CPF Objective 2c: Upgrade economic infrastructure

77. Physical infrastructure is essential for economic growth – providing businesses with the services they need to increase output and employment. Private sector growth in Bosnia and Herzegovina also requires better connectivity. The quality of infrastructure networks remains poor and inadequate to stimulate national and regional economic integration. Despite some public sector investment, the country has benefited from little private sector involvement in public infrastructure. Networks also suffer from poor maintenance as well as a lack of prioritized investment planning in many ministries infrastructure projects. Sectors deserving particular attention are transport (roads, bridges and rail), and power (transmission, distribution and generation, including renewables). In the context of increasing fiscal constraints, attracting private capital to finance infrastructure needs (via PPPs or private investments) might help leveraging further limited public resources. The Bank can support the efforts to foster the development of PPPs by providing advisory services and technical assistance.

78. An aged transport infrastructure and inadequate connectivity makes investing in BiH less attractive. WEF rates BiH's transport infrastructure as the poorest among SEE, EU11 and EU17 countries. The Logistics Performance Index similarly rates BiH as having below SEE-average infrastructure (2.55 out of 5 compared with a regional average of 2.65) well below EU11 average. Similarly, the level of ICT services is behind expectations due to lack of competition in internet service provision. BiH's international Internet connectivity channels are the second narrowest in the region, which is limiting the potential to deliver high quality (high speed) broadband connections. The majority of the broadband Internet access connections are considered slow by international standards, posing an obstacle to investment and trade.

79. If BiH is to take advantage of its geographical situation next to the world's largest market by increasing exports and export-related employment, it will need to improve its transport and trade infrastructure. The World Bank Group will support the connectivity agenda by providing advisory and financing services. In particular, a series of investment operations is planned to upgrade the key road networks in the country, with the first project in FBiH currently under preparation for FY16 delivery. As budget limitations are a serious challenge to efforts to improve transport infrastructure and overcome network defects resulting from insufficient maintenance and the 2014 floods, WB financing will focus on rehabilitating selected transport links which have high socio-economic rates of return yet are unattractive for private sector investment. Where financial rates of return permit, private sector financing will be encouraged, including with the help of the IFC.

80. At first glance, the BiH power sector is one of the healthiest in the region and has been performing well since 2001. Power generation increased by 50 percent between 2001 and 2013, distribution losses halved between 2007 and 2010, and the World Economic Forum (WEF) rates the quality of electricity supply as approaching EU17 standards; yet behind this positive story lies a sector with deteriorating assets, underutilized resources, and high inefficiency. Ensuring sufficient power supply in a more environmentally sustainable manner (and mobilizing the significant investments needs that come with it) is a necessity to ensure growth is not undermined by future power shortage. Such investments could be partially mobilized via the private sector including for hydro, wind, biomass, and solar. Increased private sector participation would also benefit from competition enhancing measures and tariff reforms toward longer-term commercially viable tariffs. The World Bank Group program will support efforts to improve energy efficiency, especially in public buildings, through the ongoing Energy Efficiency project. In the future there is also a possibility of WB and IFC investments to increase penetration of renewables by both the EPs and the private sector, and expand and strengthen the power grid and possibly related municipal infrastructure, i.e. district heating.

Results indicators for Objective 2c
<i>Indicator 1:</i> Travel time saving as a measure of connectivity between major economic growth poles
<i>Indicator 2:</i> Increase lifetime energy savings.
<i>Indicator 3:</i> Additional Renewable Energy capacity facilitated

Focus Area 3: Building Resilience to Natural Shocks

81. BiH is vulnerable to natural shocks that could derail the country's development agenda.

The gradual degradation of water, air, forests, and agricultural land is a serious risk to sustainable economic growth and increases the risk of catastrophic shocks triggered by natural events. Prudent management of natural resources could alleviate some of these risks as well as provide the foundation for stable long term growth. Droughts and floods have significantly derailed the country's development path, which highlights the importance of investing in infrastructure and policies that will shield the most vulnerable from natural disasters.

CPF Objective 3a: Prevent the degradation of natural resources

82. The preservation and sustainable management of natural resources, including water, air, forests and agricultural land are essential in a country with 60 percent rural population.

Most of the poor live in rural areas, and so can be disproportionately affected when natural resources are depleted. More sustainable use of natural resources could not only help mitigate negative impacts on health and livelihoods in rural areas but also contribute to an increase in tourism, which generates jobs. It would also improve health conditions in urban areas, which are badly impacted by pollution: twenty-one percent of water samples fail tests for drinking water sanitary standards. Water quality is also at risk as only 31 percent of all wastewater is collected, and 3 percent is treated to acceptable standards.

83. Although overall pollution levels have declined over past decades, largely as a result of a loss of heavy industry, wood or coal burning is still seen as a cheap way of cooking food, especially amongst the poorest; heavy reliance on fossil fuels persists, and poor energy efficiency contributes toward air pollution. For instance, 2012 measurement in Sarajevo showed SO₂ concentrations five times over the WHO recommended limit, while concentration of Particulate Matter (PM), including soot, was ten times the WHO recommended limits. Although the Sarajevo Canton has been financing and implementing a number of piecemeal measures to combat degradation of air quality, a more integrated approach is required to make substantial progress in pollution reduction and management, as well as in protection of natural resources. The Bank will support the authorities in preparing an "inventory" of key environmental "hot spots" that could serve as a basis for strategic decision regarding the necessary improvements, not only in air quality, but for all priority environmental investments identified in the "inventory".

84. Pollution resulting from inadequate waste disposal has also made a significant impact on numerous communities. BiH has developed and begun to implement a three-phase national solid waste management strategy. Several municipalities have set up and jointly operate regional sanitary landfills, and an increasing amount of waste is being managed in compliance with EU standards. However, waste collection and disposal capacities remain too low to match the rapidly growing volume of waste production in BiH. Unsanitary dump sites can still be found in many communities and pose constant threats to soil, water and air contamination. Their clean-up and closure remains a high priority that will require setting up functioning sanitary landfills that are the backbone of an environmentally and financially sustainable solid waste management system. The ongoing Second Solid Waste Management Project and associated TFs are supporting the governments' reform, in particular in closing of informal dumps and establishing new inter-municipal landfills, thus increasing the number of BiH households served by the formal waste management system. The new Solid Waste Project is expected to build on these efforts and expand

the number of shared municipal sanitary landfills, which would provide a higher level of environmental protection and more cost-effective arrangements - particularly important given the considerable number of smaller municipalities that constitute BiH. The Bank will also provide assistance in updating the Solid Waste Management Strategy.

85. BiH’s forests are among the most pristine in Europe and are one of the country’s most significant resources. They require responsible management to preserve their development potential. Forests cover some 62 percent of the total land area, making BiH the most forested country in Europe, and forests are, at the same time, largely under-used from an economic perspective. While the country is thus not yet facing the “development vs conservation” issue, it needs effective mechanisms in place to ensure responsible management, transparency and financial sustainability of this important resource. Forests also perform an important social function by providing employment relevant to the B40, in particular to the disadvantaged groups. About two million people that live in the rural areas consider the forests as an important source of livelihood, be it in forest industries or through collection of fuelwood or non-timber forest products (mushrooms, berries and herbs), hunting or tourism. In mountainous BiH, forests also have an important watershed protection value. Following years of engagement in the forestry sector, the ongoing Sustainable Forestry and Landscape Management Project will further support sustainable forests and landscape management (SFLM) practices, in particular forest certification, forest road strategic plan as well as number of SFLM techniques to be adopted jointly by key local actors.

Results indicators for Objective 3a
<i>Indicator 1:</i> Adoption of a plan for management of hot spots in BiH
<i>Indicator 2:</i> Collection rate and disposal capacity of engineered landfills expanded to reach EU standards
<i>Indicator 3:</i> Increased area where sustainable land management practices were adopted

CPF Objective 3b: Build resilience to floods

86. One of the high priorities defined by the SCD is the need to address BiH’s vulnerability to the risks of environmental shocks. Observed shifts in temperature and precipitation patterns confirm that climate change is affecting BiH. During 1961-2010, temperatures increased in all areas of the country and the rate at which temperature has risen over the last decade may indicate that BiH is experiencing the impact of climate change at an accelerating rate. Significant change to rainfall pattern, particularly combined with rising temperature, will likely result in less moisture in the soil (potentially increasing the frequency and magnitude of droughts) and an increased likelihood of floods and landslides. At the same time, 2012 saw BiH experiencing a heat wave that triggered forest fires that were difficult to control due to the continued presence of mines and unexploded ordnance. Heat waves also affected hydropower generation, destroyed agricultural crops—and drove up food prices, costing approximately US\$1 billion in 2012 in lost agricultural production and destroying almost 70 percent of vegetables and corn.¹⁸ Finally, BiH is also exposed to earthquakes and landslides. A severe earthquake could cost the country between 15 to 24 percent of the GDP and affect almost 20 percent of the country’s population.

¹⁸ Initiative on “Capacity Development to support National Drought Management Policy” (WMO, UNCCD, FAO and UNW- DPC). “Bosnia and Herzegovina - concise country report.”

87. BiH has recently been exposed to extreme weather events, including severe winters, droughts and flooding. In 2014, BiH and the region were hit hard by floods and related landslides. The rain was the heaviest in 120 years. The floods had adverse impacts on a large share of the population and land mass, with about 90,000 people evacuated, and about one-fourth of the total population directly affected in around 60 of BiH’s 142 municipalities. Losses in housing, energy, transport, water supply and sewerage have cost around 15 percent of GDP, undermining growth prospects in some key sectors. The lack of coordinated investments in flood control and mitigation measures, construction of residential areas and businesses in flood plains, as well as underdeveloped flood protections and limited river basin management strategies have increased vulnerability of the population and economic assets. Droughts have impacted crops, livelihoods and other economic activities, such as hydropower production.

88. The World Bank Group will support resilience building by capitalizing on its existing multi- sector engagements in Disaster Risk Management, and by strengthening its support in water resources management for better protection and preparedness against floods.

Among others, we will continue to support disaster risk management via our Floods Emergency Recovery Credit, possibly complementing it with further DRM policy dialogue. We will also promote better flood preparedness and management along key River Basins. The Drina River Basin (DRB) is about half the size of Switzerland and is home to almost one million people. The river and its basin are critically important to all three of its riparian countries, Bosnia and Herzegovina, Montenegro, and Serbia, also because the Drina and its tributaries are historically known for recurrent floods. Improved management of natural resources, including integrated water resources management and effective cooperation with neighboring counties on water issues, will help build resilience and foster prosperity in BiH and the region. The WBG will continue to support the authorities’ efforts to improve integrated management of the DRB by addressing priority flood protection investments to reduce the risk of floods, supporting hydrological simulation and optimization studies, and supporting cross-border cooperation between BiH, Serbia and Montenegro for integrated river basin planning and management on the Drina. Further DRM/flood protection operations may follow in outer years of the CPF.

Results indicators for Objective 3b
<i>Indicator 1:</i> People in flood affected/prone areas benefiting from goods received and infrastructure rehabilitated with projects' support
<i>Indicator 2:</i> Strengthened capacity in water resources management, including flood management, forecasting and warning, in Drina and Sava River basins

D Implementing the FY16-20 Country Partnership Framework

89. BiH’s request for IBRD financing during the CPF period is estimated at approximately US\$750 million. The indicative lending program for the first two years of the new CPF (FY16-17) is US\$405 million and it consists of projects currently under preparation or those where discussions have already started (see Table 3 below for a detailed breakdown). Lending volumes in FY18-FY20 will depend on country demand, overall performance in the course of the CPF period as well as global economic developments, which affect IBRD’s financial capacity and demand by other World Bank borrowers.

Table 3 Indicative lending for FY16-20

Project	Total (\$M)
FY16	
Management of Fiscal Resources for Growth (DPL)	70
Bosnia and Herzegovina Health Project (IPF)	50
Federation Road Sector Modernization Project (IPF)	55
FY17	
RS Road Sector Modernization project (IPF)	50
Business Environment (RBL)	60
Bosnia and Herzegovina Employment Support Program (IPF)	50
Management of Fiscal Resources for Growth 2 (DPL)	70
<i>Subtotal FY16-17</i>	405
FY18-20 indicative program¹⁹	
SOE Reform (DPL)	
Management of Fiscal Resources for Growth 3 (DPL)	
SME Support for selected sectors (IPF), in coordination with IFC	
Disaster Risk Management/Flood Protection (IPF)	
Financial Sector Stability (RBL)	
<i>Subtotal FY18-20</i>	345
Total	750

90. The level of the IFC investment program will be dependent on the pace of reforms. Working through the joint Global Practices, IFC and the Bank will support the efforts of the authorities to engage in a wide range of reforms designed to improve the business and investment climate. However, much work lies ahead before meaningful increase of private domestic and FDI investment can be expected. Accordingly, IFC foresees a range of its investments during the CPF period, depending on the pace of reforms. In close coordination with the Bank, IFC will remain fully committed to carrying through some of these reforms by supporting a number of programs agreed with Bosnia and Herzegovina authorities, and linked to the implementation of the Reform Agenda and beyond.

91. During FY16-20 IFC is expected to invest US\$70-120 million in Bosnia and Herzegovina. IFC's program depends on a variety of factors including country's progress with corporate governance and overall investment climate, the entities' governments commitment to implement structural reforms including the privatization of SOEs, opening up of the infrastructure sectors to the private sector participation and, last but not least, the availability of funds as well as the demand for long-term finance in the banking sector. IFC will increase its efforts in the infrastructure sectors and encourage greater private sector financing through PPPs by applying best international practices. However, to attract private sector in infrastructure improvements, Bosnia and Herzegovina needs to address many impediments including unclear PPP policy, the complexity of laws that apply to concessions reflecting country's complex federative structure and underdeveloped institutional capacity for the implementation of PPPs. To address these constraints

¹⁹ The size and composition of the Bank program in later years will depend on the pace of reform implementation and client demand, and will be identified more precisely at mid-term review of the CPF.

the IBRD, IFC and MIGA will jointly offer their assistance and comprehensive PPPs solutions to attract foreign investments in the infrastructure sectors, especially in the energy and transport.

92. The Bank will seek to expand the use of country systems for financial management and public procurement, although progress to date has been slow due to various constraints.

These include insufficient staffing; budget process that excludes loans, credits and grants; shortcomings in reporting; lack of access to financial information necessary for disbursement; undeveloped internal audit procedures; and capacity constraints of the external audit. More needs to be done to strengthen public procurement mechanisms and disclosure, and to reinforce complaints mechanisms. The Bank will support the authorities' efforts in all these areas, in particular improvement of the public procurement system and of the reporting and budgeting processes. The Public Expenditure and Financial Accountability (PEFA) assessment that was completed in May 2014 provides valuable recommendations in this area. WBG will assist the authorities in developing the public procurement strategy as well as practical tools for its implementation such as standard bidding documents, guidance note on preparation of bidding documents/bids, training for public procurement officers, etc. The Bank will also support the development of inter-institutional cooperation in order to increase control in the implementation of the Public Procurement Law.

93. The WBG is one of the lead partners supporting the Reform Agenda. Out of the six parts of the Agenda, the WBG is the lead partner in four, and supporting partner in another one. Development partners in BiH are working well together, with the Reform Agenda providing a natural coordination vehicle. WBG in particular provided the bulk of analytic work that underpinned the development of the Reform Agenda document, and continues to conduct active policy dialogue in most areas of reform.

Table 4 Coordination of development partners around the Reform Agenda

<i>Reform Agenda</i>	<i>Lead Partner</i>	<i>Supporting Partner</i>
<i>Public finance, taxation, and fiscal sustainability</i>	IMF	WBG , USAID
<i>The Business climate and Competitiveness</i>	EBRD, WBG	EU, SIDA, USAID
<i>The Labour Market</i>	WBG	IMF, EU, USAID
<i>Social Welfare and Pension Reform</i>	WBG	IMF, EU, USAID
<i>Rule of Law and Good Governance</i>	EU	SIDA, UNDP, USAID
<i>Public Administration Reform</i>	EU	WBG
<i>Energy and Transport</i> ^a	EBRD, WBG	-
<i>Natural Disaster Mitigation</i> ^a	UNDP	WBG , EC
^a Sector outside Reform Agenda document		

94. Donor coordination is managed by the Ministry of Finance and Treasury (MoFT) and the Directorate for European Integration (DEI). Besides coordinating donor activities, the MoFT manages the Public Investment Program and tracks donor activities and performance through an annual Donor Mapping Report. Donors also have quarterly meetings within the Donor Coordination Forum managed by the MoFT. The Forum serves as a platform to share ideas, insights, and good practices. The Directorate for European integration coordinates the financial assistance of the EU.

95. Past Donor Mapping Reports suggest complementarity, as well as donor ability to join forces when necessary. Most of concessional financing is provided as loans, the WBG and EBRD being the largest lenders. The EU is by far the largest source of grant funding to BiH. The WBG

is also a key institution in private sector development, along with EIB, EBRD, EU, and other bilateral donors. Most loans are targeted towards financing SMEs. In public administration reform, as well as Justice and home affairs, the EU leads the way, along with bilateral donors.

IV. MANAGING RISKS TO THE CPF PROGRAM

96. The overall risk to the CPF Program is assessed as High, despite recent positive momentum. The proposed strategy is ambitious in the historical context of Bosnia and Herzegovina, and critically relies on a consistent political commitment to maintain the momentum of reform. As described earlier, hopeful signs have emerged that suggest this is indeed possible. First, an unprecedented level of agreement exists at different administrative levels, in society at large, and in the international community with respect to the urgency and content of key reforms. EU accession process has received a boost with the recent coming into force of the Stabilization and Association Agreement between Bosnia and Herzegovina and the European Union. Renewed prospects of accession provide a positive impetus to reformers, while a recent episode of civil unrest in February 2014 has focused the minds of many on the costs and possible consequences of continued inaction. Initial signs of progress have also been good, with both Entities making tangible advances on some of the key measures outlined in the Reform Agenda, such as the recent passing of the new Labor Law in FBiH and presentation to Parliament on the new Bankruptcy Law in RS, as well as significant improvements in public debt monitoring and management in Republika Srpska and the federation of Bosnia and Herzegovina.

97. The near term effect of the reform will necessarily be incremental, and strong political commitment will need to be maintained until more tangible benefits are in evidence, which could take time. All of the factors that undermined earlier reform efforts are also still in place. There are strong vested interests in many parts of the economy and political landscape that have the capacity to delay or derail the reforms, or at the very least complicate implementation. The window of political opportunity is also very narrow, with the next election cycle only a year away (local elections are planned for 2016). Political and governance risk to the program is therefore assessed as High, driving the overall strategy risk assessment, and presenting the greatest challenge to the aspirational parts of the WBG program aimed at transformational engagements, such as the reform of the SOEs. The WBG will manage this risk through an active policy dialogue and by making adjustment to the program as described below.

98. Stakeholder, Sector Strategies and Policies and Institutional Capacity for Implementation risks are rated as Substantial. As highlighted in the Completion and Learning Review of the CPS (FY12-FY15), complex and decentralized governance structure of BiH complicates coordinated preparation and implementation of development strategies and programs, and it is unlikely that this structure will change during the next CPF period. It also creates adverse incentives for some groups of stakeholders, and undermines the development and maintenance of implementation capacity. The WBG will manage these risks through intensive consultations imbedded into project preparation and implementation support, as well as by continuing to provide extensive advisory and technical assistance to strengthen strategic and capacity development. Indeed, nearly all of the Bank's engagement in BiH is motivated by the desire to develop in-country capacity for strategy formulation and evidence-based policy making, and to build strong implementation capacity. Finally, Environment and Social risks are also rates as Substantial, in

light of experience that highlights the effects of recent natural disasters and social concerns on program implementation. This is why the CPF has a special Focus Area dedicated to the management of environmental risks, and why the cross-cutting theme of social inclusion has been integrated throughout the program, to help build the social resilience in the country. The summary assessment of risks to the CPF development objectives is presented in the Standardized Operations Risk-rating Tool (SORT) table below.

Table 5 SORT Matrix

Risk Categories	Rating
Political and Governance	H
Macroeconomic	M
Sector strategies and policies	S
Technical design of project or program	M
Institutional Capacity for implementation and sustainability	S
Fiduciary	M
Environment and Social	S
Stakeholders	S
Overall	H

99. The WBG has designed its new strategy with full appreciations of the risks, and of the opportunities. If the reform program proceeds, it holds the potential to launch the transformation of Bosnia and Herzegovina, put it on a path of faster and more sustained growth, and in time, lift the welfare of its citizens. The World Bank Group, in close coordination with all its development partners, stands ready to support these efforts with a full range of knowledge and financial instruments. Progress in implementing the reform agenda has been clearly linked to continued budget support from the IMF, WBG and the European Union. In particular, the timing of the proposed Fiscal Resources for Growth DPL, as well as of the IMF’s planned Extended Fund Facility will depend on the implementation of the agreed prior actions, and if the reforms get delayed so will the funding. In the extreme case if the reform stalls completely, the WBG will revert to relying predominantly on Investment Project Finance in areas that are consistent with the goals of this strategy, and use country policy dialogue, public outreach and advisory services to continue advocating for structural reform. In this scenario, as demonstrated by the assessment of the previous strategy, WBG can still achieve many valuable development results in specific areas, however transformational engagement would be impossible.

100. The level of the IFC investment program will be dependent on the pace of reforms. Working through the joint Global Practices, IFC and the Bank will support the efforts of the authorities to engage in a wide range of reforms designed to improve the business and investment climate. However, much work lies ahead before meaningful increase of private domestic and FDI investments can be expected. Accordingly, IFC proposes a range of investment of US\$70 to US\$120 million during the CPF period, depending on the pace of reforms. IFC will remain fully committed to carrying through some of these reforms by supporting a number of programs agreed with BiH Council of Ministers, Government of Republika Srpska, and Government of the Federation of Bosnia and Herzegovina, and linked to the Reform agenda and beyond.

Annex 1 Results Monitoring Matrix

FOCUS AREA 1: INCREASING PUBLIC SECTOR EFFICIENCY AND EFFECTIVENESS

The size, inefficiency, and ineffectiveness of the public sector in Bosnia and Herzegovina is holding back its growth and prosperity. Revenue-to-GDP is high at around 45 percent, and expenditures exceeded revenues since 2007, resulting in a persistent deficit and a sharp increase in public debt. Of particular concern is the lack of comprehensive statistics on private external debt, local government debt in FBiH, and debt of State-Owned Enterprises (SOEs). Many SOEs represent a social as well as financial liability, as the status of their employees remains uncertain. The quality of public services, e.g. healthcare, is low compared to cost. The authorities are committed to preserving macro-financial stability – which is at the heart of the joint government plan outlined in the Reform Agenda – as a precondition for economic growth. Reform efforts include strengthening fiscal sustainability by improving management and efficiency of public finances; reforming SOE’s role in the economy by strengthening their governance and reducing their fiscal burden; and improving public service delivery.

CPF OBJECTIVE 1A: IMPROVE MANAGEMENT AND EFFICIENCY OF PUBLIC FINANCES

Intervention logic: Efficient and effective management of public resources is a key priority for the authorities. The effort will be focused on consolidating public finances. Public expenditures are dominated by current expenses and social transfers. Since 2007 fiscal deficits have been financed mostly by international financial institutions, as access to capital markets is limited. The government is working on a consolidated debt strategy. The World Bank has assisted the authorities in creating respective debt strategies, but significant operative constraints remain. Work is also underway to integrate public investment management with the medium-term macroeconomic outlook and sector strategies. Substantial arrears exist at every administrative level, and the government needs better data on their size as well as a plan for their clearance and the prevention of subsequent re-accumulation. In order to preserve macro-fiscal stability, it is essential that the financial safety net is further strengthened.

The World Bank Group will support the authorities in their efforts to reduce budget deficits, improve public debt policy and clear arrears. Measures for achieving this are outlined in the BiH Fiscal Resources for Growth DPL, as well as planned technical assistance on pension reform and debt management. The Strengthening Financial Management and Control Project will support this objective by improving internal audit and financial control in the public sector.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><i>Indicator 1:</i> Public sector arrears are documented, publicly available and updated on a regular basis and the level of such arrears is reduced as a share of GDP. Baseline: No data Target: Public sector arrears data available and updated on governments’ website and level of arrears reduced relative to initial estimates.</p> <p><i>Indicator 2:</i> Reduction in general government pension expenditure as a share of GDP Baseline: 10.4 percent Target : 9.4 percent</p>	<p><i>Indicator 1:</i> Adoption of annual budgets at the Entity and Institutions level in line with budget calendar.</p> <p><i>Indicator 2:</i> Adoption of Medium-Term Debt Strategy for the country</p> <p><i>Indicator 3:</i> New pension law approved in FBiH (mid-2016)</p> <p><i>Indicator 4:</i> Deposit Insurance Fund adequately capitalized and balance sustained</p>	<p>Ongoing lending:</p> <ul style="list-style-type: none"> - Strengthening Financial Management and Control <p>Proposed lending:</p> <ul style="list-style-type: none"> - BiH Fiscal Resources for Growth DPL 2 & 3 - Financial Sector Stability RBL <p>Ongoing ASA:</p> <ul style="list-style-type: none"> - WB TA on Deposit Insurance Agency (DIA) Strengthening <p>Proposed ASA:</p> <ul style="list-style-type: none"> - Follow-up debt reform plans and MTDS, DSA - Western Balkans Pension Reform TA - Distributional impact of fiscal policies assessment [TBD, subject to data availability] - Country Economic Memorandum

CPF OBJECTIVE 1B: STRENGTHEN THE GOVERNANCE AND REDUCE THE FISCAL BURDEN OF SOEs		
<p>Intervention logic: State-Owned Enterprises (SOEs) represent a significant source of fiscal and social risk. SOE arrears, including on pension contributions, is an obstacle to their privatization and restructuring. The authorities have a broad plan to untangle the issue of SOEs by identifying enterprises that will be restructured and kept, those that will be restructured and sold, and those that will be liquidated. The WBG will start its engagement in this crucial area by building up its knowledge base through analysis. As agreement is reached on options for SOE reform, WBG could consider supporting this work through lending. The issue of pension contributions in SOEs will be addressed through a broader pension reform within the BiH Fiscal Resources for Growth DPL. In addition WBG team could provide advice and training on corporate governance to enhance SOE competitiveness and efficiency.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><i>Indicator 1:</i> Fiscal burden of SOEs is substantially reduced Baseline: No data on SOEs. Target: To be set after analytical work is completed [TBD]</p>	<p><i>Indicator 1:</i> Adopt a plan for SOE restructuring</p> <p><i>Indicator 2:</i> Legal framework for missing pensions contributions formulated</p> <p><i>Indicator 3:</i> 80% of SOEs attending governance trainings implement changes and report improved performance (e.g. operational, organizational, financial)</p>	<p>Ongoing ASA:</p> <ul style="list-style-type: none"> - IFC ECA Corporate Governance TA <p>Proposed lending:</p> <ul style="list-style-type: none"> - BiH Fiscal Resources for Growth - SOE Reform DPL <p>Proposed ASA:</p> <ul style="list-style-type: none"> - SOE Stocktaking and Performance Analysis - Western Balkans Pension Reform TA - Railroads ASA [TBD] - Mining sector ASA [TBD] - WBG Corporate Governance Advisory [TBD] (Improving operational framework and increasing efficiencies of SOEs that are due for privatization in the medium term) - Public Expenditure Review
CPF OBJECTIVE 1C: IMPROVE PUBLIC SERVICE DELIVERY		
<p>Intervention logic: There is substantial room for improvement in delivery of public services, particularly health, water and wastewater, and waste management. Government of Republika Srpska, and Government of the Federation of Bosnia and Herzegovina are planning to rationalize health spending, develop new financing modalities and improve the quality and efficiency of health services. WBG will support these efforts through a planned Health Project as well as through the Fiscal Resources for Growth DPL, which includes measure for better procurement of drugs.</p> <p>While access to water is high, access to sewer systems is much lower, especially in rural areas. Just 21 percent of households in the poorest quintile and around 37 percent of the B40, but close to 80 percent of the wealthiest quintile, are connected to a piped sewer system according to recent survey data. Better access to water, sanitation and wastewater treatment is also a requirement from the EU, and the implementation of the EU Drinking Water Directive and the EU Urban Wastewater Treatment Directive is estimated at €3.7 billion; given the limited cost recovery of service providers, it will be necessary to engage further on public service efficiency and sustainability of investments.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program

<p><i>Indicator 1:</i> Tobacco excise taxes are aligned with EU standards. Baseline: min. 51 EUR per 1000 cigarettes Target: min. 90 EUR per 1000 cigarettes</p> <p><i>Indicator 2:</i> Reduce expenditures on pharmaceuticals: Reduce the total cost of the 50 most commonly prescribed outpatient medicines; Baseline: Target: Reduction by 20 percent Reduce total cost of the 20 most commonly used hospital (inpatient) medicines. Baseline: Target: Reduction by 20 percent</p> <p><i>Indicator 3:</i> Improved services of water and wastewater. Baseline: 3% of collected waste water is treated²⁰ Target: 30% of collected waste water is treated</p>	<p><i>Indicator 1:</i> Legislation adopted to strengthen autonomy and accountability of public hospitals</p> <p><i>Indicator 2:</i> Increase spending on preventive and public health services Baseline: 1.75 percent of health spending in 2013 Target: 2.25 percent of health spending</p> <p><i>Indicator 3:</i> Establish scope for water and wastewater PPPs. Baseline: no work has yet been undertaken; and Target: completion of PPP study and vetted by key stakeholders</p> <p><i>Indicator 4:</i> Improve legal and regulatory framework and institutional capacity. Baseline: EU assessment Target: [Double] execution capacity of civil service to undertake PPPs.</p>	<p>Ongoing lending:</p> <ul style="list-style-type: none"> - Sarajevo Waste Water Project - GEF Water Quality Project - Solid Waste II - Supervision of Council of Europe development bank health project cofinancing (P132190) - Reducing Health Risk Factors in BiH (Swiss TF) <p>Proposed lending:</p> <ul style="list-style-type: none"> - Bosnia and Herzegovina Health Project - Solid Waste III <p>Ongoing ASA:</p> <ul style="list-style-type: none"> - Danube Water Programme <p>Proposed ASA:</p> <ul style="list-style-type: none"> - Skills and inclusive education - Local Governance Performance, Regulatory and Services Assessment - WBG PPP Advisory review of legal framework [TBD] - Undertake stocktaking of scope of PPP in water and waste water service delivery and management. - Pilot project for disclosure of operational and financial data in a PPP project in the waste water sector - Prepare roadmap for legal and regulatory framework governing PPPs.
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FOCUS AREA 2: CREATING CONDITIONS FOR ACCELERATED PRIVATE SECTOR GROWTH

BiH has the poorest business environment in the region, a rigid labor market, serious bottlenecks in transport and trading networks, and as a result lacks real financial firepower to stimulate growth. The hitherto stable electric energy supply also faces production challenges. The authorities took some initial steps to correct these imbalances but much more needs to be done. The government plans to focus business environment reforms on several issues, including reducing the administrative burden, harmonizing and streamlining investment framework, improving access to finance, and encouraging exports. Labor market reforms in particular will be designed to enable the private sector to create more jobs. Moreover, significant new investments in energy generation will be required to prevent degradation in the quality of electric energy supply. WBG interventions will support three objectives: improving the business environment, improving labor market flexibility and social inclusion, and upgrading economic infrastructure.

²⁰ Water Policy in Bosnia and Herzegovina Programme that has been prepared in October 2011 and financed by EU Delegation in BIH

CPF OBJECTIVE 2A: SUPPORT A COMPETITIVE BUSINESS ENVIRONMENT AND ACCESS TO FINANCE

Intervention logic: In order to stimulate foreign and domestic investment, the government is planning reforms to create better conditions for businesses to thrive, including in areas such as business licensing, inspections, access to finance, quality infrastructure and standards trading across borders, improving corporate insolvency process, paying taxes, registering real properties. These are reflected in the recently adopted Reform Agenda. Sectors with specific needs, such as agriculture, appear to face particular difficulties in obtaining financing due to the agricultural cycle and sometimes lead times in obtaining produce, possibly harming B40 farmers who are unable to expand. At the same time, more vulnerable groups of users of financial services, at risk of exclusion, are in need of systematic support to maintain sustainable debt levels among the population and businesses.

World Bank Group will, through its investment, lending and advisory programs address this broad set of issues. Regulatory reform can be supported through a result-based lending operation accompanied by a TA program, and a combination of financing and advisory services will underpin the work on SME development, trade facilitation, and labour market and skills development. Financing will be made available to the private sector either through firm level investments into emerging/competitive sectors, or through financial institutions, including microfinance institutions to maximize the outreach

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><i>Indicator 1: Improve Doing Business Distance to Frontier.</i> Baseline: 60.55 Target: 63</p> <p><i>Indicator 2: New and sustained jobs through real sector investments</i> Total sustained jobs baseline: 950 (existing) Total sustained jobs target: 1700 (existing + new clients)</p> <p>Total new jobs baseline: 0 (existing clients) Total new jobs target: up to 400 (existing clients)</p> <p><i>Indicator 3: By FY20 at least double outstanding MSME and housing finance of IFC portfolio clients</i> MSME outstanding portfolio baseline: US\$ 58 million MSME outstanding portfolio target: US\$ 124 million Housing finance outstanding portfolio baseline: US\$ 83 million Housing finance outstanding portfolio target: US\$ 147 million</p>	<p><i>Indicator 1:</i> Up to US\$ 50 million of investment facilitated as a result of improved corporate governance, energy efficiency and regulatory reform interventions</p> <p><i>Indicator 2:</i> Reduction of administrative burden of licensing in select areas, disaggregated below (using WBG T&C methodology):</p> <ul style="list-style-type: none"> a. direct costs savings by \$7 million as measured by standard CCS indicator b. 20% reduction in indirect costs for businesses c. up to 2000 firms will benefit from reformed procedures <p><i>Indicator 3:</i> Cadastral municipalities with harmonized land register and cadastral data/established REC in urban areas Baseline: 62 Target: 524</p>	<p>Ongoing lending:</p> <ul style="list-style-type: none"> - WB Real Estate Registration Project - WB Business Environment DPL - WB SME Access to Finance (additional financing) - IFC's outstanding portfolio of US\$ 92 million, of which 73% in manufacturing, agribusiness and services, and 26% in financial institutions - WB Agriculture and Rural Development <p>Proposed lending:</p> <ul style="list-style-type: none"> - BiH Business Environment RBL - IFC's investment into domestic industry, financial institutions, and microfinance institutions - Possible WB SME support in selected sectors <p>Ongoing ASA:</p> <ul style="list-style-type: none"> - Tax Transparency and Simplification Program - Improving Investment Climate and Institutional Strengthening Project - Corporate Governance Program (planned extension) - Microfinance advisory (planned extension) <p>Proposed ASA:</p> <ul style="list-style-type: none"> - Western Balkan Investment Climate, Competitiveness and Agribusiness Project

	<p><i>Indicator 4:</i> Additional enterprises reached with financial services Baseline: 316 (2015), of which 125 owned by women (owners/stakeholders) Target (2020): 700, of which 200 owned by women</p> <p><i>Indicator 5:</i> New bank resolution framework enacted (2016)</p> <p><i>Indicator 6:</i> New insolvency laws enacted in both entities (2016)</p>	<ul style="list-style-type: none"> - Corporate Governance private sector advisory - Energy and Water Efficiency for Corporates - Sub-national investment climate project - EU REPARIS - SME banking advisory (risk management, CG, gender and agri-finance (regional)) - Western Balkans Debt Resolution and Business Exit Program
CPF OBJECTIVE 2B IMPROVE LABOR MARKET FLEXIBILITY AND SOCIAL PROTECTION		
<p>Intervention logic: Employers in BiH have cited labor legislation as one of the biggest constraints to hiring. Indeed, the country has the most rigid labor market rules in the region, and is rated as most difficult in hiring, most difficult in firing, and has the highest minimum wage among its regional peers. The government has already embarked on the labor law reform, with the new legislature recently passed in FBiH and under discussion in RS. In order to successfully implement labor market reforms, the authorities will also have to ensure an adequate and efficient safety net including social assistance and active labor market measures. At the moment, the social assistance system (including unemployment and other cash benefits) provides benefits to a small proportion of the poor and does not provide incentives to work. Public Employment Services need to become more efficient and responsive to changing labor market conditions. WBG will support these ongoing government efforts through policy lending (Fiscal Resources for Growth DPL series) as well as through financial and advisory support to the employment program. Technical assistance for social protection and pension system improvement will continue, with possible lending support as necessary.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><i>Indicator 1:</i> Decrease the number of inactive persons: men aged 15 to 64, reduce by 10% Baseline: 346,000 (2014) Target: 311,400 women aged 15 to 64, reduce by 10% Baseline: 580,000 (2014) Target: 522,000 (source: LFS)</p> <p><i>Indicator 2:</i> Increase in private sector formal employment: men by 10%, Baseline: 401,000 (2013) Target: 441,000 women by 10%, Baseline: 240,000 (2013) Target: 265,000</p>	<p><i>Indicator 1:</i> Reform of Public Employment Services, including (i) delinking of health insurance from unemployment registration, and (ii) improved profiling of unemployed</p> <p><i>Indicator 2:</i> Reduced number of men who are registered with the Public Employment Services as active job seekers, but are not looking for work because they are informally employed or inactive, by 15 percent, from 152,000 (2014) to 129,000 Reduced number of women who are registered with the Public Employment Services as active job</p>	<p>Ongoing ASA:</p> <ul style="list-style-type: none"> - TA on labor market dialogue <p>Proposed lending:</p> <ul style="list-style-type: none"> - BiH Fiscal Resources for Growth 1-3 - Employment Support Program <p>Proposed ASA:</p> <ul style="list-style-type: none"> - Western Balkans Pension Reform TA Social sustainability of structural reforms [TBD]

<p>(source: LFS and administrative data)</p> <p><i>Indicator 3:</i> Improve targeting accuracy of last resort social assistance: percentage of last resort social assistance benefits reaching the poorest quintile. Baseline: 40 percent Target: 65 percent</p>	<p>seekers, but are not looking for work because they are informally employed or inactive, by 20 percent, from 183,000 (2014) to 146,000 (source: LFS)</p> <p><i>Indicator 3:</i> Social assistance framework law and law on benefits for families with children passed/adopted (with improved targeting formula) Centers for Social Work start using an improved targeting formula to calculate cash benefits</p>	
CPF OBJECTIVE 2C UPGRADE ECONOMIC INFRASTRUCTURE		
<p>Intervention logic: Poor transport infrastructure in BiH is constraining the competitiveness of local companies. The government has requested WBG investments in upgrading critical road segments. Railways face particularly severe challenges due to outdated infrastructure and fragmentation of services between entities. The government is committed to remedy this situation, and in particular wishes to embark on the rail sector reform. WBG will support these efforts initially through an analysis of options for such restructuring, and, if the decision is made to pursue one of these options, lending support is also possible.</p> <p>Energy generation in BiH is dominated by obsolete thermal power plants; hydropower potential is underutilized; and few other renewable energy opportunities are developed. This creates a challenge for future economic growth. At the same time, BiH is one of Europe’s least energy efficient economies, putting pressure on competitiveness and harming firms’ export prospects. Ensuring sufficient power supply – including through a renewed effort to boost renewable generation capacity – would help to reduce the likelihood of power shortages and maintain future economic growth. WBG will continue supporting the sector through the ongoing Energy Efficiency project and explore opportunities for additional investment and advisory operations, in particular with private sector involvement.</p>		
<p>CPF Objective Indicators</p>	<p>Supplementary Progress Indicators</p>	<p>WBG Program</p>
<p><i>Indicator 1:</i> Travel time saving as a measure of connectivity between major economic growth poles. Baseline: 0.0 Target: 15 percent savings</p> <p><i>Indicator 2:</i> Increase lifetime energy savings. Baseline: No saving (0) Target: 650 thousand MWh</p> <p><i>Indicator 3:</i> Additional Renewable Energy capacity facilitated Target: 50 MW</p>	<p><i>Indicator 1:</i> Percentage of primary roads improved. Baseline: 0 Target: 12 percent</p> <p><i>Indicator 2:</i> Value of financing for energy sector facilitated through PPP or advisory support (US\$) Target: 80 million</p> <p><i>Indicator 3:</i> Facilitated increase in RE generation Target: 125,000 MWh</p>	<p>Ongoing lending: - Energy Efficiency Project</p> <p>Proposed lending: - FBiH Road Sector Modernization - RS Road Sector Modernization (TBD)</p> <p>Ongoing ASA: - Rail sector restructuring - IFC Balkans Renewable Energy</p> <p>Proposed ASA: - RS roads [TBD]</p>

	<p><i>Indicator 4:</i> GHG emission expected to be avoided (mln tCO2/a) Target: 0.2</p>	<ul style="list-style-type: none"> - Power Sector Note (ESMAP funded analytics for FY16) - PPP for concession of Corridor 5c - PPP for medium to large HPP - Investments in economic infrastructure, especially in case opportunities for private sector participation/privatization - ICT privatization - IFC power advisory (regional) - Pilot project for disclosure of operational and financial data in a PPP project in the transport (road) sector - PPP Advisory review of fiscal risks from infrastructure projects and prioritization of infrastructure projects
FOCUS AREA 3: BUILDING RESILIENCE TO NATURAL SHOCKS		
<p>BiH has been affected by natural shocks in the past, and it is likely that these will continue. Coping with these shocks is becoming increasingly difficult, and a lot of the burden is falling on the B40. Natural disasters have become a serious threat to economic growth and stability, and they occur all year round, across the whole territory. Climate change is affecting the country in dramatic ways as agricultural yields are decimated due to floods and droughts, forests are destroyed in wildfires, hydropower generation is compromised, and various states of emergency occur during harsh winters. The impact of adverse natural events on the poor is arguably the most severe, since they are more likely to work in agriculture, and have less of a cushion to bounce back off when disaster strikes. Solid waste collection and disposal is still substandard in a number of cities and regions, causing degradation of natural resources due to illegal dumping and untreated leachate, to urban floods due to accumulation of solid waste in drainages and canals/rivers, and to low levels of recycling and land-fill gas capturing. In this context, this Focus Area has two objectives: to prevent the degradation of natural resources, and to build resilience to adverse natural conditions.</p>		
CPF OBJECTIVE 3A PREVENT THE DEGRADATION OF NATURAL RESOURCES		
<p>Intervention logic: The gradual degradation of water, air, forests, and agricultural land is a serious risk to sustainable economic growth and increases the risk of catastrophic shocks triggered by natural events. Large amounts of solid and liquid waste pollute BiH's waterways and countryside, posing health risks through contamination of drinking water and agriculture, particularly during floods. Improperly disposed solid waste that remains uncollected clogs urban drains, contributing to aggravate urban floods. Although deforestation is not a widespread problem, land erosion in some deforested areas around rivers and in flood plains has exacerbated the flood damage. WBG will continue supporting responsible management of natural resources through the ongoing portfolio of investments, and will fill some of the knowledge gaps in this area through proposed analytical and advisory work on environmental hot spots and support for solid waste strategy development.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><i>Indicator 1:</i> Adoption of a plan for management of hot spots in BiH Baseline: No plan for management of hot spots in BiH (current situation)</p>	<p><i>Indicator 1:</i> Area restored or re-afforested Baseline: 117 ha Target: 1000 ha</p>	<p>Ongoing lending:</p> <ul style="list-style-type: none"> - Sustainable forest and landscape management - Solid Waste II

<p>Target: Adoption of a plan for management of hot spots in BiH in the period covered by the CPF.</p> <p><i>Indicator 2:</i> Collection rate and disposal capacity of engineered landfills expanded to reach minimum EU sector standards Baseline: 50% of generated solid waste appropriately disposed per year Target: 65% of generated solid waste appropriately disposed per year</p> <p><i>Indicator 3:</i> Increased area where sustainable land management practices were adopted Baseline: 117 ha Target: 3000 ha</p>	<p><i>Indicator 2:</i> Number of engineered regional landfills Baseline: 6 Target: 11</p>	<p>Proposed lending:</p> <ul style="list-style-type: none"> - Support to Forestry Sector and Sustainable Forest Practices (to complement ongoing GEF SFLMP) - Solid Waste III <p>Proposed ASA:</p> <ul style="list-style-type: none"> - Inventory and strategy for management of Hot Spots in BiH - Update of the Bosnia and Herzegovina Solid Waste Management Strategy
CPF OBJECTIVE 3B BUILD RESILIENCE TO FLOODS		
<p>Intervention logic: BiH is highly vulnerable to weather shocks in all seasons, and across the whole territory. Floods have been recurring in the past several years, causing massive material and human losses, and endangering fiscal sustainability. The B40 suffer from weather shocks relatively more, as they are more likely to work in agriculture, and they experience more difficulty to recover. The WBG will focus on ensuring successful implementation of its ongoing portfolio of investments in this area, with a possibility of a future additional engagement on Disaster Risk Management in the later part of the strategy period.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><i>Indicator 1:</i> People in flood affected/prone areas benefiting from goods received and infrastructure rehabilitated with projects' support Baseline: 0 Target: 300,000</p> <p><i>Indicator 2:</i> Strengthened capacity in water resources management, including flood management, forecasting and warning, in Drina and Sava River basins Baseline: no plans; no forecasting and warning systems, fragmented hydrological models Target: 2 RBM plans developed and agreed by key counterparts; forecasting and warning system and hydrological model for Sava basin in BiH established</p>	<p><i>Indicator 1:</i> Area provided with flood protection (rural and urban land) Baseline: 0 ha Target: 8554 ha</p> <p><i>Indicator 2:</i> Public service infrastructure facilities recovered to pre-floods condition with projects' support Baseline: 0 Target: 200</p> <p><i>Indicator 3:</i> Number of public officials who successfully completed capacity building activity on disaster risk management Baseline: 0</p>	<p>Ongoing lending:</p> <ul style="list-style-type: none"> - Drina Flood Protection Project - BiH Floods Emergency Recovery Project - Agriculture and Rural Development - Irrigation Development Project - Regional Drina Basin Management Project <p>Proposed lending: Disaster Risk Management/flood protection operation</p> <p>Ongoing ASA:</p> <ul style="list-style-type: none"> - Support for Drina Water Resources Management - Joint Action for Flood Management in Sava River Basin

	Target 30 <i>Indicator 4: Water users provided with Improved irrigation services (number)</i> Baseline: 1,810 Target: 18,000	
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Annex 2 Completion and Learning Report

Date of CPS (FY12-FY15): August 30, 2011 (Report No. 64428-BA)

Date of CPS Progress Report: May 30, 2014 (Report No. 87928-BA)

Period Covered by the Completion and Learning Review: July 1, 2011 to June 30, 2015

I. SUMMARY OF KEY FINDINGS

1. **The FY12-FY15 Country Partnership Strategy (CPS) for Bosnia and Herzegovina (BiH) was designed with the overall objective of supporting the country's European integration.** The CPF sought to (i) support economic growth by improving productivity and competitiveness, (ii) improve social inclusion by strengthening the targeting and fiscal sustainability of social benefits and improving delivery of basic public services, and (iii) strengthen the sustainable use of key natural resources and improve climate change adaptation. The CPS recognized that the program was to be delivered in the context of an unusually complicated political, administrative and decision-making framework. The strategy correctly identified the risk of political fragmentation and stalemate, which materialized and undermined the reform process. In addition, devastating floods and landslides in May 2014 severely affected the economy and large segments of the population. It is within this context that the assessment of the implementation of the CPS for this Completion and Learning Review (CLR) is undertaken.

Development Outcome

2. **The overall performance of the CPS program in contributing to the achievement of a selected set of country goals is rated *Moderately Satisfactory*.** The rating is based on the assessment of the program's achievements in the areas of the WBG's (both World Bank and IFC) engagement and in particular against individual CPS outcomes as defined in the results framework. Measurable improvements were made in competitiveness and business climate, including improvements in land markets and inspection services, and in provision of significant financing to SMEs. Notable results have also been achieved in improving capacities and infrastructure in energy and transport. The delivery of some public services has been enhanced, in particular in primary health care. On the other hand, while the majority of CPS outcomes have been achieved or mostly achieved, the program has fallen short of what was envisioned in areas such as agriculture and irrigation services, delivery of public services for the vulnerable and poor, and environmental management. The ambitious agenda to improve the targeting and rationalization of social expenditures could not be consistently pursued due to the lack of political support, the originally planned Public Expenditure Development Policy Operation was therefore dropped and focus shifted to investment climate reforms, where political commitment was stronger.

WBG's Performance

3. **The overall performance of the WBG in designing and implementing the CPS is assessed as *Good*.** This assessment is based on several factors. First, program design was relevant to the country's development goals, and supported by adequate interventions and instruments. Second, program implementation was flexible, enabling the WBG to respond to shifts in client's priorities as well as to increased needs in the aftermath of the global crisis and natural disasters. Third,

collaboration within the WBG as well as with other development partners was strong. Finally, the program achieved most of intended results despite a politically difficult environment and lack of support for structural reforms. Most of the shortfalls in results were due to factors outside of WBG control.

II. HIGHLIGHTS OF ASSESSMENT

4. **This self-assessment of the CPS program performance is primarily based on the results framework as updated and revised in the CPS Progress Report (CPSPR, May 2014).** The assessment covers the period from 1 July 2011 to 30 June 2015. The details of the achievements and status of outcomes and indicators, as well as WBG activities and relevant lessons and recommendations are presented in Attachment 1. The following sections provide highlights of the outcomes grouped under the three CPS pillars, and describe major WBG activities that contributed to the results.

Pillar I - Competitiveness: Support economic growth by tackling some of the bottlenecks to competitiveness and faster productivity growth

5. **The CPS program was effective in addressing some bottlenecks to competitiveness of the economy, but was only partially successful in other areas.** Improved real estate registration processes and greater availability of integrated online cadaster information helped develop more transparent and efficient land markets. The backlog of pending cases has also been reduced. Concerted efforts, with close Bank-IFC collaboration, to improve the ease of doing business and the investment climate focused on strengthening the inspection regime through integration and better inter-agency information exchange. The costs and time for business registration have been reduced, and the burdensome process of obtaining various business licenses, certificates and construction permits has been eased somewhat through passage and implementation of relevant legislation and regulations. Access to finance for SMEs has improved. In response to floods, WBG quickly made adjustments to portfolio to enable access to funds for affected agribusiness entrepreneurs and farmers. The preparation and approval of the Floods Emergency Recovery Project was also very fast. However, the fragmented administrative structure, differing pace of reforms in the Federation of BiH and Republika Srpska, and difficulties in obtaining clearances and permits delayed progress in many areas. In particular, efforts to bring food safety and agricultural payments systems in line with EU requirements have not yet born fruit. Slow pace of implementation has delayed benefits to farmers from expanded irrigation coverage. BiH has yet to comply with some requirements of the South East Europe Energy Community Treaty, both due to the slow progress in adopting and implementing regulations and policies in the Federation of BiH and Republika Srpska. The WBG Business Environment DPL was a key instrument supporting many of the outcomes, along with well-defined investment and TA operations complemented by strategic donor partnerships, TFs, and building on a cache of existing and focused analytical work.

6. **Land markets are now more transparent, secure, and efficient.** The Bank-supported Land Registration Project (closed in FY12 with ICR and IEG ratings of S) improved the land registration system (more than 20 percent data reconciled with cadastral database, faster registration, improved methodology for incorporating apartments), and the cadastre system (service standards adopted, systematic registration completed in eight sites, IT system developed and strengthened, 1.4 million

ha of cadastre maps digitized). It contributed to strengthened policy and legal frameworks and to the adoption of State Land Administration Policy and Strategy and implementation action plans. The ongoing Real Estate Registration Project (RERP) is continuing the reduction in case backlog (now about 9,690, down from about 80,000 in 2010). Majority of cases are now being completed within one to five days in both FBiH and RS – down from the baseline of several months. Building on the achievements of an earlier project, RERP supports both FBiH and RS in integrating and harmonizing land registry data and cadaster/real estate records in all urban areas (524 cadastral municipalities). Its design drew on the WBG’s global and regional experience in the sector as well as on results of a pilot undertaken under the previous project, and project results have been confirmed by numerous stakeholder consultations as well as by the increase in both use and satisfaction levels.

8. The cost and time for business registration has been reduced. Business registration procedures are an important factor in the overall business environment. To address this issue, RS has amended its legal framework, introducing the One-Stop-Shop approach. Streamlined business registration processes reduced the previous 11 steps to the current five, and time needed to obtain business registration dropped from up to 30 days before the reform to three days, with the cost of only 1BAM. These reforms are the most significant changes in business registration since 2004. The time, documents and tariffs required for business registration have also been reduced in FBiH, with registration now taking 15 days. The recently passed Company Law provides for reduced founding capital requirement in FBiH and further simplification of the process. The Federation of BiH and Republika Srpska intend to continue streamlining business registration in their jurisdictions. WBG support has been through the ICIS, the Business Environment DPL and related policy dialogue, and IFC Advisory Services. In addition, IFC’s regional Corporate Governance project supported the strengthening of corporate governance practices of banks and corporations, aiming to help them improve performance and gain easier access to capital, and improve overall transparency. The project supported Banja Luka Stock Exchange in the implementation of the Corporate Governance Code, by developing a scorecard against which its staff regularly assessed corporate governance practices of the listed companies. It also helped introduce corporate governance advisory services – previously a non-existent industry in the country – to the market. Finally, two out of the seven companies that received in-depth corporate governance assistance reported improvements in their performance, better corporate governance practices and raised US\$11 million in financing attributable to these improvements. Bank-IFC collaboration has been particularly effective in jointly providing TA to the authorities in their reform process. A key lesson of implementation is to allow enough time to define the scope of reforms, project implementation arrangements, expected results, and mechanisms for inter-Entity coordination.

9. The inspections regime and construction permitting were enhanced by the passage and implementation of key laws. The framework in the FBiH was made more efficient and effective through the enactment of the new Inspection Law (2014), the adoption of a new rulebook on internal organization, and the preparation of a manual for practical application. The law introduces improved risk-based management of inspections. In the RS, the enactment of the Spatial Development and Construction Law (2013) and adoption of three accompanying rulebooks improved the process of obtaining construction permits, introduced key elements of international best practice and led to reform of construction codes. Construction permits are now issued within

the mandatory 15 day limit, down from the average of 45 days before the Law was enacted. Collected data and spot checks indicate that so far 1,600 firms have benefitted from the reformed process with substantial direct and indirect savings already near targeted amounts in little over a year of implementation. The measurement of actual savings resulting from the inspection reforms in FBiH will be undertaken through the planned enterprise survey in FY16. Institutional impacts include improvements in coordination, sampling, governance, transparency, and alignment with EU processes. The enactments of the laws were prior actions supported by the Business Environment DPL, and implementation is supported by ICIS and IFC Advisory Services (e.g., to reduce costs for businesses related to imports/exports). The Western Balkans Trade Logistics project engaged inspection offices in the Federation of BiH, Republika Srpska, and the Brcko District to use modern risk-based assessment for border inspections. Hands-on advisory services drawing upon global knowledge were crucial in maintaining the reform momentum.

10. Streamlining and reorganizing the inspection functions through the establishment of the Interoperability Information System (IIS) is work in progress. The IIS will enable system-wide electronic data exchange between institutions and organizations throughout BH, aligning the access to the constitutional setup, and will bring BH up to EU standards. Setting up this important system is being implemented with financial support from a Swedish Trust Fund for the Investment Climate and Institutional Strengthening (ICIS) project. Though the establishment of this system is taking more time than anticipated, the process by which the guidelines on interoperability and the tender for the IIS were agreed on has been a major accomplishment in overcoming issues of coordination among different administrative levels in BH for similar systems.

11. Access to finance for SMEs was enhanced. Under the original Bank-supported Enhancing SME Access to Finance project as well as its Additional Financing, a total of US\$153 million was disbursed by June 2015, supporting 266 firms and helping create and/or maintain over 1,500 jobs. Following the devastating floods in May 2014, BiH authorities requested a targeted time-bound emergency operation to assist SMEs in flood-affected areas using project revolving funds. The WBG agreed and also allowed reprogramming of loans under the project to include agri-businesses as eligible borrowers. Apart from enhancing SME financing, the WBG continued to support financial sector strengthening under FIRST (Financial Sector Reform and Strengthening Initiative) and promoted regulatory reforms. The Consumer Protection and Financial Literacy (CPFL) initiatives provided training for stakeholders. IFC implemented a unique countercyclical financing package and advisory services to support the banking sector's financial capacity during global economic slowdown. IFC supported client banks to bolster their operations within underserved segments, including local banks, by providing long term finance for on-lending to housing finance and SMEs. IFC advisory services supported the stabilization of the microfinance sector by working directly with lead microfinance institutions to improve their standards of client service delivery by having them go through rigorous SMART campaign certification process to reinforce the concept of responsible finance, which is now gaining credibility and is embraced by the regulator. IFC also assisted in setting up debt advice networks throughout the country to mitigate effects of over-indebtedness, in particular with users of microfinance services. A key lesson is that reforms work best when coupled with extensive technical assistance.

12. More work is needed to ensure that stronger institutions deliver efficient and effective agricultural services. The ongoing Agriculture and Rural Development Project (ARDP) supports

BiH's EU accession by improving services to the agricultural sector of its public institutions BiH, FBiH and RS. ARDP supports the institutions and systems necessary for developing the traceability of food and foodstuffs and for establishing transparent EU-aligned agricultural payment systems. State-level agencies for veterinary services, plant health and phytosanitary services, and food safety have been strengthened. Inspection services have been improved, and progress was made in the implementation of farm and client register, and livestock identification and registration systems. Legal frameworks clarifying mandates between agencies need harmonizing for systems to become functional and to comply with international and EU requirements. Progress towards EU export compliance related to animal health is varied even as the State Veterinary Office (SVO) improved some capacity as did the Agency for Plant Health Protection. Work is ongoing to establish payment systems in the Federation of BiH and Republika Srpska to build their capacity to administer IPARD (Instrument for Pre-Accession Assistance for Rural Development) and Direct Payments. Outcome indicators show considerable progress but targets have not yet been reached. Lessons suggest that for the project to work, administrative arrangements and Agreements on key issues, e.g. database integration and harmonization, should be clarified at an early stage.

13. Performance of irrigation systems and institutions has improved despite implementation delays. Priority works supported through Irrigation Development Project have progressed (irrigation system rehabilitation and upgrade completed; off-farm works completed in the RS and progress in FBiH is on track), and main elements of irrigation systems development are getting underway. To date, around 1,800 ha were covered with improved irrigation systems and 5 million m³ of water was added. The project, through participatory irrigation management and water user associations (WUAs), helps ensure more equitable access and use of the improved irrigation systems and addresses the needs of smaller/poorer farmers. Agreements are underway with municipalities and WUAs to utilize the systems, water-monitoring equipment is introduced, and farmers are being trained on improved irrigation practices.

14. The goal of BiH participation in the SEE energy market was achieved but, as in other Western Balkans countries, more needs to be done for integration into the EU energy market. The WBG's Energy Community for South East Europe APL3 project supported BiH integration into the regional electricity market in South East Europe (SEE). BiH liberalized markets for consumers, including residential sector, and strengthened environmental and financial management systems. Outcomes related to markets, distribution and generation assets, and dam safety were partially met. Efficiency in the power supply companies has significantly improved, technical losses have been reduced, and billing and collection system enhanced. These improvements helped the companies to become profitable while keeping consumer tariffs relatively low. BiH is one of the few countries in the region with excess generation and export potential. IFC, through its Western Balkans Renewable Energy Program, supported necessary reforms and strengthening of existing regulatory frameworks by helping the Federation of BiH and Republika Srpska to draft and enact key sector laws and by-laws enabling stable regulatory environment for development of renewable energy (RE) projects, reducing regulatory risks for project developers, helping the country to structure obligatory RE action plans, and introducing step-in rights for financial institutions to facilitate financing of RE projects. To develop RE markets, IFC has been working with both Entities as well as with private companies on technical development of small hydro-power projects (SHPPs), as well as supporting local banks to build

their risk management capacities for RE and project finance. These activities enabled commissioning 60 small RE plants, with total investment estimated at US\$72 million and annual power generation of 118.4 GWh, resulting in avoiding emissions of 169,000 tons of CO₂ annually. However, IFC's direct investments in the energy sector have been delayed due to limited incentive programs for RE projects in the Federation of BiH and Republika Srpska and the dominant role played by SOEs in developing new RE facilities. As a result, there is limited construction of medium to large power generation RE capacities with significant private sector participation. New RE investments are mostly on small hydro-power plants and small-scale solar power plants. The country currently fails to comply with some requirements of the SEE Energy Community Law Treaty relating to the adoption of the national law on gas and national Renewable Energy (RE) and Energy Efficiency (EE) action plan. This is due to the slow progress in adopting and implementing regulations and policies in the Federation of BiH and Republika Srpska, as well as unwillingness to cooperate at the State level and create state level energy strategy and actions plans or create new State-level institutions.

15. The Road Infrastructure and Safety Project has helped to upgrade the road network and reduce road user cost. The project rehabilitated 293 km of roads, exceeding the target of 240 km. As a result, road user costs (i.e., vehicle operating costs) were reduced by 18 percent for the nine road sections in FBiH and by 11.2 percent in RS, exceeding the target of 10 percent. The road safety institutional and legal framework was improved as well as the capacity in the Federation of BiH and Republika Srpska. Moving the road safety agenda forward at the country level proved more difficult. The Bank leveraged the project (US\$25 million) to prepare a larger program (US\$180 million) to increase impact with funding from the EBRD and EIB. IFC is the lead advisor to the FBiH Government for mobilizing private investments through a PPP transaction for a 40 km section of the country's North-South Corridor 5c highway, part of the Pan-European transport corridor connecting BiH to the rest of Europe. The objectives of the ongoing IFC PPP Advisory mandate include assisting the Motorways Directorate of FBiH with structuring a transaction and selecting a private sector investor who will design, finance, build, operate and maintain a section of the 5c highway. Technical and legal analysis and initial investor sounding have been completed.

Pillar II - Inclusion: Improve the delivery of public services for the vulnerable and the targeting and fiscal sustainability of social benefits to the poor

16. The achievement of outcomes under Pillar II was hampered by weak political resolve to move forward with key public expenditure reforms in the social sectors. Consequently, the WBG suspended the planned programmatic Public Expenditure DPO and reallocated funds to Business Environment support under Pillar I. While improved targeting mechanisms were developed and improved social protection legislation was enacted in RS, passage of the new social protection law in FBiH is still pending. The job brokerage service was effective in helping vulnerable job seekers. On the other hand, notable results have been achieved regarding delivery of health services, and the strengthened Family Medicine (FM) model resulted in increased coverage for primary health care while pilot programs for secondary prevention of non-communicable diseases in the Federation of BiH introduced results-based payments. Improvements have been made in services related to solid waste management but the targets were not reached due to implementation delays.

17. Poverty targeting of social benefits has been partially improved, while job brokerage services met targets. The Social Safety Nets and Employment Support Project helped improve some of the services and benefits for the poor. A new methodology and eligibility formula based on proxy-means testing were developed for better targeting of social assistance programs. The financial analysis has been completed and there are improvements in transparency with comprehensive reporting. Defining minimum income support and child benefits are key steps for improving effectiveness and fiscal sustainability of social benefits to the poor. The key remaining challenge is implementing the new methodology. It is unlikely that the new social protection legislation incorporating the new targeting methodology will be adopted and implemented in FBiH before the project ends. In RS, the new targeting mechanism may be introduced through amending current legislation by 2016. The end-of-project objective of providing employment support to 10,833 hard-to-employ job seekers has been surpassed and surveys indicate high levels of beneficiary satisfaction. Timely technical support and guidance provided by the WBG ensured the quality of related analytical work, which is highly valued by the client. FBiH and RS often have different approaches, administrative processes and legal requirements, resulting in different pace of reforms in the in the Federation of BiH and Republika of Srpska.

18. Delivering primary health care via Family Medicine model increased access and quality.

The restructuring and strengthening of primary health care through the FM model has been the single largest reform implemented in the health sector and was supported by the Bank-financed Health Sector Enhancement Project. Coverage by FM teams increased from 5 to 80 percent (national average) between 2004 and 2014. In a survey in FBiH, more than 75 percent of service users expressed their satisfaction with the FM approach. Doctors and nurses are being regularly trained for FM specialization. In the RS, the retraining program of its existing FM doctors was completed, FM specializations are now regularly provided, and it is focusing on enhancing the role played by nurses as a vital component of the primary health care delivery system. IT systems (financed by the project) to support business processes of FM teams and health records are being used across the country. Progress was achieved in the areas of building management capacity, policy making processes, and monitoring and evaluating health sector performance. Health Management Centers (HMC) are fully functional in in the Federation of BiH and Republika Srpska. Several rulebooks were developed to standardize the management of facilities, indicators for health services and health outcomes, training for FM teams, and specialization in FM. In addition, FBiH implemented results based payments (based on performance of preventive services) under a pilot program. The WBG will continue to support the implementation of activities under the reimbursable service agreement with the Council of Europe Development Bank.

19. Progress in improving the availability, quality, environmental soundness, and financial viability of solid waste management services has been limited.

Outcomes fell substantially short in some regions, particularly in the FBiH, due to difficulties in obtaining permits and licenses (in some cases, it takes more than six months to obtain urban and construction permits) and delays in agreements among participating authorities. The share of collected solid waste disposed in regional sanitary landfills was increased, and regular environmental monitoring was improved (50 percent of solid waste utilities monitor compliance with national standards). However, about 50 percent of households in the targeted area are still not served by the formal waste management system (the number of un-served households was reduced by 50,000 or 6.5 percent). Due to slow project implementation and partial cancellation of funds, several original targets have been lowered (e.g.,

number of operational regional sanitary landfills, number of inter-municipal councils, utilities implementing cost recovery plans) and other targets may also be missed. It is expected that substantial progress on outcomes and country development goal of providing improved access to basic services will be achieved, albeit with delays, and that the project will provide regular solid waste collection services to over one million people. Major partners include EC (IPA TF grant financing), and SIDA. A key lesson is to prepare technical documentation, and obtain urban, environmental, and construction permits well ahead in the implementation cycle, particularly given the client's capacity constraints.

Pillar III - Environmental Sustainability: Ensure a sustainable use of natural resources, such as water and forestry, which are key to economic growth in BiH, and adapt to climate change. Promote the sustainable development of basic municipal services

20. Outcomes under Pillar III have been achieved, though in some cases implementation delays deferred the attainment of targets just beyond June 30, 2015 (end-CPS). The WBG program to reduce exposure to polluted water and improve waste water collection has delivered some results and will meet targets by end-2015. Reducing pollution from municipal sources into Neretva and Bosna rivers has been mostly achieved with remaining targets to be met within the year. The goal of more sustainable water management is well on track. Expanded coverage of protected areas (forests and mountains) was achieved and targets were exceeded.

21. Reduction in pollution of Bosna and Neretva rivers and improvements in waste water collection in Sarajevo Canton have been achieved, albeit slower than anticipated. Progress was made in a few areas. Five Waste Water Treatment Plants (WWTPs) are operational and another two have been constructed under the GEF Neretva and Trebisnjica Rivers Basin Management Project and GEF Water Quality Project. An average of 15,000 m³/day of waste water is currently being treated. Progress was made in improving sustainable water management with three key studies completed. River Basin Management Plans were prepared for Neretva and Trebisnjica (involving Croatia, FBiH and RS) in line with EC Water Directive and the joint framework for trans-boundary management was adopted. These improvements of institutional, human, and financial capacity ensure continued investment in wastewater treatment and reduction of related pollution. The Sarajevo WWTP, supported through Sarajevo Wastewater Project, is in the final stage of refurbishment and once completed will serve 300,000 people, raising percentage of treated municipal waste water discharged into the Miljacka. More than 17 km of sewage lines were completed and over 32,000 households have benefited from sewage network rehabilitation (target was 48,000). Progress has been made in strengthening institutional systems, including improvements to the Sarajevo Water Utility Management Information System to reduce processing time of financial transactions. New water tariff was introduced in 2013 and revenues started increasing during 2014. Following the initiation of activities by the WBG, the governments, both in FBiH and RS, started developing new programs with other IFIs (EIB, EBRD, etc.). The implementation experience underscores the importance of strong communication and coordination among key stakeholders, and strengthening local capacity to prepare technical documentation.

23. The coverage of protected forest and mountain areas expanded. Supported by the GEF Forest and Mountain Protected Areas Project, the institutional and technical capacities for sustainable protected area management were strengthened and areas under protection increased

from 0.5 to 5.5 percent (including High Value Conservation Forests and Special Hunting Reserves under sustainable game management plans). Key threats to biodiversity and forest resources in all project Protected Areas (PA) have remained the same or been reduced. The preparation and/or implementation of management plans for all project PAs, baseline ecological assessments, and the development of M&E systems in each park and the use of the Protected Areas Management Effectiveness tool tracking have also improved both the effectiveness of park management and the visitor numbers and revenue collection. Commitment to PAs on a policy and legislative level is confirmed by the adoption of the Law on Nature Protection in FBiH, and the establishment of PAs as public institutions instead of enterprises in the RS through the Law on National Parks. Public support and awareness of the importance of the PAs, specifically their economic and intrinsic value in BiH, have been established through the public awareness campaign in the Federation of BiH and Republika Srpska, the training provided under the project, as well as the Local Initiatives community grants program. The follow-on Sustainable Forest and Landscape Management Project is continuing support to the sector.

III. WORLD BANK GROUP PERFORMANCE

24. The overall performance of the WBG in designing and implementing the CPS in support of selected country objectives was *Good*. As summarized in the discussion above and detailed in the results framework (Attachment 1), 63 percent (10 out of 16) of the CPS outcomes were fully or mostly achieved, while 37 percent (6 outcomes) were partially achieved. The main obstacles to the full achievement of results were governance and institutional challenges, political disagreements or paralysis, and weak implementation capacity. In particular, structural reforms did not progress substantially during the CPS period; for over a year the country was without Council of Ministers and the FBiH government; and progress on European integration has stalled. Institutional fragmentation and duplication of functions slowed processing of loans and led to long delays in project effectiveness and implementation. The CPS supported ambitious social protection reform, which was well justified and remains relevant, but which proved politically impossible at the time. WBG performance is assessed in light of these political economy realities.

25. Lack of harmonization in regulatory frameworks and procedures between BiH Council of Ministers, Government of the Federation of BiH, Government of Republika Srpska, and/or other levels of administration has proved a particular challenge. In BiH legislation is mostly not harmonized between BiH Council of Ministers, Government of the Federation of BiH, Government of Republika Srpska, and in the case of FBiH, also at cantonal levels. There is lack of clarity with regard to functions, mandates and competencies of various institutions. This greatly slows down project implementation and policy reform. For example, in the case of social benefits, different administrative and legal requirements in FBiH and RS resulted in different pace of reforms in the in the Federation of BiH and Republika Srpska. The Roads Infrastructure and Safety Project also faced delays associated with difficulty in interpreting overlapping legislations.

A. *Design*

26. CPS objectives were aligned with the country's development goals, and WBG program provided flexible support to their implementation. The three Pillars responded to BiH priorities on the road to EU integration. The CPS rightly took a flexible approach to programming given changing external environment and a challenging political architecture. When political

commitment for sensitive reforms in social protection waned, WBG shifted gears and replaced the planned Public Expenditure DPL with the Business Environment DPL. The WBG also responded quickly to the flood emergency. Proposed IDA credit for the Sava Waterway Rehabilitation Project was cancelled as authorities failed to reach agreement on institutional arrangements, and resources were used instead to support the Drina River Basin Flood Preparedness Project.

27. Financial assistance during CPF period slightly exceeded expectations. The CPS envisaged IDA/IBRD lending of US\$348 million of which US\$148 million would be IDA and US\$200 million IBRD lending. As of June 2015, US\$400 million was committed (US\$230 million IDA; US\$170 million IBRD). Commitments exceeded original targets as the WBG responded to financial needs in the aftermath of the global crisis, e.g. by supporting SMEs' access to finance, and for post-floods emergency recovery and reconstruction with resources obtained through IDA's Crisis Response Window (Attachment 2).

28. IFC portfolio for the CPS period remained stable, but new commitments were below projections. IFC's investment portfolio stood at US\$90 million (fully disbursed as of May 2015). During the CPS period, IFC invested about US\$62.5 million long-term finance and about US\$0.9 million short term trade finance, supporting six investment projects, two in the financial and four in the real sector. Through its financial sector investments IFC supported housing lending program and Micro and SME finance. In the real sector, IFC provided assistance to private companies in the automotive, food production and textile sectors. IFC investment helped companies to increase their exports and to create new jobs, and promoted regional FDI and South-South investments. Through its Resource Efficiency Advisory Project, IFC has been promoting resource efficiency by helping manufacturing companies identify and implement best practices and reduce the consumption of resources (energy, water, materials, etc.), with US\$1 million per year estimated savings in materials and energy. IFC total financing of more than US\$63 million during the CPS period was below the range of US\$80-100 million anticipated at the beginning of the CPS. This was in part due to lower economic growth, slower than anticipated implementation of the privatization agenda, limited private sector participation in infrastructure sectors, poor business environment and sluggish FDIs. In addition to country-specific projects, IFC supported several regional investments benefitting BiH, including expansion of a major Western European bank to Central and Southern Europe, restructuring of a leading distributor of consumer goods in South-Eastern Europe, and expansion of a telecom engineering service company.

29. The CPSPR confirmed the continuing relevance of the three Pillars but made judicious adjustments. A key shift in strategy for the remaining CPS period was the increased focus and lending for activities under Pillar I related to improving competitiveness, business environment and job creation, as lack of political will made progress under Pillar II stall. As BiH graduated at the end of IDA16, the CPSPR put in place a strong IBRD lending program, and used remaining IDA mostly through Pillar III (Environmental Sustainability), flood preparedness and emergency response, and EE improvements. The refocused program was aligned with the ECA Regional Strategy and WBG twin goals of poverty reduction and boosting shared prosperity.

30. The CPS results framework was appropriate for the envisaged program. The original matrix was adjusted at the CPSPR stage to reflect implementation experience, changing client demands, and the shift in priorities. The number of outcomes in the CPSPR Results Matrix (16

outcomes under the three Pillars) could perhaps have been reduced through some consolidation (e.g., separate but similar outcomes on land and real estate registration, several outcomes for business inspections, and outcomes for controlling river pollution). The indicators were pitched at the right level and were well aligned with project-level results, although multiple indicators were often lumped together. In a few cases, indicators proved to be unrealistic and not easily measurable once supporting projects began implementation, and some specified end-project targets beyond the end-CPS date. No milestones were specified nor were there gender disaggregated indicators. The results framework focused more on outputs and processes (albeit in line with project level indicators) rather than on outcomes, which could not be clearly attributed to WBG interventions.

31. The identification of risks was candid and realistic. The CPS correctly recognized continued political fragmentation and stalemate as the principal risk. It also noted the risks from extreme weather events including floods. The CPSPR added the risks of the elections affecting the climate for reforms, and risks to portfolio implementation. All these risks materialized. In particular, implementation delays often were due to late project ratification and disagreements between BiH Council of Ministers, Government of the Federation of BiH, Government of Republika Srpska . Mitigation measures and alternative plans for the reallocation of WBG resources were well thought out and proved useful. These also included continued analytical and technical support even in areas where new WBG financing could not advance, and strong partnerships with IFIs and development partners, particularly with the EC.

B. Implementation

32. Portfolio quality was good, largely due to proactive management of projects under implementation. While portfolio performance in the initial year of the CPS was quite strong, FY13 was marked by a slowdown in implementation and delays in effectiveness, hampering disbursement. Portfolio performance improved substantially in FY14, reflecting proactive management, including project restructuring and other actions to accelerate implementation. Portfolio quality continues to be solid, with only one operation in problem status and the FY15 disbursement ratio at 23 percent. The Bank's active portfolio consists of 13 investment operations with commitments totaling US\$590.8 million (IDA US\$265.6 million; IBRD US\$310.7 million; GEF grants US\$14.5 million). In addition, the active recipient-executed Trust Fund (TF) portfolio amounts to US\$40.7 million.

33. IFC's program was consistent with country development priorities, CPS goals and IFC's strategic focus areas. IFC supported improvements in competitiveness and investment climate across sectors and in specific segments such as renewables, microfinance, and agribusiness through investments and advisory services, filling financing voids and offering products and services that were not easily available commercially. IFC advisory work on business environment informed and shaped the Bank's lending program. Bank-IFC collaboration was guided by the Joint Business Plan for BiH prepared in early 2013, focused on CPS Pillar I. Working closely, joint IBRD/IFC team prepared and delivered the Business Environment DPL with the Bank leading on structural reforms and dialogue and IFC complementing with technical advice and implementation of reforms. As a Fragile and Conflict Affected country, BiH remained a priority for investment in selected sectors and balanced advisory support. While overall results of IFC investment activities in BiH have been positive, some projects suffered from challenging macroeconomic environment

or poor corporate and financial governance. The level of NPLs increased from zero to about 30 percent of the outstanding portfolio and remained at this level throughout FY15.

34. The WBG's non-lending and knowledge products contributed to the results and advanced the development agenda. The Analytic and Advisory Program, particularly in-depth studies and analysis of major issues, filled knowledge gaps and updated assessments, provided options for reform, and underpinned WBG engagements (Attachment 3). Key among these were the set of ESW and TA on public expenditure and institutional aspects (e.g., PEIR, PEFA), debt analysis and reform plans, recommendations and options for social expenditure policies and safety nets, a pension TA, and various health sector studies (including Tobacco Crusade: BiH has one of the highest smoking rates in the world). For example, the Debt TA helped the client to develop an effective Medium Term Debt Management tool and improve technical and analytical capacity to regularly produce reliable fiscal Debt Sustainability Analyses for the BiH Institutions. BiH was also included in a number of Western Balkans regional activities (Poverty Assessments, Activation and Smart Safety Nets, Jobs, R&D and Innovation Strategy, Financial Sector Outlook, and Regular Economic Reports). The WBG effectively partnered with other stakeholders, IFIs, and donors in a number of initiatives, e.g., the Compact for Growth. A notable feature of the non-lending activities was the impact they had on policy debate and discussion of options even when traction was limited because of political economy realities (e.g., social expenditure reforms). Clients praised the quality and relevance of WBG non-lending products. However, the FY14 WBG Opinion Survey expressed concerns on the timeliness of WBG knowledge products and insufficient stakeholder involvement during their preparation. IFC advisory services prioritized support for improvements in business environment, strengthening financial market infrastructure and establishing the market for renewables and sustainable energy finance.

35. Close coordination and harmonization with development partners was effective and resulted in complementary activities well aligned with the WBG strategy. The Swiss Development Cooperation is the key partner for the new program on risk factors awareness. USAID, SIDA, Swiss Agency for Development Cooperation and UNDP have all collaborated in the preparation and early stages of implementation of the Energy Efficiency Project. The Council of Europe supports the Bank's team to continue supervising reforms in the health sector. There was notable success in mobilizing additional grant funds to co-finance Bank investments. The EU approved a total of about US\$39 million of Instrument for Pre-accession Assistance (IPA) resources as co-financing or additional financing for five Bank investment projects in environment and transport. Three SIDA TFs totaling about US\$13.7 million complement the Bank's efforts in improving water management, agriculture and rural development, as well as the business climate. Though accessing these funds and implementation often required substantial additional time and effort from all parties involved, they were important given the lack of financing in communities. Some of the infrastructure investments supported with these funds would not be economically viable in the absence of grants. Collaboration with other donors and mobilizing other financing sources to complement the limited public resources for preparation are important and can help bring projects to appraisal readiness. Furthermore, the IMF has been a key partner in structural reforms in the social sectors, which were central to the IMF's stabilization program.

36. The preparation and approval of the Floods Emergency Recovery Project (FERP) was an outstanding effort. Extraordinary rainfall in May 2014 - the largest precipitation in 120 years

- generated floods that affected about 1 million people, and caused damages and losses equivalent to nearly 15 percent of GDP. The Bank promptly responded to the request to provide financial support to finance emergency goods and rehabilitation of high priority infrastructure by approving \$100 million IDA credit from the Crisis Response Window. Credit was approved on the very last day BiH was eligible to receive IDA financing as the country graduated from IDA as of FY15. Preparation of the FERP saw an unprecedented effort by the multi-sector World Bank Group team, including staff of IBRD and IFC, to rapidly design and deliver high quality project in response to the emergency. The project was declared effective within a record two and a half months after approval, which confirmed that the authorities can partner to deliver results quickly when forced into action.

IV. ALIGNMENT WITH WBG CORPORATE STRATEGY

37. While the twin goals of eliminating extreme poverty and enhancing shared prosperity had not yet been articulated at the time the original CPS was prepared, these objectives were incorporated in the CPSPR. Projects prepared during the CPS period were well aligned with the overarching goal of poverty-reducing growth, inclusion of the poor and vulnerable, and job creation, through the strategic pillars on competitiveness, social inclusion, and environmentally sustainable development. The CPSPR also ensured that non-lending activities (AAA) would provide the diagnostic foundation for the Systematic Country Diagnostic as the basis for the new Country Partnership Framework, which would be fully aligned with the twin goals.

38. Projects supported under the competitiveness pillar contributed to poverty reduction and shared prosperity in several ways. Improved transparency and development of the land markets increased security and efficiency of transactions, strengthening economic development. Measures to improve the business environment by simplifying and streamlining business registration and inspection processes increase competitiveness of the economy, strengthen the foundations for job creation, and open up more opportunities for the poor and less well-off to improve their living standards. BiH's bottom 40 percent (B40) of the income distribution are more likely to be unemployed, and getting a job is the best way to improve their incomes. Reforms that make it easier to start a business and rationalize regulations create more opportunities for entrepreneurs, especially new firms. Analysis from the recent ECA Jobs Report shows that these successful new firms (or "gazelles") accounted for 71 percent of BiH's job creation in the past.

39. Under the inclusiveness pillar, WBG supported reforms to increase the share of social benefits that reach the poorest. Such reforms and the job brokerage services directly support poverty reduction, benefitting the most vulnerable and hard-to-reach. Improved primary health care coverage through the Family Medicine model can create a healthier workforce, reduce the burden of disease, and reduce out-of-pocket medical costs, all important issues for the poor and vulnerable. **Under the environmental sustainability pillar,** through construction of the sewerage systems and WWTPs, the situation of the poorer groups, who constitute the majority of the population underserved by piped water and sanitation services, significantly improves with more household connections and decreased pollution of water from protected sources. The Forest and Mountain Protected Areas Project contributed to reduction of poverty and boosting shared prosperity by helping local communities with starting environmentally friendly activities for local development (tourism, medicinal plants production, beekeeping, etc.). Agriculture and Rural

Development Project contributed to reducing rural poverty by helping farms to become more competitive, with products recognized and tradable across borders. The Irrigation project, through its use of socioeconomic and environmental criteria with a preference for subprojects with a large impact on local incomes and jobs, helps ensure more equitable access and use of the improved irrigation systems, thus addressing the needs of smaller/poorer farmers. In addition, improved crop yields and other improvements can increase the income of around 18,000 households by 50 to 130 percent (depending on farm size, cropping pattern, and baseline water conditions) and is directed to increasing women's participation. In the energy sector, WBG engagements to improve reliable energy supply, and particularly through the focus on RE and EE (e.g., building renovations), create jobs and enhance competitiveness in BiH.

V. LESSONS

40. The WBG remains a highly valued partner for BiH as revealed by the analysis of the implementation of the FY12-FY15 CPS and client feedback. For future engagements in the country, the WBG should maintain the strong partnership and further focus on areas where it can have the greatest impact in supporting growth, reducing poverty and boosting shared prosperity. The following key lessons should be taken into account in the design of the new CPF:

- **The CPF should build on results achieved under the CPS.** Current portfolio comprises investment operations that are consistent with the needs of respective sectors, and that have often reinforced ownership and implementation capacity (e.g., real estate, health, environment projects). Realistic expectations, carefully selected scope of engagement, building on the successes of previous projects and pilots, (e.g., RERP, Health Project), as well as focusing on establishing a functioning system first before expanding it, have proved effective.
- **The CPF should take a more strategic and selective approach.** The past CPS has achieved good results, which however did not add up to a catalytic change in the country. While this was largely due to circumstances outside WBG control, such as the lack of reform momentum, the Bank should continue striving to achieve transformational change in BiH, focusing on areas where WBG can support long-term reform efforts or structural change in selected sectors. Policy dialogue could continue in other key areas, whether supported through future Bank lending or the assistance of other development partners. In the recently completed Country Opinion Survey, stakeholders consistently viewed jobs, public financial management, improving livelihoods, and strengthening the capacity of state institutions as priority areas for WBG emphasis.
- **Building flexibility in the program is a sound approach.** Given the country's political economy and vulnerability to economic and natural shocks, this flexibility allowed WBG to respond to shifts in circumstances. These risks are likely to persist, so WBG program will need to stay flexible.
- **Client ownership, engagement, and open dialogue with a broad range of stakeholders continue to play pivotal roles in successful project design and implementation.** For example, health system reforms greatly benefited from wide and regular consultations with stakeholders at all levels, thus building and maintaining ownership. On the other hand, lack of commitment led to dropping some of the planned operations, e.g. Sava River Corridor and Catastrophic Risk

Insurance Facility. In the case of the Road Infrastructure and Safety Project, complexities stemming from legislative frameworks in combination with lack of commitment made it difficult to proceed with plans to support a country-wide road safety agenda. Allowing adequate time for project preparation and implementation is also important, in particular for operations designed to support reforms involving institutions of BiH, FBiH and RS. Stakeholder consultations should be open and transparent, and include the administration and other political actors as well as CSOs, NGOs, academia, and private sector. Integrating local stakeholders and end users of the investments supported by the projects early on in the preparation, and securing their continued engagement during implementation (DPL, ICIS, Health EE), are preconditions for the projects to become integrated into the country systems and to be sustainable.

- **All aspects of institutional and implementation arrangements for projects need to be firmed up during project preparation**, given the politically complex environment of BiH. While this is valid for all projects, it has particularly true for projects that support structural reforms and capacity building in a sector. Delays in higher-level decisions on institutional structures and lack of institutional clarity as it relates to functions, mandates and competencies impede and undermine the systems and capacities at technical levels and pose risks to full achievement of project development goals (e.g., Agriculture and Rural Development Project). Projects that were well prepared with well-defined scope (e.g., Irrigation, Forests, Real Estate) were able to begin timely implementation and make preparatory steps while waiting for effectiveness. Weak capacities and lack of strong institutional coordination among key actors at the different administrative levels continue to pose strains on project implementation, and this is to be carefully considered at project design stage. Obtaining construction and other permits at an early stage would also facilitate implementation and avoid delays.

CPSCLR Attachment 1

BOSNIA AND HERZEGOVINA: CPS (FY12-FY15) Completion Report: Results Framework

CPS Outcome Outcome Indicators	Status and Evaluation Summary	WBG Activities	Key Lessons
<i>Pillar I - Competitiveness: Support economic growth by tackling some of the bottlenecks to competitiveness and faster productivity growth</i>			
<p>Outcome 1: Transparent land markets developed through registration of real estate rights, and complementary policies that enable transactions to be made with security and efficiency</p> <p>Baseline (2010): Backlog of 80,000 cases and several months (on average) to complete transactions (2010)</p> <p>Target (2011): Almost no case backlog and transactions completed in one day for 95% of cases. Target (2014) in case of a follow up project: further improved transparency and efficiency by making the integrated registration and cadastre information available online nationwide.</p>	<p>Achieved. There were improvements in the quantity and quality of property information, the timeliness of access to property information, and the timeliness of service delivery in addition to reforms in laws, policies and procedures that increased transparency and strengthened the operation of land administration services.</p> <p>The Land Registration Project closed with 18,200 backlogs in FBH courts due to increased number of transactions. Under the follow-up Real Estate Registration Project, this backlog has been further reduced substantially. Work on backlog reductions will continue until summer 2015.</p> <p>Status (2015): Presently, there are 9,690 backlog cases. It is estimated that an additional 3,000 backlog cases will be resolved shortly and the rest by the end of 2015.</p> <p>The goal to register property rights within 24 hours in 95 % of all cases was overly ambitious. More than half the cases are being completed in one day in RS and within five days in FBH.</p>	<p><u>Closed projects:</u> Land Registration Project (P096200, FY06-FY12)</p> <p><u>Current portfolio:</u> Real Estate Registration Project (P128950, FY13)</p> <p><u>Non-lending:</u> Public Expenditure and Institutional Review (FY12)</p> <p><u>Partners:</u> SIDA</p>	<p>It proved to be effective to design the follow up project based on the experiences and results of the first project, including the use of a pilot before broader rollout. Focusing on establishing a functioning system first rather than on covering data was strategically prudent. Realistic expectations, building on successes and focusing on what is achievable, were helpful.</p> <p>Key lessons include the adoption of an incremental approach to ICT development through a step-by-step method, emphasizing strategy, staffing and resources. Establishment and maintenance of good cooperation with other donors in the sector (e.g., the complementarity of the SIDA support) are very important with best results when managed by the authorities.</p>
<p>Outcome 2: Further improved transparency and efficiency of real estate registration by making the integrated registration and cadaster information available online nationwide</p> <p>Baseline (2013): No cadaster records available online.</p> <p>Target (2015): 20% of cadaster records available online. By 2018, 100% of cadaster records available online.</p>	<p>Achieved. BiH Geodetic Agency (GA) has all cadaster data available online and has been working on integration of the land registry data on-line as well, with over 55% of land registry already made available on-line. RS GA is in the process of replacing their communication lines so while the cadaster data are currently not available online, they will be as soon as the new lines are established. RA GA and then continue work on integrating the land registry data gradually.</p> <p>Status (2015): 25% data are available on-line presently. RERP results are expected by 2018 with land register and cadaster /real estate cadaster data harmonized in all urban areas (524 cadastral municipalities).</p>	<p><u>Closed projects:</u> Land Registration Project (P096200, FY06-FY12)</p> <p><u>Current portfolio:</u> Real Estate Registration Project (P128950, FY13)</p> <p><u>Non-lending:</u> Public Expenditure and Institutional Review (FY12)</p> <p><u>Partners:</u> SIDA</p>	<p>Same as for Outcome 1: see above.</p>

CPS Outcome Outcome Indicators	Status and Evaluation Summary	WBG Activities	Key Lessons
<p>Outcome 3: Improved investment climate by strengthening inspections systems in the country, indicated by establishing the Interoperability Information System enabling electronic data exchange between relevant institutions</p> <p>Baseline: (2013): No Interoperability Information System exists</p> <p>Target: (2015): Interoperability Information System 80% completed; time 20 days</p>	<p>Partly Achieved. There was overall progress in strengthening the inspections systems in the country. The Federation of BiH and Republika Srpska have adopted new inspections laws which introduce modern risk- based inspection practices. Particularly Federation BiH advanced internal re-organization by adopting new rulebook, and capacity building of inspectors. The rulebook introduces new organizational structure combining units that were previously separate into a single department (directly resulting in reduction of number and costs for businesses as sampling at the border is reduced from 3 to 1; at the same time reducing costs for the Inspectorate); establishes an internal control department aligned with EU requirements when it comes to responsibilities of civil servants with special authority (‘controllers of the inspectors’). The increase of effectiveness as a direct result of these changes will be measured in 2016. A new Manual on practical implementation of inspections surveillance was prepared for the use of approximately 120 FBH inspectors. The manual is also placed on the website of the inspectorate to ensure outreach and transparency of inspections operation for the businesses and general public. The establishment of the Interoperability Information System (IIS), though expected in 2015, faced additional delays in finalization of the joint Terms of Reference (ToR) for the purchase of the IIS. The work on assessment of the IT and legal framework is completed. The preparation of the tender and the ongoing assessments are jointly coordinated by the Federation of BiH and Republika Srpska PIUs, including institutions at FBH and Brcko district levels; and this caused undue delay for finalization of the project activities by end of the year.</p> <p>Status (2015): The preparation of the tender and the ongoing assessments are jointly coordinated by the BiH, the Federation of BiH, Republika Srpska and Brcko District counterparts and the technical specifications for the launch of international tender finalized. The establishment of the System is expected to be initiated by October 2015 and completed by end of first quarter of 2016.</p>	<p><u>Current portfolio:</u> Business Environment DPL (P146740, FY15)</p> <p><u>Advisory services:</u> Investment Climate and Institutional Strengthening (P128212, FY12)</p> <p>IFC: Western Balkans Trade Logistics Project (572687)</p> <p><u>Partners:</u> SIDA, Austrian Government, EU</p>	<p>Client ownership proved to be effective for the business enabling environment reforms (inspections reforms and DPL policy dialogue). Continuing with the practice of hybrid TFs proved to be a good solution, although difficult and time consuming to set up.</p> <p>Allowing adequate time for project execution is critical. It can take up to one year to define the scope of reforms (especially when involving the Federation of BiH, Republika Srpska and BH institutions) and the design of projects should take this into account.</p>
<p>Outcome 4: Improved business environment by reducing the cost and time for business registration</p>	<p>Achieved. Measures undertaken have resulted in savings in time and costs for businesses. The registration process in RS has been fully reformed through the adoption of legislative package including 13 different laws and regulations. Based on these changes, One-Stop-Shop (OSS) approach has been introduced, founding capital reduced from KM</p>	<p><u>Current portfolio:</u> Business Environment DPL (P146740, FY15)</p> <p><u>Advisory Services:</u></p>	<p>Client engagement and ownership continue to play pivotal roles in successful project design and implementation. Synergetic effects of linking clients’ desire to achieve systemic and inclusive reforms with</p>

CPS Outcome Outcome Indicators	Status and Evaluation Summary	WBG Activities	Key Lessons
<p>Baseline (2013): RS: cost–KM 1,500, time- 23 days FBH: cost–KM 1,021, time-40 days</p> <p>Target (2015): RS: cost – KM 750, time - 11 days; FBH: cost -KM 500, time -20 days</p>	<p>2,000 to KM 1, court registration costs eliminated for the first business registration, and administrative taxes and notary fees reduced. In FBH the registration process has been partly simplified by adoption of the Law on Changes, and Amendments to the Business Registration Law (less time and documents required), and reduction of Notary Tariffs. The Company Law was adopted after a yearlong delay and its publication in the official gazette is imminent. The factual measurement of all savings resulting from undertaken reforms, including as a result of recent adoption of Company Law, will be undertaken within the ongoing ICIS project by carrying out enterprise survey and the measurement of effectiveness and direct costs for businesses (in FY16).</p> <p>The ICIS project complemented IFC advisory services working on simplification of business registration processes in RS by providing technical assistance to the Intermediary Agency for IT and financial services (APIF) in their reorganization following adoption of the new laws governing business registration. All activities have been completed to full satisfaction.</p> <p>Status (2015): RS: cost - KM 100 approximate, time -3 days; FBH: cost - ≤ KM 500, time - 15 days</p>	<p>Investment Climate and Institutional Strengthening Project (P128212, FY12) IFC Advisory Services/ Investment Climate Project (P587227) IFC Advisory Services Project (P555367, Closed FY11)</p> <p><u>Partners:</u> SIDA, Austrian Government</p>	<p>the “peer pressure” between the Federation of BiH and Republika Srpska in creating transparent and streamlined registration process seem to be the driving mechanism for more comprehensive transformation. Still, this type of reform require extended timeframes for project execution and success, especially taking into consideration the time required to define the scope of reforms, but also time required to implement and ensure political will. Project design should take this into account, as well as the timing of the election cycle.</p>
<p>Outcome 5: Efficient and effective inspections regime created through enactment of the new inspections law (FBH) and process of obtaining construction permits improved through enactment of the Law on construction (RS).</p>	<p>Mostly Achieved. The inspections regime became more efficient and effective. The new Inspection Law in FBH was enacted (June 2014) and became effective (September 2014). The FBH Government has since (February 2015) adopted a new Rulebook on internal organization of the FBH Inspections, reflecting the organizational changes brought on by the new law. The inspection offices in FBH additionally prepared a manual for practical application of the new law for the use of the inspections across the FBH level of inspection and, equally important, for the use by the businesses in FBH. This is part of the outreach that the inspections are now able to undertake and act as ‘advisor’ to the businesses, not only as a supervision body. A series of seminars acquainted the inspectors with the new law.</p> <p>Furthermore, based on workshops on Risk Management Methodologies (RMM), the Western Balkans Trade Logistics Project provided additional TA to the BH Veterinary Office. Implementation of the RMM is in place. Advisory services assisted FBH in reducing the costs for businesses related to inspections fees for checking cargo when</p>	<p><u>Current portfolio:</u> Business Environment DPL (P146740, FY15)</p> <p><u>Advisory Services:</u> Investment Climate and Institutional Strengthening Project (P128212) IFC Advisory Services/ Investment Climate Project (587227); Western Balkans Trade Logistics Project (572687)</p> <p><u>Partners:</u> SIDA, SECO, Austrian Government, EU</p>	<p>Client ownership was critical for the business enabling environment reforms (inspections, construction and DPL [tbc]). Synergetic effects of linking client commitment to achieve systemic and inclusive reforms to ensure transparent and streamlined environment were instrumental in introducing new and innovative legal frameworks. At the same time, these frameworks ensure full complementarity with the overall objectives for transformation.</p> <p>Using the combination of the TA (via Bank Executed portion) and the Recipient Executed actions resulted in finalization of joint activities between the Federation of BiH and Republika</p>

CPS Outcome Outcome Indicators	Status and Evaluation Summary	WBG Activities	Key Lessons
<p>Baseline (2013): FBH – average number of certificates issued per day is 311. Direct costs for business, based on frequency of visits, is KM 9 million. RS – time required for individual permits on average 45 days. Direct and indirect costs related to obtaining all construction related permits estimated at KM 180 million annually, based on actual frequency of requested permits in all cities and municipalities in the RS.</p> <p>Target (2015):</p> <p>FBH – effectiveness of certificate issuance increased by 15%. Direct costs for businesses based on frequency of visits is reduced by 10% after introduction of risk based inspections.</p> <p>RS – time to obtain construction permits is up to 15 days. KM 17 million annual direct and indirect savings for businesses.</p>	<p>import/export procedures are in question. The two inspections offices (RS and FBH) have contracted with a world-renowned consulting firm specialized in inspection reforms.</p> <p>The project succeeded in increasing the working hours of the federal inspectors at the three most frequented border crossing points, representing 70 percent of the trade with Croatia to align them with the working hours of customs. This alignment shortened the total lead time for the clearance of goods by about 10 percent, resulting in savings for the private sector of about US\$0.5 million over the previous year.</p> <p>The Spatial Development and Construction Law was adopted (April 2013) in RS followed by the adoption of three accompanying rulebooks (December 2013). In general, this law introduced crucial elements of international best practice such as mandatory time limits for the reaction of authorities, the involvement of independent third party experts for control procedures, a licensing system for designers and builders, etc. The law follows the dual permission approach, differentiating between a planning permit and a construction permit. The time has been reduced from up to 60 days to 15 days for all sub-steps in the construction permit issuing procedure.</p> <p>Status (2015): FBH – The latest data available from the inspections indicate shortening of the lead time for clearing goods by the phyto-sanitary agencies by a monthly average of 13.72%. The factual measurement of savings for businesses is not yet fully completed for inspections as the new organization resulting from the law was introduced in February 2015. An early indication of savings is evidenced from reduced costs of the Inspectorates (material costs, rent etc.) due to the unified border inspection department. The full extent of the impact of inspection reforms will be measured by the enterprise survey (FY16) including the effectiveness and direct costs for businesses. Actual savings for businesses in the amount of KM 850,000 have been verified as a result of changes in tariffs.</p> <p>RS – Time to obtain construction permit is up to 15 days by law, and this is respected in practice. Total verified savings for businesses amount to KM 15.4 million so far (in little over a year of implementation). This amount will increase as more companies are issued construction permits. So far, over 1,600 firms have benefited from the reformed and improved construction permit processes in RS.</p>		<p>Srpska addressing challenging reforms.</p> <p>Strong advisory services on the ground, with hands-on, just-in-time advice to governments, proved to be crucial for keeping the reform momentum. Reforming the construction code in RS would not have been possible without this (the reform was tried before by other institutions and failed). Ensuring strong field advisory presence and tapping into global knowledge are key to maintaining client trust, and ensure that best practice recommendations are incorporated in the final client solution.</p>

CPS Outcome Outcome Indicators	Status and Evaluation Summary	WBG Activities	Key Lessons
<p>Outcome 6: Enhanced access to finance for SMEs in the context of the global financial crisis; indicated by the total amount of loans disbursed by participating financial institutions under the SME additional financing project.</p>	<p>Achieved. The objective of increasing access to finance by SMEs is met. Building on the disbursement performance of the original project, the uptake of the AF has been further enhanced. The WBG supported FBH in developing a targeted and time-bound emergency support loan program for SMEs in areas affected by the devastating May 2014 floods using the revolving funds under the project. The flexibility for reprogramming of loans under the project was enhanced in line with the decisions of the Entity banking authorities and to include agribusinesses as eligible SMEs under the project. By the end of FY15, a total of 266 SMEs received loans. The disbursement ratio under the AF stood at 78.17 % (US\$88 million), of which over 50 million was disbursed in FY15.</p> <p>In addition, the FIRST project has helped initiate a number of follow up activities by respective governments and mobilized further assistance from the donor community. Key activities include the diagnostic review of microfinance institutions, an Action Plan for consumer protection in banking and microfinance sectors focused on EU alignment, and strengthening the related legal and regulatory framework. There is considerable demand for the services of the Debt Advice Center. About 4.5% of the country's microfinance clients (12,169 participants) were trained through the project.</p> <p>Efforts at the regulatory level continue. The IMF-World Bank Financial Sector Assessment Program (FSAP) revealed a broad range of issues related to financial sector development and stability which are critical to growth and shared prosperity in BH.</p> <p>IFC's investment in MF Banka is expected to help scale up the bank's lending capacity to underserved micro and small enterprises including in rural and low-income areas. Raiffeisen Bank International (RBI) has been a strategic partner for IFC since early 1990s. IFC has invested in 1.64 percent of RBI's shares in January 2014, which was committed to be down streamed to the selected subsidiaries including in BH. As part of this equity investment, RBI injected EUR 5 million in equity in RBBH in September 2014. IFC provided a senior loan of EUR 5 million to RBBH, to support the bank's mortgage/housing finance operations and to expand access to finance for the country's low-income population. Last year's record-breaking floods in BiH continue to exacerbate the need for housing.</p>	<p><u>Current portfolio:</u> Enhancing SME Access to Finance (P111780, FY10, AF: FY13)</p> <p><u>IFC:</u> IFC investments in MFIs IFC's Microfinance Advisory Project</p> <p><u>Non-lending:</u> Western Balkan Financial Sector Outlook (FY13); Strengthening Consumer Protection in Banking and Microfinance Sector TA (FY13) PEFA; Western Balkans Regional R&D Strategy for Innovation FSAP - Financial Sector Assessment Program (P150589, FY15) FIRST</p> <p><u>Partners:</u> IMF, EBRD, EC, ADA, SECO, Government of Luxembourg</p>	<p>SME financing is an area where close cooperation between WB and IFC is particularly important. There are many synergies between the project beneficiary companies and the IFC investment team, as project clients often need further expansion and possible IFC investment. Though the WB's focus remains on SMEs that may be too small for the sizeable IFC investment, future access to finance operations should explore opportunities for synergies and draw on the complementary skills of each organization as early as the design phase.</p>

CPS Outcome Outcome Indicators	Status and Evaluation Summary	WBG Activities	Key Lessons
<p>Baseline (2010): US\$0 Milestone: (2012): US\$64.9m</p> <p>Target (2015): US\$154 million.</p>	<p>The preventative financial literacy program trained 12,169 individuals, or nearly 4.5 percent of the country's microfinance clients.</p> <p>Status (2015): US\$153 million (total under SME original project and SME AF) (06/2015)</p>		
<p>Outcome 7: Stronger institutions deliver more efficient and effective agricultural services</p> <p>Baseline (2010): Lack of adequate farm and client livestock registers necessary for tracking of direct payments and tracking of livestock movement. Lack of effective demand driven extension services. Regulatory framework under development by the Food Safety Agency, Agency for Plant Health Protection, and the State Veterinary Office to operationalize registries, and inspections services. Capacity building at laboratories under way. Draft extension strategies in the Federation of BiH and Republika Srpska completed. Drafts lack strategic vision to develop sustainable system.</p>	<p>Partially Achieved. Farm and Client (F&C) registers based on same protocols are operational in both Entities. However, the link with the State remains to be defined.</p> <p>Food Safety: The Food Safety Agency (FSA) is increasingly assuming its risk assessment role in line with recent amendments to food safety legislation. FSA has obtained equipment for laboratory network for food safety testing for aflatoxins and other residues in coordination with the State Veterinary Office (SVO). The hygiene package has been adopted by the Council of Ministers; however, harmonization with the Federation of BiH and Republika Srpska legislation and inspection legislation remains pending. A diet study to determine risks of food supply has been produced and adopted.</p> <p>Animal Health: SVO is managing the National Livestock Registry for large livestock, small ruminants and pigs with regular field checks to ensure accuracy of data. Residues laboratory testing capacity has been strengthened, the residue plan is under review of EU's Food and Veterinary Office (FVO) and the accreditation process is on course. FVO assessments have been undertaken for milk, eggs, poultry and aquaculture with varied progress towards EU export compliance. Classical Swine Flu study has been completed and policy adopted. Brucellosis policy is in its fifth year of implementation of a vaccination and cull program currently supported from EU resources.</p> <p>Plant Health and Phytosanitary Services: The Agency for Plant Health Protection has established digital phyto-register with multiple modules and has completed the border pest inspection manual as well as successfully introduced potato pest surveys that permit the country to export seed potato to the EU. Across all three sectors the legal framework needs harmonizing to clearly determine mandates and reporting lines to comply with international but also EU requirements.</p> <p>Paying System: Both Entities are working on establishing paying systems to capture both EU Instrument for Pre-Accession Assistance for Rural Development (IPARD) and Direct Payments. The F&C</p>	<p><u>Current portfolio:</u> Agriculture and Rural Development Project (P101213, FY07)</p> <p><u>Partners:</u> SIDA, EC</p>	<p>In a decentralized governing system like BH, legislation needs full harmonization as well as institutions that operate at these levels to avoid delays due to lack of institutional clarity as it relates to functions, mandates and competencies.</p> <p>The development of IT communication infrastructure and establishment of registers and databases are time consuming especially when the vision of the institutional arrangements defining who owns, enters, manipulates and how data is shared across various bodies is not clear. An IT strategy that defines these fundamental parameters should be available before the investments are made.</p>

CPS Outcome Outcome Indicators	Status and Evaluation Summary	WBG Activities	Key Lessons
<p>Target (2015): Food Safety - 100% of holdings registered in identical Entity based farm and client registry. 100% of large livestock, small ruminants and pigs registered in the animal registry with accurate data as confirmed by field checks of 10% of stock. Phyto-register operational. 80% of regulatory framework compliant with EU and approved by the Council of Ministers and harmonized with Laws in the Federation of BiH and Republika Srpska for inspections and with clear assignment of responsibility for operator databases in both Entities.</p> <p>Target (2015): Paying System -100% of EU IPARD like payments and direct payments made through transparent paying system based on farm and client register data operating in both Entities. Ministry of Foreign Trade and Economic Relations has limited direct access to manipulate database and generates regular reports of agriculture payments in the Federation of BiH and Republika Srpska and publishes consolidated reports.</p>	<p>register developed using unified protocols and software is operating in the Federation of BiH and Republika Srpska. While FBH data is replicated on Ministry of Foreign Trade and Economic Relations (MoFTER) server, RS replication is partial only. The Federation of BiH and Republika Srpska rely on F&C register data as the basis for subsidy payments. In 2014, the floods severely affected agricultural budgets towards emergency support for re-cultivating and re-sowing land. As a consequence, 90% of agricultural payments were direct income support payments and emergency support. Resources dedicated to structural payments are expected to return to previous levels with stabilization of budget resources.</p> <p>While capacities the Federation of BiH and Republika Srpska to manage payments have been significantly strengthened, an agreed structure with a paying agency and managing authority with decentralized functions remains to be established. Before the elections, efforts were underway to amend the law on agriculture, the law on food, and veterinary law to harmonize functions and mandates between the Federation of BiH and Republika Srpska and BH which would result in a much improved sustainability of this outcome. Discussions with Ministries have confirmed the willingness to continue this effort once the new authorities are in place.</p> <p>Status (2015): Food Safety: 85% of agricultural holdings as defined by law are registered; 85% of large livestock, small ruminants and pigs registered in the animal registry with accurate data as confirmed by field checks of 5% of stock. Phyto-register is operational and data is entered by the Entity level inspection services. 70% of regulatory framework compliant with EU and approved by the Council of Ministers. (02/2015)</p> <p>Status (2015): Paying System: 95% of EU IPARD like payments and direct payments are being made through transparent paying system; Ministry of Foreign Trade and Economic Relations (MoFTER) has partial direct access to manipulate database but still does not generate regular reports of agriculture payments in the Federation of BiH and Republika Srpska and does not yet publish consolidated reports. (02/2015)</p>		

CPS Outcome Outcome Indicators	Status and Evaluation Summary	WBG Activities	Key Lessons
<p>Outcome 8: Improved performance of the irrigation systems and the irrigation institutions to support agricultural producers</p> <p>Baseline (2011): 0 ha with improved irrigation system, and no incremental irrigation water added; no new operations and maintenance agreements signed with water users associations, and operations and maintenance fee collection rate 30%</p> <p>Target (2015): 3,900 ha with improved irrigation system; 10 million m3 of incremental irrigation water added; 4 new operations and maintenance agreements signed; rate of operations and maintenance fee collection above 30%.</p>	<p>Partially Achieved. Implementation is progressing well, particularly in the RS. On the first batch of subprojects, irrigation-system rehab and upgrade works are completed in three subproject sites (Bijeljina and Pelagicevo in RS and Ustikolina in FBiH) worth 20% of total project costs, while works are ongoing on the remaining subprojects in FBiH (in Siroki Brijeg and Gorazde). In parallel, agreements are underway with municipalities and Water User Organizations (WUOs) to utilize the off-farm systems, water-monitoring equipment is introduced, and farmers are being trained on improved irrigation practices. When these activities are completed during 2015 for the first batch of subprojects, incremental areas with improved irrigation systems will be approximately 3,900 ha (currently around 1,800 ha are covered). The second batch of subprojects is selected for the RS and tendering is underway for subproject design, safeguards and construction-supervision consultancies. In FBiH, however, starting the second batch of subprojects is delayed.</p> <p>Status (2015): Around 1,800 ha with improved irrigation system; 5 million m3 of water added; 2 O&M agreements signed; rate of O&M fee collection 30%; 1,800 end beneficiaries served (5/2015)</p>	<p><u>Current portfolio:</u> Irrigation Development Project (P115954, FY12); BH Floods Emergency Recovery Project (P151157, FY14); Drina Flood Protection Project (P143844, FY14)</p> <p><u>Non-lending:</u> Public Expenditure Review (P122928, FY12)</p> <p><u>Partners:</u> EC, WBIF</p>	<p>The two implementing agencies in RS and FBH are committed to the project, which is reflected by the progress in the civil works. However, one major lesson learned is that the Federation of BH and Republika Srpska, particularly FBH, need major strengthening in terms of hiring experts (consultants) in subproject selection and feasibility, system design, participatory irrigation management, and safeguards preparation and management.</p>
<p>Outcome 9: BH participates in the SEE energy market, and is meeting requirements for integration into the EU energy market</p> <p>Baseline (2005): Electricity generation - 12,800 gWh. In 2009, generation and export reached record levels. Regulatory framework for renewable energy projects not enacted. Twenty</p>	<p>Mostly Achieved. The ECSEE APL3 project supported the SEE and EU market integration efforts with successful outcomes on market liberalization for non-residential customers, environment and financial and management systems, as well as partially achieved outcomes on markets, distribution, generation assets and dam safety. Due to slow progress and low capacity at the Entity level and unwillingness to cooperate on State level and create new state-level institutions, BH fails to comply with some requirements of the SEE Energy Community Law, e.g., adoption of the national law on gas, adoption of national RE and EE action plans, etc.</p> <p>The specific target for electricity generation was fully achieved.</p> <p><i>Renewable Energy:</i> IFC supported Entity governments to draft 18 pieces of legislation. Six key laws and by-laws have already been enacted.</p> <p>IFC's Balkans Renewable Energy Program contributed to commissioning of 60 small RE plants with total investment estimated at</p>	<p><u>Closed project:</u> ECSEE APL3 (P090666, FY06-FY12; ICR: MS)</p> <p><u>Current portfolio:</u> Energy Efficiency Project (P143580, FY14)</p> <p><u>Non-lending:</u> IFC – RE Bosnia SHPP (575567, FY11-FY16); Integrated Water-Energy Study (P113685, FY13); Improving Quality Infrastructure and Investment Climate (P128212, FY12) Western Balkans Renewable Energy Program</p>	<p>State owned/state level utilities have comparatively high implementing capacity and would therefore be good implementing agencies for future projects as well.</p> <p>Co-financing arrangements with other donors are challenging to manage, and parallel financing may be more practical than direct/joint co-financing.</p> <p>Finding other donors and TF sources to complement the limited public resources for preparation is important and can help bring projects to appraisal readiness (e.g., South-South Facility TF and USAID, UNDP, SIDA, SwissCO support in case of BEEP).</p>

CPS Outcome Outcome Indicators	Status and Evaluation Summary	WBG Activities	Key Lessons
<p>renewable energy projects developed.</p> <p>Target (2012): Equal or greater electricity generation. Number of laws / regulations/ amendments enacted in the Federation of BH and Republika Srpska12: (FBH 6; RS 6). Number of renewable energy projects implemented 60. As a result of new renewable energy plants 0.5 MtCO2e/year avoided.</p>	<p>US\$ 72 million and annual generation of 118.4 GWh, resulting in avoiding emissions of 169,000 tons of CO2 annually.</p> <p>Status (2015): Equal or greater electricity generation: Target was achieved and notably exceeded in every year except 2007, when generation was 12,175 GWh, and 2012, when generation was 12,261 GWh owing to exceptionally adverse hydrological conditions Number of laws/ regulations/ amendments enacted on Entity level: 6 total (RS 2, FBiH 4).. Number of renewable energy projects implemented 60. As a result of new renewable energy plants 0.169 MtCO2e/year is avoided.</p>	<p>Partners: KfW, EBRD, EIB, SIDA, SwissCO</p>	<p>Comprehensive intervention in the RE sector (legal/regulatory framework improvements, assistance to project developers, closing the loop with support to local FIs) proved essential for the project success.</p>
<p>Outcome 10: Upgraded road network, and reduced user costs on the priority sections.</p> <p>Baseline (2010): The FBH Road Directorate and the RS Road Directorate collect data on road user costs for rehabilitated road sections.</p> <p>Target (2012): 10% road user cost reduction</p>	<p>Achieved Under the WBG-supported Road Infrastructure and Safety Project, 293 km of roads were rehabilitated against the original target of 240 km. The legal and institutional framework for road safety has been improved and the capacity in the Federation of BiH and Republika Srpska was also increased. Road user cost (in this case, vehicle operating cost) was reduced by more than the targeted value at project completion. The institutional framework for road safety at project completion was also improved. The introduction of innovations in road maintenance was partially achieved.</p> <p>IFC was selected as lead advisor helping the government with the PPP transaction for the 40 km section of the country's 5c highway corridor, part of the Pan-European transport corridor.</p> <p>Status (2015): By project completion, road user costs were 18.07% less for the nine road sections in FBH and 11.22% less in the RS than the equivalent baseline costs. Both savings exceeded the project's 10% target. Such reductions were due to the improved road conditions resulting from the project interventions.</p>	<p>Closed project: Road Infrastructure and Safety Project (P100792, FY08-FY12, ICR: S)</p> <p>IFC: IFC's Private Public Partnership Advisory Mandate</p> <p>Non-lending: Transport Sector Review (P096211, FY10); Improving Quality Infrastructure and Investment Climate (P128212, FY12)</p>	<p>A key lesson is the difficulty and challenge of trying to move the road safety agenda at the country-wide level, which was envisaged, but during implementation became an institutional effort at the Entity level. Going forward, a country wide institutional effort needs to have strong RS commitment to succeed.</p> <p>JPAC (Public Motorways Directorate FBH) has turned out to be a very good counterpart in terms of capacity, responsiveness, decision making, etc. Negative experiences include time delays associated with interpreting/ overlapping legislation, in particular, FBH Concession Law and Law on Corridor 5C.</p>
Pillar II – Inclusion: Improve the delivery of public services for the vulnerable and the targeting and fiscal sustainability of social benefits to the poor			
<p>Outcome 11: (i) Increased share of social benefits reach the poorest; (ii) More effective job brokerage services extended to the vulnerable active job-seekers.</p>	<p>Partially Achieved. New social assistance legislation with comprehensive income test was adopted in the RS in 2012 and will be up for another review in 2015. There may be scope for further changes to the law with respect to a proxy means test. In the RS, the new methodology may be introduced through amendments to the existing social protection legislation in late 2015 or 2016. The Ministry has not been willing to engage in a substantive dialogue on this recently.</p>	<p>Current portfolio: Social Safety Nets and Employment Support Project (P116774, FY10)</p> <p>Non-lending: Western Balkans Poverty Assessment; Growth and Shared Prosperity</p>	<p>Institutional reforms take a long time, in particular, when it involves adjusting the legal framework. Also, FBH and RS have different approaches, administrative processes and legal requirements. This results in different pace of reform in the Federation of BH and Republika Srpska. Any WBG intervention has to</p>

CPS Outcome Outcome Indicators	Status and Evaluation Summary	WBG Activities	Key Lessons
<p>Baseline (2013): Means testing of last-resort social assistance exists but targeting to the poorest needs to be improved. Job-brokerage services are extended to 1,468 vulnerable active job-seekers.</p> <p>Target: (2015): Social assistance laws adopted with improved means testing of last-resort social assistance benefits. Job-brokerage services extended to 10,000 vulnerable active job-seekers by the end of 2014, 35% of them stay employed one year after receiving the services. [Note: Project target is 30%]</p>	<p>The new social assistance law is prepared and awaiting presentation/ adoption by Parliament in the FBH. The process of developing and incorporating the new formula and drafting the new social protection law took much longer than expected and there are still some deliberations on it following the formation of the new government in March 2015 and recent turnover in the Ministry of Labor. This new legislation, which incorporates the new targeting methodology, will not be adopted and implemented before the project closing date (October 30, 2015).</p> <p>Although the new targeting methodology and eligibility formula based on proxy-means testing were successfully developed, the risk remains that the policy makers, particularly in the FBH, will continue to prioritize categorical benefits.</p> <p>The end-of-project objective of providing employment support to 10,000 hard-to-employ job seekers has been achieved and surpassed. Job-brokerage services were extended to 10,883 vulnerable active job seekers. About 58% are employed 12 months after receiving services.</p> <p>Status (2015): RS: New social assistance legislation was adopted in late 2012. There are no further amendments expected before 2016. FBH: New social assistance law is prepared incorporating an improved targeting formula for last resort social assistance program and awaiting presentation/adoption by Parliament. It is not clear when this legislation will be considered for adoption. Both for RS and FBH: Number of persons who become ineligible to receive cash transfers or who are vulnerable (e.g., poor, disabled but able to work, hard-to-serve, demobilized soldiers, etc.) who received job brokerage: 10,833 (04/2015); Percentage of (i) employment subsidy and (ii) training beneficiaries who find a job and stay employed (a) 6 months and (b) one year after the subsidy or the training ends: 58%</p>	<p>(P151538, FY15); Pension TA (P122460, FY13); Social Exclusion in Bosnia and Herzegovina and the Global Crisis (FY12); Public Expenditure and Institutional Review (FY12); Activation and Smart Safety Nets (FY14)</p>	<p>take this into account when considering expected outputs and outcomes.</p>
<p>Outcome 12: Increase access to quality family medicine primary health care with special focus on primary and secondary prevention of non-communicable diseases</p>	<p>Achieved The coverage of the population with access to Family Medicine (FM) Primary Health Care (PHC) services increased. The recently-closed Health Sector Enhancement Project delivered a set of interventions to improve the conditions of the PHC facilities, updated the medical equipment of these facilities, and trained FM teams. The project also financed the systemic implementation of selected preventive services (i.e., hypertension, breast cancer, prostate enlargement, smoking, etc.) in four pilots in FBH. FM teams involved in the RBF (Results-Based</p>	<p><u>Closed project:</u> Health Sector Enhancement Project (P088663, FY05-FY15) <u>Current portfolio:</u> Swiss TF – anti-tobacco <u>Non-lending:</u> Public Expenditure and Institutional Review</p>	<p>A significant proportion of the project investments were addressed to improve the human resource capital (health workers in primary care). Even when, after some years performing in primary level services, some doctors move to other levels of care, most of the investments will</p>

CPS Outcome Outcome Indicators	Status and Evaluation Summary	WBG Activities	Key Lessons
<p>Baseline (2010): about 58% of population covered through family medicine (FBH: 1,000,000; RS 1,200,147).</p> <p>Target (2014): about 70% of population covered (FBH: 1,500,000; RS: 1,250,000)</p>	<p>Financing) pilot program which introduced payment incentives for primary and secondary prevention of Non-Communicable Diseases (NCD) continue performing preventive interventions.</p> <p>Status (2015): Coverage of population through family medicine teams (09/2014): FBH: 1,586,000 (69%) RS: 1,193,230 (95.5%) National average: 80.2%</p>	<p>(P122928, FY12); Bosnia Tobacco Crusade (P132153, FY12); Rapid Assessments on Pharmaceuticals (P132589, FY13); Health Service Delivery Reform (P149748, FY15) <u>Partners:</u> Council of Europe Development Bank (CEB).</p>	<p>remain in primary care for many years.</p>
<p>Outcome 13: Improved availability, quality, environmental soundness, and financial viability of solid waste management services.</p> <p>Baseline (2010): 75% of households in targeted area not served by the formal waste management system. 145 of estimated 1,200 wild dumps closed.</p> <p>Target (2015): Number of un-served households reduced by 50%; 25% of wild dumps closed (est. 300).</p>	<p>Partially Achieved The extension of regional solid waste management system is ongoing but with delays. The rehabilitation of regional landfills is ongoing in five regions. This will result in significant increase in the percentage of households served by formal waste management system both in RS and FBH. The number of un-served households was reduced by 50,000 (equivalent to a reduction of 6.5%). About 50% households in the targeted area are still not served by the formal waste management system.</p> <p>Progress under the Solid Waste Management II Project includes the operationalization of six regional sanitary landfills (Sarajevo, Mostar, Zenica, Tuzla, Bijeljina and Banja Luka), the establishment of 13 inter-municipal councils, regular monitoring at six regional sanitary landfills (Sarajevo, Zenica, Tuzla, Banja Luka, Bijeljina, Prijedor), and 40% of regional solid waste utilities complying with national environmental standards while four utilities (Sarajevo, Tuzla, Zenica and Mostar) have recycling and/or gas capturing facilities. About 1,050,000 people are expected to be provided with access to regular solid waste collection upon project's closure.</p> <p>Status (2015): Number of un-served households reduced by 6.5% (equivalent to 50,000 households); 190 wild dumps closed (15% of estimated total).</p>	<p><u>Current portfolio:</u> Solid Waste Management II (P107998, FY09)</p> <p><u>Partners:</u> EC IPA TF (EUR 10.2 million) supports investments in Banja Luka, and Mostar, and will be extended to Bos. Krupa, Neum, Srebrenik and Sarajevo sanitary landfills. SIDA financing – focusing on collection – complements Bank financed activities.</p>	<p>It takes a significant length of time to obtain urban planning/ location, environmental, and construction permits, as well as inter-municipal agreements for the establishment of the regional landfills.</p> <p>Going forward, details should be elaborated regarding preparation of technical documentation, issuance of urban, environmental and construction permits, etc. Before any bidding process, it should be ensured that all necessary permits are granted.</p>
<p><i>Pillar III – Environmental Sustainability: Ensure sustainable use of natural resources, such as water and forestry, which are key to economic growth in BH, and adapt to climate change. Promote the sustainable development of basic municipal services</i></p>			
<p>Outcome 14: Reduction of the population's exposure to highly polluted water from Miljacka and Bosna rivers, and improved waste</p>	<p>Partially Achieved. Supported by the GEF Water Quality Project, Zivinice Waste Water Treatment Plant (WWTP) is constructed and operational since September 2014 and treating 15,000 m3 wastewater per day. Work on</p>	<p><u>Current portfolio:</u> Sarajevo Waste Water Project (P090675, FY10).</p>	<p>It is necessary to ensure strong communication and coordination among key stakeholders. Local capacities need to be strengthened in</p>

CPS Outcome Outcome Indicators	Status and Evaluation Summary	WBG Activities	Key Lessons
<p>water collection in the Sarajevo Canton.</p> <p>Baseline (2010): 0 m3/day of waste water collected treated at primary level. 0 connections rehabilitated.</p> <p>Target (2014): 200,000 m3/day treated at primary level; 48,000 connections rehabilitated.</p>	<p>the repair and replacement of primary and secondary sewers in Sarajevo was completed. Additional work on sewerage network is underway. More than 32,000 households have benefited from sewage network rehabilitation, against a total target of 48,000. Number of blockages in sewers decreased by 26% (target was 12%) due to improved O&M. The rehabilitation of the Sarajevo WWTP is progressing and is expected to be finalized in November 2015. After the rehabilitation of the Sarajevo WWTP is completed, 200,000 m3/day of waste water would be treated at the primary level.</p> <p>Status (2015) : On average 15,000 m3/day of waste water is treated in Zivinice WWTP. Volume of wastewater collected treated at primary level: 15,000 m3/day; 32,000 connections benefiting from rehabilitation works</p>	<p>GEF Water Quality (P085112, FY05)</p> <p><u>Non-lending:</u> Vrbas River Basin Management (P117927, FY13)</p> <p><u>Partners:</u> EC IPA TF (EUR 13 million) will close the financing gap identified in Sarajevo Waste Water Project.</p>	<p>order to secure smooth implementation of envisaged activities. Strengthening capacities of counterparts in preparing technical documentation and administrative processes should be a priority.</p>
<p>Outcome 15: Reduced pollution from municipal sources into the Neretva and Bosna, subsequently reduced pollution in the Adriatic sea and Danube basin, and more sustainable water management.</p> <p>Baseline (2010): 5.5% of municipal waste water is treated and discharged according to standards. No integrated water management in any river.</p>	<p>Mostly Achieved. The rehabilitation of the WWTPs in Trnovo, Odzak, Ljubuski, Trebinje and Bileca were completed and the plants are fully operational. A reduction in the level of municipal-sourced pollution of the Bosna river has been confirmed and is in line with technical specifications and standards. Zivinice and Konjic WWTPs are constructed. Construction of the Mostar WWTP is underway. Completion of rehabilitation of Sarajevo WWTP (expected in November 2015) will allow connection of 300,000 citizens, which will raise total percentage of treated municipal wastewater.</p> <p>Progress was made in developing the framework for sustainable water management. Three key studies were completed: (i) a Wastewater Improvement Plan for Reducing River Pollution, (ii) Biological Monitoring of Rivers, Lakes and Reservoirs, and (iii) a feasibility study on low-cost, natural treatment of wastewater.</p> <p>River Basin Management Plans (RBMP) in line with the EC Water Directive have been prepared for Neretva and Trebisnjica (Croatia, FBH and RS). The joint framework for transboundary management of Neretva and Trebisnjica River Basins (NTRB) has been prepared and adopted by the Neretva and Trebisnjica Management Project (NTMP) Coordination Committee. Preparation of the Sava RBMP is ongoing, supported by the EC. A GEF funded project for sustainable water management in Drina basin is under preparation.</p>	<p><u>Current portfolio:</u> Sarajevo Waste Water Project (P090675, FY10); Drina Flood Protection Project (P143844, FY14); GEF Water Quality Protection (P085112, FY05); GEF Neretva and Trebisnjica Management Project GEF (P084608)</p> <p><u>Non-lending:</u> Integrated Water-Energy Study (P113685, FY13)</p> <p><u>Partners:</u> EC IPA (EUR 6.5 million): Zivinice and Mostar WWTPs; EC IPA (EUR 1.9 million): Rehabilitation of sewerage network in Ljubuski municipality;</p>	<p>The lessons for Outcome 13 also apply here.</p> <p>Regular coordination and communication should be established among key stakeholders, including not only the Ministry directly involved in project implementation but also other line Ministries involved in administrative processes.</p> <p>Reliable and accurate cost estimates are important in the preparation phase to avoid having to seek additional counterpart co-financing which is usually time consuming and delays implementation. However, even if the originally envisaged financing is not sufficient, the planned investment is likely to attract additional counterpart financing (Environment Fund, private sector etc.). Thus, in effect a lot more has been done with limited project funds (some WWTP investments had only 30% Bank financing).</p>

CPS Outcome Outcome Indicators	Status and Evaluation Summary	WBG Activities	Key Lessons
<p>Target (2015): 11% of municipal wastewater treated in accordance with new water standards. Main rivers are covered by completed or near-completed frameworks for sustainable water management.</p>	<p>Status (2015): 9% of municipal wastewater is treated in accordance with the standards. Upon finalization of activities on construction of the Mostar WWTP, 11% target will be fully achieved and with the finalization of the Sarajevo WWTP rehabilitation, the percentage will rise to 19% ; Two Management Plans for Neretva and Trebisnjica River Basin (FBH and RS) have been prepared as well as the joint framework with Croatia for trans boundary management of NTRB.</p>	<p>EC IPA (EUR 13 million): Reconstruction of Sarajevo WWTP; SIDA (EUR 5 million): Zivinice and Mostar WWTPs; EIB and EC IPA: Mostar (Complements WBG activities by construction of sewerage network)</p>	
<p>Outcome 16: Expanded coverage of protected forest and mountain areas, and strengthened institutional and technical capacity for their sustainable management.</p> <p>Baseline (2010): 2.1%, or 112,000 ha of areas under formal protection.</p> <p>Target (2013): 3% or 153,000 ha formally protected. .</p>	<p>Achieved. The Outcome indicator has been achieved in full. The original target was to expand the national network of forest and mountain protected area (PA) from 0.5% at the start of the Forest and Mountain Protected Areas Project (FMPAP) to 3% at project closing. The final result is 5.5% of the area under protection, including high value conservation forests and the special hunting reserves. The institutional and technical capacity for sustainable management of PA has increased in both Entities. All PAs are using M&E and the Protected Area Management Effectiveness (PAME) tracking tool to guide and assist more effective PA management and decision making. The preparation and/or implementation of management plans for all project PAs, baseline ecological assessments and the development of M&E systems in each park, as well as the use of the PAME tracking tool have contributed to the reduction in threat levels in the PAs and improved both the effectiveness of park management and the visitor numbers and revenue collection.</p> <p>Status (2015): 5.5% or 280,921 ha under protection (including high value conservation forests and the special hunting reserves). The institutional and technical capacity for sustainable management of PA has been strengthened in both Entities</p>	<p><u>Closed project:</u> Forest and Mountain Protected Areas - GEF (P087094; FY08-FY14, ICR: S).</p> <p><u>Current portfolio:</u> Sustainable Forest and Landscape Management Project (P129961, FY14)</p> <p><u>Non-lending:</u> Establishment of Protection Zones (P148709, FY15)</p>	<p>Public awareness campaigns and the small grants program were crucial for ensuring public support for PAs and for development of environment-friendly activities in the local communities within protected area. Participatory approach to PA management planning proved to be beneficial. A wide range of stakeholders in the PA planning process contributes to increased ownership of PA. Investments in key infrastructure of PAs are important. Even small investments in fire-fighting equipment, trails and signs, off-road vehicles for rangers bring high returns not only in enhancing the protection but also PA revenues.</p>

Summary

Pillar	No. of Outcomes	Achieved	Mostly Achieved	Partially Achieved	Not Achieved	Dropped
I Competitiveness	10	5	2	3	0	0
II Inclusion	3	1	0	2	0	0
III Environmental Sustainability	3	1	1	1	0	0
Total	16	7	3	6	0	0
Percentage	100%	44%	19%	37%	0%	0%

CPSCLR Attachment 2

Bosnia and Herzegovina: CPS Completion and Learning Review: Planned Financing Program and Actual Deliveries (FY12-FY15)

CPS PLANS (8/30/2011)					STATUS (6/30/2015)				
Projects	US\$M				Actual, Dropped, or Moved to a Different FY	US\$M			
	IDA		IBRD	Total		IDA		IBRD	Total
	Country	Regional				Country	Regional		
FY12 Program					FY12 Program				
Bosnia DPO2			100.0	100.0	<i>Dropped</i>				
Irrigation Development Project	40.0			40.0	Actual (P115954, FY12)	40.0			40.0
Disaster Management CRIF	2.0	3.0		5.0	<i>Dropped</i>				
					<i>Additional Actual Delivery</i>				
					Enhancing SME Access to Finance AF				
					(P129914, FY12)			120.0	120.0
FY12 Subtotal	42.0	3.0	100.0	145.0	FY12 Subtotal	40.0	0.0	120.0	160.0
FY13 Program				0.0	FY13 Program				
Bosnia DPO3			100.0	100.0	<i>Dropped</i>				
Land Registration II	30.0			30.0	Actual as Real Estate Registration Project	34.1			34.1
Sava Waterway Rehabilitation	16.0	15.0		31.0	<i>Dropped</i>				
FY13 Subtotal	46.0	15.0	100.0	161.0	FY13 Subtotal	34.1	0.0	0.0	34.1
FY14-FY15 Program				0.0	FY14-FY15 Program				
Sector Investment Operations	42.0			42.0	<i>(Forwarded to FY14-15, as Part of CPS PR plan)</i>				
Regional Flood Control GEF				0.0	<i>Moved to FY16</i>				
FY14-FY15 Subtotal	42.0			42.0	FY14-FY15 Subtotal	0.0			0.0

CPS TOTAL FY12-FY15	130.0	18.0	200.0	348.0	ACTUAL TOTAL FY12-FY13	74.1	0.0	120.0	194.1
PROGRESS REPORT PLANS (6/3/2014)					STATUS (6/30/2015)				
FY14-FY15 Program	IDA	GEF	IBRD	Total		IDA	GEF	IBRD	Total
Energy Efficiency Project	32.0			32.0	Actual (P143580, FY14)	32.0			32.0
Drina Flood Protection Project	24.0			24.0	Actual (P143844, FY14)	24.0			24.0
Emergency Flood Response Project	57.0			57.0	Actual as Floods Emergency Recovery Project (P151157, FY14)	100.0			100.0
DPL Competitiveness and Jobs (High Case)			50.0	50.0	Actual (P146740, FY15) <i>Not delivered (employment support operation in pipeline)</i>			50.0	50.0
Sustainable Forestry & Landscape Mgmt		5.6			Actual (P129961, FY14)		5.6		
Adriatic Sea GIF		2.4			Actual (GEF, P143921, FY14)		2.4		
FY14-FY15 Subtotal	113.0		98.0	211.0	FY14-FY15 Subtotal	156.0	8.0	50.0	206.0
					TOTAL CPS PERIOD (Actual Total FY12-FY13 + CPS PR FY14-FY15 Period)	230.1		170.0	400.1

CPSCLR Attachment 3

Bosnia and Herzegovina: CPS Completion and Learning Review: Planned Nonlending Activities and Actual Deliveries (FY12-FY15)		
Planned	CPS PLANS (8/30/2011)	STATUS (6/30/2015)
Completion FY	Activity	Actual, Dropped, or Moved to a Different FY
FY11-14	Western Balkans Programmatic Financial Sector Development	Delivered: Western Balkans Financial Sector Development Facility (P127525, FY13)
FY11-14	Western Balkans REPARIS	Delivered (FY14)
FY12	Public Expenditure Review	Delivered: Public Expenditure and Institutional Review (P122928, FY12)
FY12	Pension TA	Delivered (P122460, FY13)
FY12	Vrbas Integrated Water Management	Delivered: Vrbas Integrated Water-Energy Study (P113685, FY13)
FY13	Education Strategy	<i>Dropped</i>
FY13	Western Balkans Public Financial Management/PEFA	Delivered (P131894, FY14)
FY13-15	Western Balkans Programmatic Gender Monitoring	Delivered (P133412, FY15)
FY13-15	Western Balkans Programmatic Poverty Assessment	Delivered (P132666, FY15)
FY14	Energy Strategy	<i>Moved to FY16</i>
FY14	Western Balkans TA on Science, R&D/Innovation	Delivered: Western Balkans Regional R&D Strategy for Innovation (P123211, FY14)
		<i>Additional Actual Products</i> <u>∨</u>
		Bosnia Tobacco Crusade (P132153, FY12)
		Social Exclusion in BH and the Global Crisis (delivered under Programmatic TA, P112410, FY12)
		Regional Activation and Smart Safety Nets (P122434, FY13 and P146964, FY14)
		Rapid Assessments on Pharmaceuticals (P132589, FY13)
		Strengthening Consumer Protection in Banking and Microfinance Sector (P126464, FY13)

		<p>Vrbas River Basin Management (P117927, FY13)</p> <p>Debt Management (P147094, FY14)</p> <p>DeMPA Republika Srpska (P148479, FY14)</p> <p>Western Balkans Energy Efficiency Scale-up in Buildings (P133200, FY14)</p> <p>Medium-Term Debt Strategy - BH (P152226, FY15)</p> <p>Republika Srpska: Debt Management Reform Plan (P152560, FY15)</p> <p>Debt Management TA (P151505, FY15)</p> <p>DeMPA National (P147942, FY15)</p> <p>Establishment of Protection Zones (P148709, FY15)</p> <p>Financial Sector Assessment Program - FSAP (P150589, FY15)</p> <p>Health Service Delivery Reforms (P149748, FY15)</p> <p>Liberalizing MTPL Insurance (P144590, FY15)</p>
		<p>ROSC (P152543, FY15)</p> <p>South East Europe Regular Economic Report (FY13-FY15, each report with different code)</p>
	PROGRESS REPORT PLANS (6/3/2014)	STATUS (6/30/2015)
FY14-15	Western Balkans Job Challenges	<i>Ongoing, Programmatic (P133003, delivery in FY16)</i>
FY14-15	Western Balkans Financial Sector Outlook	Delivered (P146662, FY14)
FY15	Directions for the Energy Sector in the Western Balkans	<i>Moved to FY16 (P133231)</i>
FY15	Biomass Based Heating in the Western Balkans	<i>Moved to FY16 (P148325)</i>
FY15	Regional Deep Dive: Turn Down the Heat	Delivered (P148173, FY15)
<p><u>1</u> Includes only actual deliveries, not plans or ongoing activities.</p>		
<p>Delivered means ACS for the AAA is actual.</p>		

Annex 3 WB-IFC Indicative Program FY15-20

FOCUS AREA 1: Increasing Public Sector Efficiency and Effectiveness		
Objective	Current	Planned
1A <i>Improve management and efficiency of public finances</i>	Financing: - Strengthening Financial Management and Control Knowledge: - WB TA on Deposit Insurance Agency (DIA) Strengthening	Financing: - BiH Fiscal Resources for Growth DPL - Financial Sector Stability RBL Knowledge: - Follow-up debt reform plans and MTDS, DSA - Western Balkans Pensions TA - Distributional impact of fiscal policies assessment [TBD, subject to data availability] - Country Economic Memorandum
1B <i>Strengthen the governance and reduce the fiscal burden of SOEs</i>	Knowledge: - IFC ECA Corporate Governance TA	Financing: - BiH Fiscal Resources for Growth DPL Knowledge: - Western Balkans Pensions TA - SOE Stocktaking and Performance Analysis - Railroads ASA [TBD] - Mining sector ASA [TBD] - WBG Corporate Governance Advisory [TBD] (Improving operational framework and increasing efficiencies of SOEs that are due for privatization in the medium term) - Public Expenditure Review
1C <i>Improve public service delivery</i>	Financing: - Sarajevo Waste Water Project - GEF Water Quality Project - Solid Waste II - Supervision of Council of Europe development bank health project cofinancing (P132190) - Reducing Health Risk Factors in BiH (Swiss TF) Knowledge: - Danube Water Programme	Financing: - Bosnia and Herzegovina Health Project Knowledge: - Skills and inclusive education - Local Governance Performance, Regulatory, and Services Assessment - Undertake stocktaking of scope of PPP in water and waste water service delivery and management. - Pilot project for disclosure of operational and financial data in a PPP project in the waste water sector - Prepare roadmap for legal and regulatory framework governing PPPs.

FOCUS AREA 2: Creating Conditions for Accelerated Private Sector Growth

Objective	Current	Planned
<p>2A <i>Support a competitive business environment and access to finance</i></p>	<p>Financing:</p> <ul style="list-style-type: none"> - WB Real Estate Registration Project - WB Business Environment DPL - IFC's outstanding portfolio of US\$ 92 million, of which 73% in manufacturing, agribusiness and services, and 26% in financial institutions - WB SME Access to Finance (additional financing) - WB Agriculture and Rural Development <p>Knowledge:</p> <ul style="list-style-type: none"> - Improving Investment Climate and Institutional Strengthening Project - IFC Corporate Governance Program (planned extension) - Tax Transparency and Simplification Program - IFC ECA Resource Efficiency - Microfinance advisory (planned extension) 	<p>Financing:</p> <ul style="list-style-type: none"> - BiH Business Environment RBL - IFC's investments into domestic industry - WB SME support for selected sectors - IFC's investment into domestic industry, financial institutions, and microfinance institutions <p>Knowledge:</p> <ul style="list-style-type: none"> - Western Balkan Investment Climate, Competitiveness and Agribusiness Project - Corporate Governance private sector advisory - SME banking advisory (risk management, CG and agri-finance (regional)) - Western Balkans Debt Resolution and Business Exit Program - Energy and Water Efficiency for Corporates - Sub-national investment climate project - EU REPARIS
<p>2B <i>Improve labor market flexibility and social protection</i></p>	<p>Knowledge:</p> <ul style="list-style-type: none"> - TA on labor market dialogue 	<p>Financing:</p> <ul style="list-style-type: none"> - BiH Fiscal Resources for Growth - Employment Support Project <p>Knowledge:</p> <ul style="list-style-type: none"> - Western Balkans Pensions TA - Social sustainability of structural reforms [TBD] - STEP Skills Measurement Program
<p>2C <i>Upgrade economic infrastructure</i></p>	<p>Financing:</p> <ul style="list-style-type: none"> - Energy Efficiency Project <p>Knowledge:</p> <ul style="list-style-type: none"> - IFC Balkans Renewable Energy 	<p>Financing:</p> <ul style="list-style-type: none"> - Federation Road Sector Modernization - RS roads [TBD] - PPP for concession of Corridor 5c - PPP for medium to large HPP - ICT privatization - Investments in economic infrastructure, especially in case opportunities for private sector participation/privatization - IFC power advisory (regional) <p>Knowledge:</p> <ul style="list-style-type: none"> - Power Sector Note (ESMAP funded analytics for FY16) - Pilot project for disclosure of operational and financial data in a PPP project in the transport (road) sector - PPP Advisory review of fiscal risks from infrastructure projects and prioritization of infrastructure projects

FOCUS AREA 3: Building Resilience to Natural Shocks

Objective	Current	Planned
<p>3A <i>Prevent the degradation of natural resources</i></p>	<p>Financing: - Sustainable forest and landscape management - Solid Waste II</p>	<p>Financing: - Continued support to Forestry Sector and Sustainable Forest Practices to complement ongoing GEF SFLMP - Solid Waste III Knowledge: - Inventory and strategy for management of Hot Spots in BiH - Update of the Bosnia and Herzegovina Solid Waste Management Strategy</p>
<p>3B <i>Build resilience to floods</i></p>	<p>Financing: - Drina Flood Protection Project - BiH Floods Emergency Recovery Project - Agriculture and Rural Development - Irrigation Development Project - Regional Drina Basin Management Project Knowledge: - Support for Drina Water Resources Management - Joint Action for Flood Management in Sava River Basin</p>	<p>Financing: - Possible Disaster Risk Management/flood protection operation</p>

Annex 4 Selected Indicators of Bank Portfolio Performance and Management

As of Date 09/16/2015

Indicator	FY13	FY14	FY15	FY16
Portfolio Assessment				
Number of Projects Under Implementation ^a	10.0	13.0	13.0	13.0
Average Implementation Period (years) ^b	4.4	3.8	4.0	4.3
Percent of Problem Projects by Number ^{a, c}	10.0	7.7	7.7	7.7
Percent of Problem Projects by Amount ^{a, c}	3.5	7.0	6.0	6.0
Percent of Projects at Risk by Number ^{a, d}	30.0	15.4	15.4	15.4
Percent of Projects at Risk by Amount ^{a, d}	18.2	10.7	11.8	11.8
Disbursement Ratio (%) ^e	8.1	24.1	24.1	7.7
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY80	Last Five FYs
Proj Eval by OED by Number	59	4
Proj Eval by OED by Amt (US\$ millions)	1,216.6	78.8
% of OED Projects Rated U or HU by Number	15.8	0.0
% of OED Projects Rated U or HU by Amt	25.6	0.0

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio.

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex 5 Operations Portfolio (IBRD/IDA and Grants)

As of 08/31/2015

Closed Projects **63**

IBRD/IDA*

Total Disbursed (Active)	260.10
of which has been repaid	0.13
Total Disbursed (Closed)	600.57
of which has been repaid	152.16
Total Disbursed (Active + Closed)	860.67
of which has been repaid	152.29
Total Undisbursed (Active)	279.91
Total Undisbursed (Closed)	
Total Undisbursed (Active + Closed)	279.91

Active Projects

Project ID	Project Name	<u>Last PSR</u>			<u>Original Amount in US\$ Millions</u>					<u>Difference Between Expected and Actual Disbursements %</u>	
		<u>Supervision Rating</u>		<u>Fiscal Year</u>	<u>IBRD</u>	<u>IDA</u>	<u>Grants</u>	<u>Cancel.</u>	<u>Undisb .</u>	<u>Orig.</u>	<u>Frm Rev'd</u>
		<u>Development Objectives</u>	<u>Implementation Progress</u>								
P101213	AG & RURAL DEVT	MS	MS	2007	0.0	21.0		0.0	3.0	3.1	3.1
P146740	BiH DPL	#	#	2015	50.0	0.0		0.0	50.0	0.0	0.0
P151157	BiH Floods Emergency Recovery Project	S	MS	2014	0.0	100.0		0.0	70.5	14.0	0.0
P143844	Drina Flood Protection Project	S	MS	2014	0.0	24.0		0.0	21.9	1.0	0.0
P143580	Energy Efficiency Project	S	MS	2014	0.0	32.0		0.0	28.7	-0.6	0.0
P115954	IRRIG DEVT	S	MS	2012	0.0	40.0		0.0	27.9	0.0	11.0
P085112	QUALITY PROTECT (GEF)	S	MS	2005			8.9	0.0	0.3	0.3	0.3
P128950	REAL ESTATE REGISTRATION PROJECT	S	S	2013	0.0	34.1		0.0	22.0	3.4	0.0
P090675	Sarajevo Waste Water (for. Mun. Dev.)	MS	MS	2010	35.0	0.0		0.0	18.9	20.0	0.0
P111780	SME ACCESS TO FINANCE	S	S	2010	190.0	0.0		0.0	19.1	-88.8	0.0
P116774	SOCIAL SAFETY NETS & EMPL	MS	MS	2010	0.0	15.0		0.5	0.2	1.1	0.0

Annex 6 Statement of IFC's Held and Disbursed Portfolio

*As of 8/31/2015
(in USD Millions)*

FY Approval	Company	Committed					Disbursed Outstanding				
		Loan	Equity	**Quasi Equity	*GT/RM	Partici pant	Loan	Equity	**Quasi Equity	*GT/RM	Partici pant
2013	Bekto Precisa	8.15	0	0	0	0	8.15	0	0	0	0
2008	Cimos Bosnia	0	0.00	25	0	0	0	0.00	25	0	0
2008	Heart Center BIH	2.16	0	0	0	0	2.16	0	0	0	0
2015	MF Banka	3.84	0	0	0	0	3.84	0	0	0	0
	Mercator BIH	3	0	0	0	0	3	0	0	0	0
2003/04/05/10/11/15	Raiffeisen-BOS	12	0	0	0	0	6	0	0	0	0
2007/11/13	Sisecam Bosnia	31	0	0	0.47	0	31	0	0	0.47	0
	UniCredit Bosnia	0	8	0	0	0	0	8	0	0	0
Total Portfolio:		60.60	8.43	24.66	0.47	0.00	54.99	8.43	24.66	0.47	0.00

* Denotes Guarantee and Risk Management Products.

** Quasi Equity includes both loan and equity types.

Annex 7 Reform Agenda

Reform Agenda for Bosnia and Herzegovina 2015 – 2018

1. The Council of Ministers of Bosnia and Herzegovina, the Government of the Federation of Bosnia and Herzegovina, the Government of Republika Srpska, the governments of: Una-Sana Canton, Posavina Canton, Tuzla Canton, Zenica-Doboj Canton, Bosnia-Podrinje Canton, Central Bosnia Canton, Herzegovina-Neretva Canton, West Herzegovina Canton, Sarajevo Canton, Canton 10 (West Bosnia Canton) and the Government of Brcko District recognise an urgent need to initiate a process of rehabilitating and modernising the economy with a view to: fostering sustainable, efficient, socially just and steady economic growth; creating new jobs; increasing and more-appropriately targeting social assistance; and creating a favourable and just social environment. Concrete actions aimed at fiscal and financial sustainability and socio-economic reform will be augmented by targeted measures: to strengthen the rule of law and the fight against corruption; and to strengthen administrative capabilities and increase efficiency in public institutions at all levels of government (the term "all levels of government" hereinafter includes the Council of Ministers of Bosnia and Herzegovina, the Government of the Federation of Bosnia and Herzegovina and the Government of Republika Srpska, cantonal governments and the Government of the Brcko District)
2. This *Reform Agenda* sets out the main plans for socio-economic and related reforms of all levels of government during the remainder of their democratic mandates and largely reflects their programmes of government that have already been initiated. The Reform Agenda is also intended to respond to the call of the Foreign Affairs Council of December 2014 to develop an initial agenda for reforms, in line with the EU acquis. All levels of government are mindful that meaningful progress on the implementation of the agenda for reform will be necessary for a membership application to be considered by the EU.
3. The priorities for reform were previously discussed with International Financial Institutions (IFIs) and the EU. As such, the reforms could also form the basis for negotiating individual programmes of financial and technical assistance from the IFIs and the EU as well as from other donors and partners who may wish to support the Reform Agenda. While each of these institutions will negotiate its individual programmes and monitor progress on its own priorities, the programmes will be closely coordinated and complementary to the overall reform effort.
4. In addition, the Reform Agenda is closely aligned with the aims of the EU's new approach to economic governance in the Western Balkans and is in conformity with the Economic Reform Programme as a fundamental element to encourage comprehensive structural reforms to maintain macroeconomic stability and to boost growth and competitiveness.
5. Implementation of the Reform Agenda will begin immediately. A broad set of **medium-term priorities**—as set out below—will be distilled into specific **initial measures and undertakings** that will be prepared and implemented during the remainder of 2015 and in early 2016 individually with each institution. Specifically, these initial measures and undertakings will be further refined in consultation with the IFIs and the EU and will lead to follow-up specific measures that will bring the Agenda beyond its initial horizon and into the medium term.

6. The state of public finances at all levels of government in BiH is such that it is necessary to implement fiscal consolidation that will gradually reduce the budget deficit and put the public debt on a downward medium-term trajectory. Therefore, authorities in BiH have opted for a strong three-year program of fiscal consolidation. In order to avoid unfavourable external financing conditions, authorities in BiH expect to conclude financial arrangements with the International Monetary Fund, the World Bank and the European Commission, which will provide financial support in implementation of fiscal consolidation measures.
7. Fiscal consolidation aims to provide a stable macroeconomic environment. But for a stable, positive real growth in the medium and long term it is necessary to implement a number of structural reforms in the areas of: labour legislation; public administration reform and employment policy in the public sector; improvements in the business climate and competitiveness; the restructuring of public enterprises; reform of social welfare; health sector reform; and the rule of law.

The Reform Agenda is expressed in six areas of importance as follows:

Public Finance, Taxation and Fiscal Sustainability

8. Budgets will be placed and maintained on a firm medium-term fiscal foundation to be agreed with the IMF in a successor arrangement to the current SBA. This new fiscal framework will set the level of public debt on a downward trajectory, while creating room for an increase in public investment and, at the same time, reducing the size of the government sector in the economy. Fiscal consolidation will be carried out by reducing public spending, as well as increasing public revenues. The increase of public revenues will be achieved by increasing revenues from consumption taxes, expanding the tax base, reducing the grey economy, reducing tax exemptions and improving tax administration operations. If the above measures prove to be insufficient by the end of 2015, additional measures, including a VAT increase, will be considered, in consultation with the IMF, on the basis of a thorough assessment, and discussed at a high level meeting
 - While reforms to taxation systems and public expenditure levels will need to be conducted in an overall fiscal envelope that will ensure medium-term fiscal sustainability, there is also a clear need to reduce the size of the government sector in the economy and to significantly lower the tax burden on work and investment. These imperatives point to the need to significantly reduce public expenditure at all levels of government and to improve its efficiency.
 - Fiscal consolidation must lead to a reduction of the budget deficit and stop the growth of public debt. The taxation system will be reformed, in order to reduce the burden on labour, but these reforms cannot be implemented within the existing fiscal framework.
 - Reduction of the burden on labour needs to be implemented by reducing contributions for health insurance, coupled at the same time with the need to ensure additional revenues for extra-budgetary funds to cover the losses generated as a result of the reduced contribution rate.
 - It is necessary to limit the total fund of salaries and all current expenditure across all levels of government, without the possibility of an increase regardless of the growth in tax revenues.
 - Measures to improve tax compliance will be actively pursued. This will include further efforts to share information across the four tax authorities and implementing a risk-based approach for audits and inspections, all according to the constitutional competencies of each of the tax agencies and

within the concluded memorandum of understanding as well as increased efforts to collect outstanding tax debts. E-services for VAT and income taxes will be introduced.

- Expenditure cuts will mostly result from implementing public administration reforms—including strict controls on employment and total public-sector wages—and from pension and social welfare reform, as well as more transparent, prioritized planning and execution of public investment.
- The Federation of BH and Republika Srpska, the Cantons and Brcko District will improve fiscal controls and financial management. New Laws on Fiscal Responsibility (in the RS) and on Financial Control and Management (in the FBiH) will be enacted and all levels of government will adopt new Public Internal Financial Control (PIFC) development strategies.
- Measures to strengthen controls over lower levels of government, extra-budgetary funds, and public enterprises will be actively pursued (as agreed with the IMF and World Bank). Comprehensive strategies to tackle remaining loss-making state-owned enterprises, which also have a sizable stock of unpaid social security contributions, will be adopted and implemented by the Government of the Federation of BH, the Government of Republika Srpska, the governments of Cantons and Brcko District.
- The Government of the Federation of BH, the Government of Republika Srpska, the governments of Cantons and Brcko District will seek financial and technical assistance of the World Bank, to implement the reform of the health sector. The reform is to include a solution for outstanding debts in the health sector, introduction of the treasury system and the definition of new models and sources of funding, with a more precise regulation of the network of health care institutions. Through a DPL programme, the World Bank will be asked to provide technical and financial support for the reorganisation of the health sector. The Federation of BH, Republika Srpska, Cantonal and Brcko District governments will use these funds for the settlement of outstanding liabilities of the health sector (contributions in particular) by the end of 2015. In parallel, the authorities in BiH will support an increase in excise duties on tobacco and alcohol which will be direct income of the health insurance fund of the RS and health insurance funds in the FBiH, Cantons and Brcko District by the end of 2015.
- Sustainability of public debt is central to maintaining the stability of public finances but it can only be achieved through reducing budget deficits. Efforts to share information about the debt portfolio structure, gross borrowing needs and plans as well as arrears recognition and clearance will ensure realism of the medium term fiscal framework.

The Business Climate and Competitiveness

9. Future growth and prosperity must be based on attracting investment. There is a need to boost competitiveness by eliminating well-documented barriers to investment. In addition, there is a need to level and clear the playing field for investment by removing hidden subsidies and other assistance to many large enterprises and improving bankruptcy procedures and moving ahead with the resolution of unviable enterprises. Moreover, there are inconsistencies and complexities in the regulatory frameworks and tax systems that pose major problems for potential investors in the economy and these are compounded by high administrative barriers:
 - Reforms to the business environment will include: in the FBiH, new Laws on Companies and on Foreign Direct Investment and simplifying and automatizing business registration; expediting procedures for getting construction permits and electricity; facilitating exports by continuing the inspections reform and strengthening national quality control in line with EU requirements; examining the feasibility to pursue fiscally sound public-private partnerships and greater private

sector participation in infrastructure development; and every level of government will prepare a comprehensive listing (and publication) of para-fiscal fees to reduce them and make them more transparent in accordance with the distribution of competencies.

- Better investor protection laws and practices are needed including improved corporate governance, strengthened risk-management practices to improve access to financing (especially for new enterprises), improved protection for minority shareholders and more-efficient insolvency frameworks that would be achieved by amending legislation on bankruptcy which will introduce a new process of "pre-liquidation procedure" with the aim of financial restructuring of the debtor to avoid bankruptcy in order to preserve jobs and the continued performance of the core business of the company. The Federation of BH and Republika Srpska will review their bankruptcy laws with a view to shortening bankruptcy proceedings. The FBiH will introduce commercial courts.
- Public enterprises will be classified into those that are viable (with minor or major restructuring requirements) and those that are not. These lists will be published. They will form the basis for comprehensive Entity restructuring and privatisation/liquidation medium-term programmes. The Government of the Federation of BH and the Government of Republika Srpska will seek financial and technical assistance of the World Bank to prepare and to implement the restructuring programme for public companies. Special attention will be paid to restructuring railroads (in both entities) and mines (in the Federation of BiH), which implies a new organisation and number of employees. Early plans will be designed to prepare BIH Telecom for partial privatisation in the FBiH.
- Further efforts to safeguard financial sector stability and create the conditions necessary to revive bank lending will be actively pursued in consultation with the Central Bank of Bosnia and Herzegovina and with the IMF. As a part of this, financial sector legislation will be adapted to EU Directives and Basel requirements, as applicable to the level of development of the domestic financial market, and at the same time the oversight of banks will be strengthened by the Entity Banking Agencies.
- A new Law on Customs Policy will be implemented that will simplify customs processing procedures and reduce administrative requirements thereby facilitating trade.

The Labour Market

10. In order to gain a footing on the road to sustainable growth, Bosnia and Herzegovina must embrace its strategic advantages. These include significant potential in the workforce which is not sufficiently utilised at present. The low activity rate of the working-age population and the high unemployment rate are often the result of mismatches between supply and demand for skilled labour that restrict development opportunities. In BiH, there is a significant number of long-term unemployed who are discouraged to seek employment. Existing labour laws no longer reflect the social and economic relations in BiH and some provisions of these codes are contradictory to other laws while other provisions are vague and insufficiently flexible. The culture of collective bargaining and social dialogue is underdeveloped and often burdened by unrealistic demands of the social partners.
- A significant reduction in social security contributions (especially for low-wage earners) would reduce labour costs, help to attract investors and bring more employees into the formal sector (and reduce the prevalence of informal sector employment), yet this cannot be implemented without securing additional funding for extra-budgetary funds.

- Reforms of the education system will be undertaken over the medium term with the aim of enhancing its connection to the demands of the labour market.
- The introduction of support schemes for first-time job seekers will be considered.
- Working in the grey economy will be actively discouraged, including by preventing the underreporting of wages as the basis for the calculation and payment of taxes and contributions.
- Other labour market reforms will be enacted as agreed with the IMF and World Bank and in consultation with the social partners. Entity governments will improve the drafts of new labour codes in consultations with social partners, in order to increase flexibility in working conditions (including the facilitation of part-time employment) and allow differentiated wage setting based on skills, qualifications, level of experience, and performance.
- At the same time, the entities will step up labour inspections and increase penalties for labour law violations and endeavour to protect workers' rights consistent with ILO labour standards and EU labour directives. The employment services will introduce management practices to improve efficiency in getting people back to work and the provision of mandatory health insurance for the unemployed will be delinked from the function of mediating in recruitment.

Social Welfare and Pension Reform

11. In addition to promoting initiative and efficient industry, a modern and caring society must provide for those who cannot take care of themselves. At the same time, social welfare systems must not distort incentives in the economy and must be fiscally sustainable. To achieve these ends, the Government of the Federation of BH, the Government of Republika Srpska and governments of Cantons and Brcko District must improve the targeting of social assistance through a set of measures that would make social protection policies more effective, efficient and equitable. Social protection needs to work for those who really need it—or who pay for it—and must be put on a sustainable financial footing. Pension systems also need to be put on a sustainable financial path if the accumulated rights of workers are to be met over the medium term.
 - Social welfare systems will be reformed (in consultation with the World Bank and IMF), including improved targeting for non-contributory social assistance and establishing a centralized database in the FBiH of all beneficiaries of social transfers. Reform efforts will seek to provide incentives to beneficiaries to become active participants in the economy while protecting and increasing social assistance for those who are most in need.
 - In FBiH, insurance-based systems must be put on a firm financial footing through: containing the cost of privileged pensions and reducing early retirement options for hazardous occupations; the introduction of reasonable penalties for early retirement and bonuses for late retirement in order to raise the effective retirement age; and the introduction of sustainable benefit indexation.
 - Audits to verify the eligibility of existing beneficiaries will be accelerated throughout the FBiH and the FBiH and the Cantonal Governments will strengthen the legislative framework to improve the audit process. There will be accelerated implementation of pension reforms based on a new pension law in the FBiH.
 - The FBiH will seek assistance from the World Bank in addressing arrears in employee contributions to the social funds.
 - In the RS, the government will re-examine the need for parametric reforms of the pension system.

- The Federation of BH and Republika Srpska will work more vigorously on developing voluntary-pensions scheme proposals. The FBiH will work on crafting the required legislation while the RS will continue work to establish the first voluntary pension fund.

Rule of Law and Good Governance

12. There is a need to ensure the irreversible entrenchment of the rule of law which must be built on a foundation of concrete progress in the fight against organised crime, terrorism and corruption. All necessary institutional and operational developments will aim to provide citizens throughout BiH with a safer and corrupt-free environment. At the same time, governments at all levels in BiH will enhance their commitment to restore overall citizens' trust in rule of law institutions by developing capacities, accountability, professionalism and integrity.
 - The Justice Sector Reform Strategy/Action Plan (2014-2018) will be adopted; effective prevention of corruption and conflict of interest within the judiciary will be established; professionalism and integrity will be enhanced by means of prescribing objective criteria for appointments of members of the judiciary and the adoption of integrity measures throughout the judiciary in BiH; and disciplinary accountability of the members of the judiciary will be reinforced by adopting new rules for disciplinary proceedings and introducing new disciplinary measures. Courts will have to make decisions within a reasonable time and the possibility must be considered that utility cases could be resolved out of court. The procedure for sale of seized property will be improved and the role of bailiffs will be enhanced in order to reduce the burden on the courts in the enforcement procedure.
 - The professional, effective and efficient delivery of police services is key to facing security challenges. Appraisals will be carried out to identify measures to further enhance the integrity of police agencies at all levels. Closer cooperation of policing at all levels will be enhanced and developed, in line with established constitutional competencies. Regional and international police cooperation must continue to be developed, including concluding the operational agreement with EUROPOL in accordance with the interim decision on the establishment of a system of cooperation and exchange of information between the relevant law enforcement agencies in Bosnia and Herzegovina and EUROPOL.
 - An anti-corruption strategy will be adopted and effective prevention and monitoring structures will be set up in line with relevant international standards and respective of constitutional competencies and adopted documents at all levels of authority. Rule of Law institutions shall abide by the highest integrity standards themselves, while adequate integrity measures shall be put in place at all levels of authority to ensure that corruption is prevented and sanctions effectively applied. Countering serious crime and corruption, in addition to more effective investigation, prosecution and conviction shall also be based on a solid legal and institutional framework—harmonised within agreed minimum standards—governing asset seizure and money laundering at all levels of authority in BiH.
 - It will be necessary to adopt a new BiH counter-terrorism strategy and associated action plans; conclude the operational agreement with EUROPOL to ensure the two-way flow of confidential information on crime between BiH and Member States; enhance the flow of information between police and prosecutors by increasing the effectiveness of the data exchange system; adopt a new integrated border management strategy ensuring better cooperation between all related agencies in BiH and across its borders and harmonise all laws on civilian possession of weapons.

- The legal and regulatory framework for combating money laundering and the financing of terrorism will be brought fully in line with international standards and with Financial Action Task Force recommendations.

Public Administration Reform

13. Public administration reform is one of the key priorities in ensuring fiscal sustainability and the quality of public service delivery to citizens. It needs to be carried out in close relation to reforms in the socio-economic system and rule-of-law.
 - All levels of government will adopt key principles underlying the next round of public administration reform. A more modern, competent, transparent, effective, cost-efficient and accountable public administration will improve the delivery of public services and save costs. These plans will involve basic, substantial reforms to public financial management.
 - There is support for significant civil service reform at all levels of government. All levels of government will draft new laws on civil servants and employees, with the assistance of the World Bank and SIGMA, to facilitate public administration reform and introduce greater flexibility in working arrangements. These laws will be adopted shortly following the adoption of the new Entity labour laws. Candidates for public service employment will be assessed on the basis of pre-established eligibility criteria and the results of competency tests and administrations will ensure the recruitment of those ranked highest.
 - All levels of government will introduce limits on hiring in the public administration until revised staffing systems can be devised and implemented (including the use of service norms) and public-sector wages will be frozen until a revised system of wage setting according to merit can be put in place.
 - Publication of decisions on complaints in Public Procurement procedures (as a legal obligation) is central to ensuring transparency in procurement procedures—through deliberations on appeals and public access to the case law of the Procurement Review Body.
14. All levels of government will continue to consult closely with the EU on this evolving Agenda and will seek to clarify and explain any significant departures from established understandings so that progress can be clearly measured, understood and assessed on a regular basis. Regular Reports on progress will be submitted to the EU Delegation in Sarajevo. These will be very factual and technical in nature and will be brief (while, at the same time, giving the full content of any measures adopted and the circumstances behind any delays or changes in plans). The first such Report will be due on November 15, 2015.
15. Full support will be provided for the successful completion of the population and housing census in BiH in full compliance with the provisions of the Law on Census, associated regulations and EU statistical standards on census activities.
16. Representatives of the EU and IFIs will be invited for regular coordination meetings intended to clarify technical details and assist in the preparation of Reports. In addition, progress on implementation of the Reform Agenda will be reviewed with the EU and IFIs at a high level meeting to be held toward the end of November. This will present an opportunity to take stock of progress and to agree on any substantive revisions.

17. All levels of government in Bosnia and Herzegovina will undertake not to challenge, hamper or block the implementation of arrangements with International Financial Institutions who are directly and indirectly related to the reform process that is implemented or being implemented by a particular level of authorities within its constitutional jurisdiction.

Annex 8 Constrained Socio-Economic Opportunities for Roma

Official statistics in BH²¹ indicate that 8.846 Roma citizens live in the country. However, unofficial data suggest that between 75.000 and 100.000 Roma live in BiH, which makes them one of the largest 17 national minorities, representing approximately 2.0% of total estimated BiH population. Roma are the most vulnerable minority in the country. In 2011, 20% of Roma people surveyed live under 2.15 USD poverty line, while 41% reported difficulties in paying for basic goods and services.

The Roma population in Bosnia and Herzegovina has a lower stock and utilization of assets than the non-Roma. Only 6% of children aged 3 to 6 years attend preschool education and 61% compulsory education, compared to general population enrolment rates of 96%. The situation is markedly worse in upper secondary education, where only 15 out of 100 Roma students are enrolled, compared to 72 non-Roma. Only 15% of young Roma get to finish upper secondary education. Roma spend 5 years on average in formal education, while non-Roma generally spend around 10,8 years. According to MICS 4 survey, 68.9 percent of Roma women aged 15-24 is illiterate compared to 99.3 percent of non-Roma in the same age group. The average literacy rate of Roma remains consistently below the general population.

The Roma population in has lower access to basic social services Most Roma live in informal settlements, without access to sanitation and improved water sources or secure housing: 35 percent have no access to secure housing, compared to 11 percent for non-Roma neighbors. Similarly, 22 percent of Roma have no access to improved sanitation, compared to 9 percent for the non Roma. One third of Roma do not have medical insurance (compared to only 4% of non-Roma), reducing their access to healthcare services.

Roma have less access to economic opportunities, excluding them from contributing to and benefitting from economic growth. The unemployment and informal employment rates are much higher for Roma (54% compared to 30% and 81% compare to 22%, respectively). Over two-thirds of the Roma formally employed are unskilled workers (70%), compared to 10% the general population. Lack of formal qualifications along with the general high unemployment constitute serious obstacles for Roma employment.

Roma inclusion should be mainstreamed into key government policies, strategies, and budgets, proven interventions and policies with emphasis on education, early child development, employment and integrated approaches to Roma inclusion at local level should be designed and scaled up. Local pockets of poverty should be mapped, so that inclusion programs can be better targeted. Promoting an evidence-based approach, including rigorous evaluation of existing initiatives is also essential.

Source: UNDP/WB/EC Regional Roma household Survey, 2011²² and MICS 4, UNICEF,2011-2012

²¹Official Population Census, 1991. No recent official statistics exist.

²² UNDP/EC/WB Regional Roma survey 2011, available at: www.eurasia.undp.org. Methodology of the Roma survey: For the purpose of the survey approximately 750 Roma and 350 non-Roma households from nearby communities were selected from random sample of communities where Roma are more than national average.

Annex 9 Data availability and challenges in BiH

BiH faces a number of data limitations and issues with data transparency which are important development issues for the country to unleash its full potential. This has constrained the analysis, leading to some gaps in knowledge. This box notes the main data constraints faced by the WBG team.

Household data: Household surveys whose samples were representative for Bosnia and Herzegovina, the Federation of Bosnia and Herzegovina, and Republika Srpska were undertaken in 2004, 2007 and 2011. A new survey is in the field at the time of writing. This means that the latest available data for estimating poverty dates from 2011. Analysis such as the factors driving poverty and the characteristics of poor and B40 households was constrained by the vintage of the latest data.

Income data: While a nationally representative Labor Force Survey is undertaken each year (with results reported in the SCD), broader income data relies on the household survey data and is of low quality. The household survey focuses on consumption – a more reliable way to estimate living standards and poverty. Unfortunately, household incomes are not captured very well in the HBS survey. While we have made efforts to understand the changes in income sources (including wage income, social assistance and remittances), the difficulties with capturing household incomes, particularly informal incomes, are similar to those encountered in many other countries; this analysis should be considered within the context of this caveat.

National accounts data: The BiH Agency for Statistics (BHAS) produces the national accounts (NA) for BiH. The compilation of data started in 2005 with the reorganization of the BHAS and NA data are compiled based on the SNA'93 and ESA'95. The GDP data are collected in accordance with the production and expenditure approach, although their time-series availability differs and there is a discrepancy between the numbers produced under each method. Production approach data are available since 2000, while the expenditure approach data since 2006. In 2008 the estimates of GDP by production approach were compiled for the period 2000-2003 and the data series was revised backward for the period 2000-2007 and published. It is worth noting that in the period prior to 1991, the concept of material production was applied in BiH, while for the period 1992-1995 there were no reliable estimates of the BiH GDP due to the war. Aggregate countrywide estimates of GDP based on the production approach are prepared by the BHAS based on the data compiled separately for statistical institutes in the Federation of Bosnia and Herzegovina, Republika Srpska and Brcko District. As for the expenditure approach, annual GDP estimates were compiled on an experimental basis for years: 2004 and 2005, both at current and constant prices. These were disseminated for the first time in 2007. The estimates of GDP by expenditure approach are now a part of regular compilation program of NA estimates. Due to the fact that neither an Input-Output framework nor supply-and-use tables have been developed yet the discrepancy between the two approaches of GDP estimates persists. In addition the BHAS presented for the first time quarterly estimates of GDP by production approach on June 2013. Historical time series, compiled by the production approach is available from the first quarter 2006 to the last quarter of 2012 by NACE Rev 1.1 and for the first quarter of 2008 to the fourth quarter of 2014 by the NACE Rev.2.

Fiscal data: The World Bank Group has access to public sector revenues and expenditure data in the Federation of Bosnia and Herzegovina, and Republika Srpska (central and general government)

via CBBH online portal and ITA publications. This is publicly available and is reported in this SCD. However, several caveats are warranted. Fiscal data reported by the governments, the Central Bank and the IMF have significant discrepancies in some years. A large part of the differences results from a lack of knowledge (or recording) of donor financing. Significant knowledge gaps also exist in terms of canton and municipal debt in FBiH and contingent liabilities. In addition, State-Owned Enterprises may generate both significant revenues and expenditures, not all of which are believed to be captured by the fiscal accounts.

State-Owned Enterprises: In addition to revenues and expenditures which should, in some cases, be captured by the fiscal accounts but are not, there is a lack of understanding even as to the number of SOEs (including those established at canton and municipal level), their liabilities (notably toward employees), the number of employees, as well as other factors. This reduces our ability to analyze the true extent of the public sector and its economic impact.

Other areas: Several other areas were also found to lack information. This includes education – where the latest internationally comparable data date from 2007 and where there is little information on the skills required by firms; the size of the informal sector (though we do estimate this using Labor Force Survey data); and the full impact of the war on output. In addition, at the time of analysis, 2013 census data was available only on a municipal level and not on a sub-municipal level.

Annex 10 Map of Bosnia and Herzegovina

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