



# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 18-Jun-2019 | Report No:



**BASIC INFORMATION**

**A. Basic Program Data**

Country Bosnia and Herzegovina	Project ID P168943	Parent Project ID (if any)	Program Name BiH Water and Sanitation Services Modernization Program
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 20-Mar-2020	Estimated Board Date 16-Sep-2020	Does this operation have an IPF component? Yes
Financing Instrument Program-for-Results Financing	Borrower(s) Ministry of Finance and Treasury	Implementing Agency Ministry of Agriculture, Water Management and Forestry of Federation of Bosnia and Herzegovina, Ministry of Agriculture, Forestry and Water Management of Republika Srpska	Practice Area (Lead) Water

**Proposed Program Development Objective(s)**

The Program development objective is to support the government of Bosnia and Herzegovina to strengthen the institutional capacity at Entity and Municipal level for improved public WSS service delivery.

**COST & FINANCING**

**SUMMARY (USD Millions)**

<b>Government program Cost</b>	458.00
<b>Total Operation Cost</b>	75.00
Total Program Cost	70.00
IPF Component	5.00
<b>Total Financing</b>	75.00
<b>Financing Gap</b>	0.00

**FINANCING (USD Millions)**



<b>Total World Bank Group Financing</b>	75.00
World Bank Lending	75.00

## B. Introduction and Context

### Country Context

1. **Bosnia and Herzegovina’s (BiH) is a Western Balkan country with a population of 3.53 million people<sup>1</sup>, and a complex governance structure.** The general government sector consists of four units: BiH Council of Ministers, Government of the Federation of Bosnia and Herzegovina (FBiH), Government of Republika Srpska (RS), and Government of Brcko District (BD). The FBiH is further decentralized to 10 cantons, each with their own government. At the local level, both the FBiH and the RS exercise their authorities through 79 and 62 municipalities respectively. In this complex governance structure, many public services, including water and sanitation, are delivered at the local level. often presents challenges to delivery of effective public services.

2. **Despite relative success in establishing and maintaining macro-economic stability and multiple reform efforts, the country still faces various development challenges.** On average, the country experienced a relatively low GDP growth of 1.86 percent for the period of 2011 to 2017.<sup>2</sup> The catastrophic floods in May 2014, which affected various aspects of the economy particularly agriculture and energy, further reduced growth in 2014 to only 0.8 percent.<sup>3</sup> Although unemployment has decreased since 2016<sup>4</sup>, it remains high compared to international standards at 20.8 percent in 2018<sup>5</sup>, limiting internal domestic demand. The poverty rate, according to the latest household budget survey of 2011, remains high with 15 percent of the population living below the poverty threshold.<sup>6</sup> In addition, 32.9 percent of the rural population is at-risk-of-poverty<sup>7</sup> compared to 17.3 percent of the urban population (Ceriani & Ruggeri Laderchi, 2015). Basic infrastructure service delivery is weak given its cost and the municipal sector is mostly unreformed resulting in poor quality of services and financially unsustainable operation.<sup>8</sup>

3. **In the context of the BiH EU accession aspirations, water and wastewater management is a core part of the State’s Environmental Approximation Strategy for meeting the EU Environmental acquis (2017) which was adopted by BiH in 2017.** Its accompanying Entity-level documents provide guidelines regarding approximation to the EU directives

<sup>1</sup> BiH Statistics Agency – 2013 census.

<sup>2</sup> World Bank. (2019). Data Bank World Development Indicators. Accessed from: <https://databank.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG/1ff4a498/Popular-Indicators>

<sup>3</sup> The estimated cost of the floods in terms of lost output and damages was equivalent to 15 percent of GDP (World Bank, 2015).

<sup>4</sup> Unemployment rate was 25.4 percent in 2016 according to that year’s labour force survey.

<sup>5</sup> World Bank. (2019). Data Bank World Development Indicators. Unemployment, total (% of total labor force) (modeled ILO estimate).

<sup>6</sup>World Bank. (2015). *FY16-20 Country Partnership Framework for Bosnia and Herzegovina*.

<sup>7</sup> The share of people with an equivalised disposable income (after social transfer) below the at-risk-of-poverty threshold, which is set at 60 percent of the national median equivalised disposable income after social transfers.

<sup>8</sup> World Bank. (2019). *Water and Wastewater Services in the Danube Region: A state of the Sector 2018 Update - Regional Report*. Washington DC: World Bank.



relating to this sector (Drinking Water Directive and Urban Waste Water Treatment Directive). Hence, most of the attention is directed to urban wastewater collection and treatment and to improving drinking water quality. The main gaps identified in the water sector for approximation with the EU Water acquis are: i) the level of coordination and harmonization of activities between different level of authorities is not satisfactory in the context of EU acquis transposition; and ii) the existing human and financial resources do not provide the necessary basis of long-term sustainability and implementation of EU legislation and other international obligations, and the existing institutional infrastructure needs to be improved.

**4. The Entity-level water management strategies address water supply and sanitation gaps by outlining measures for strengthening the institutional and legal frameworks, as well as investment needs in the short and medium term.**

The Water Management Strategies of both the RS and the FBiH of 2015 and 2018 respectively underline the necessity of increasing coverage and improving effectiveness of water and wastewater services (WSS - including collection and treatment) which is currently threatened due to the weak institutional, financial and legal framework. Furthermore, they outline the Entity government program and investment needs in the amount of US\$1.46 billion between 2010-2024 to expand service coverage and improve quality and efficiency of the water supply and sanitation sector, as well as general water resources management measures. The RS is also quite advanced in the development of a proposal for an improved institutional framework for WSS service provision in the context of the ongoing economic reform program, which considers the creation of a WSS Council comprising key water sector agencies and stakeholders for improved coordination and a transition to the establishment of a WSS sector regulatory agency.

Sectoral (or multi-sectoral) and Institutional Context of the Program

**5. A recent review<sup>9</sup> of the water sector governance, institutional, legal and regulatory framework in BiH shows a highly fragmented sector and lack of clarity with regards to roles and responsibilities, resulting in poor oversight over public utility performance.**

According to existing legislation the key competences for water resources management in BiH are distributed among four different government levels: i) State level; ii) Entity level; iii) Cantonal level (only in the FBiH); and, iv) Municipal level. The legislative authority in the area of water services rests at Entity and Cantonal level. The main WSS legislation are the Entity Laws on Water and the Entity Laws on Communal Affairs. In addition to Entity laws, the 10 Cantons in the FBiH have their own Cantonal Laws on Water and Cantonal Laws on Communal Affairs. Existing laws fail to clearly define the responsibilities for provision and development of water services. The laws governing WSS are not mutually harmonized nor are they harmonized with Entity Laws on Local Self-Governance, which should also regulate service provision by the local governments. Another piece of legislation relevant to water utilities are the Entity Laws on Public Enterprises / Utility Services. These laws have multiple overlaps and do not consider the specific case of the water services sector, nor adequately define the roles of the different levels of Government, nor the position, structure and relationship (including clear rights and obligations) between the municipalities (as owners of the assets) and the utilities (as service providers). None of these laws are harmonized with the EU Water Directives. Additionally, existing regulations do not have provisions regulating relations (rights and obligations, roles and responsibilities) between the local governments and the public utility companies.

**6. Local governments are responsible for water services in BiH and provide them through public utility companies (PUCs).<sup>10</sup>** With 120 PUCs serving an average population of 15,641, the water sector in BiH is fragmented and dominated by six large water and sanitation services providers in the cities of Sarajevo, Banja Luka, Tuzla, Prijedor, Bijeljina and

<sup>9</sup> World Bank Water Sector Institutional Framework Review in BiH, September 2017.

<sup>10</sup> There are around 120 local utilities that are providing water services and which are established by local governments. Other service provision models also exist, especially in rural areas. These include systems managed by citizen groups and associations, private companies and local community.



Mostar. Access to public water services in BiH is low by regional standards. While on average 83 percent of the population in the Danube region are connected to public water supply, only 48 percent of the population in BiH are covered with this public service. In terms of sanitation, in the Danube region 63 percent of the population are using safely managed sanitation services, while in BiH this service is secured for only 23 percent of the population, and only 15 percent of collected wastewater is being treated. In rural areas the gap is heightened with only 20 percent of the rural population being covered by systems managed by public water utility companies, rural population relies on services provided by local (informal) operators (16 percent), on piped self-supply (56 percent), or non-piped self-supply (12 percent).<sup>11</sup> Self-supply refers to households financing, managing and using point sources, such as local private wells or springs. The majority of self-suppliers have thus directly piped water into the home (under pressure), while only one in ten rural dwellers still need to collect water, either from wells on their plots or other nearby sources.<sup>12</sup> Expanding drinking water services through networked systems to over three quarters of the rural population remains a challenge. The high reliance on piped self-supply reflects BiH's high reported numbers for population's access to safely managed water (89 percent) as defined by the sustainable development goals, which is just below the regional average of 91 percent.<sup>13</sup>

**7. Tariffs are not set following sound cost recovery principles; they are low in regional comparison and much below affordability threshold.** Average WSS tariffs in BiH are 0.43 EUR/m<sup>3</sup> in comparison to the Danube region's 1.20 EUR/m<sup>3</sup>. The water services sector in BiH is regulated by decisions on municipal level, however a regulatory mechanism has not been established and neither is there a service delivery performance monitoring or benchmarking system. In both Entities, municipalities are responsible for approving or setting tariffs without direct consideration of actual costs of providing services. Decisions on tariffs are the responsibility of Municipal Councils, which often do not set them at financially appropriate level due to social and political reasons. Tariffs are actually very affordable in BiH, as the share of WSS expenditures over average income in the country is 0.8 percent, which is low comparing to other countries in the region (Slovenia 1.5, Croatia 1.4, Montenegro 0.5, North Macedonia 1.1) and Danube region (1.2) and much below the generally accepted limit of 5 percent. Increasing tariffs and putting in place appropriate subsidy schemes for the poorest and improving financing to the sector is therefore much needed. This requires the political and proper regulatory mechanisms.

**8. Frequent rotation in key management positions and significant over-staffing in most of the utilities compound the water sector issues and hamper the delivery of sustainable services.** The water sector employs over 10,000 people in BiH (6.3 employees per 1,000 connections vs international good practice benchmark of 1.5-3/1,000 connections). This means exceedingly high labor costs in a situation where utilities do not have sufficient funds for the proper operation and maintenance of the system. In 76 percent of PUCs salaries account for more than 50 percent of costs.

**9. Low tariffs and high inefficiencies lead to a situation where many PUCs do not generate sufficient revenues to be self-sustainable.** About 37 percent of PUCs, out of a sample of 40, have operational cost recovery ratios below 100 percent. Overall sector financing in the country in 2017 was 29 EUR/capita/year which amounts to a total of around EUR 100 million per year and is low comparing with other countries in the region (Slovenia 210 EUR/capita/year, Montenegro 98 EUR/capita/year, Croatia 106 EUR/capita/year, North Macedonia 64 EUR/capita/year) and Danube region (81 EUR/capita/year). Revenues from tariffs cover only about 63 percent of total costs of utilities, requiring transfers and

<sup>11</sup> World Bank (2018) Beyond Utility reach? How to close the urban rural access gap. A Review of Water Supply and Sanitation Services in seven Countries of the Danube Region. Washington

<sup>12</sup> It should be noted that while over three quarters of the rural population is reliant on self-supply, this represents around 40 percent of the total population. Neither the EU Drinking Water Directive nor state or entity level legislation regulates the water quality for self-supplying households.

<sup>13</sup> See [www.washdata.org](http://www.washdata.org). "Piped water in the home" is standard classified as "safely managed" by the Joint Monitoring Program, although no treatment is provided by self-supplying households (usually piped water in the home is provided through household connections of a networked system). World Bank (2018), showed that interviewed self-supplying households in BiH are extremely satisfied with reliability and quality of their piped self-supply. Only 15 percent practice any form of household-level treatment and 78 percent report to have carried out water quality testing in the past year.



subsidies from local budgets. In fact, transfers and taxes amount to 37 percent, or around EUR 37 million per year, of overall available sector funding, which has increased over the last few years (in 2013 the ratio was 29 percent)<sup>14</sup>. As a result, provision of services is endangered in a large number of municipalities in BiH, and in some of them water utilities are already under bankruptcy/insolvency. In terms of capital expenditures, the current financial resources that are available for the water services sector represent only 20 percent of funds required to reach the EU standards. According to the Water Sector Strategy documents and forecast, EUR 142 million in investments per year will be needed over the next 20 years to achieve compliance with the EU environmental acquis, with 38 percent going to water projects and 62 percent to wastewater management.

**10. The weak institutional set-up and the sector's financial challenges directly affects the quality of service delivery to BiH's citizens.** The scope of existing problems has been increasing continuously, as no systemic actions have been taken to address them. Inadequate water service tariffs, particularly if accompanied by low collection rate (average in BiH 84 percent comparing to Danube region 89 percent), lead to irrational consumption of water and increased overall operating costs. As a result of lack of funding, regular network maintenance, repair and reconstruction are being postponed, which deteriorates service quality and leads to increased percentage of the dissatisfied customers (in 2013, 76 percent of costumers were satisfied by service; in 2018 the share decreased to 71 percent<sup>15</sup>). Current water losses in public systems are high at around 49 percent on average, and range between 15 percent and 80 percent comparing with the average in the Danube region of 42 percent. To cover their financial gap, PUCs request ad-hoc support from municipalities and other levels of government, which when provided is not permanent, infrastructure deteriorates and service provision to citizens is heavily jeopardized.

**11. To increase the operational efficiency and sustainability of water utilities in the country, a more skilled and strategic workforce and better and more inclusive Human Resources (HR) practices are needed for an effective and efficient management of the services.** Ageing and migration of young talent presents a challenge to attract and retain qualified staff for utility operation and management. At the same time, women professionals seem to be an untapped talent pool in the water sector. According to utility reported data to IB-Net for BiH, only 26 percent of the total utility staff are female, while only 3 percent of the utility engineers are women. The World Bank 2015 Assessment of Gender Disparities in BiH estimates that BiH foregoes 16 percent of its gross national income due to gender disparities in labor force participation. It notes that laws prohibiting gender discrimination are not enforced due to inconsistencies in the system and traditional patriarchal social norms. Women with higher education have a longer waiting period to find work than men with equivalent education. An earlier ILO (2011) report on gender and the labor market in BiH shows similar gaps. Creating an environment with equal opportunities for men and women at all levels of responsibility and an inclusive work culture should thus be an integral part of every utility's modernization agenda. Having a more technically capable and diverse staff in the utilities is also needed to tackle key operational issues such as high NRW and promoting energy efficiency.

**12. Engagement from decision makers but also from the general population will be necessary for successful sector modernization.** While there is ample consensus within the water services community that the sector needs urgent modernization to improve coverage and quality of service, it does not regularly feature at the top of the agenda of decision makers, private sector, civil society or the public at large. Citizens do get frustrated with the erratic availability of water during certain months of the year, but they have not yet galvanized behind efforts to demand better services. More importantly, there seems to be very little knowledge in BiH about the problems affecting the sector, from the persistent lack of resources for operation and maintenance to low tariffs that do not cover costs and the subsequent regular budget transfers to mitigate losses from the utilities.

<sup>14</sup> A State of the Sector 2018 Update. World Bank 2019.

<sup>15</sup> Since 2014, due to weak management of water utility, high losses in system and overall inefficiency, Sarajevo is experiencing regular cut offs in water supply on daily basis. This leads to increased dissatisfaction of clients and even protests back in 2015.



#### Relationship to CAS/CPF

13. **The proposed Program directly responds to the priorities identified in the Country Partnership Framework (CPF) FY16-FY20 agreed upon between the World Bank and the Governments in BiH.** One of the CPF's main pillars is improving public service delivery (Objective 1C), which is identified as inefficient and often financially unsustainable. In addition, the CPF highlights the need to address water sector gaps in the context of alignment with the EU legislation, specifically the EU Drinking Water Directive and Urban Wastewater Treatment Directive. Specific indicators under the CPF look at improving water and wastewater services, as well as to improve the legal and regulatory framework and institutional capacity. The Program will also support the CPF's objective to improve management and efficiency of public finances (Objective 1A) by supporting several actions necessary for PUC's management transformation (i.e. better commercial and financial management, payment of arrears, rationalization of staff, among others). The proposed Program will also indirectly support Focus Area 3 of the CPF: Building resilience to natural shocks by improving the efficiency of water service provision. The Program is also aligned with the CPF's cross-cutting theme of social inclusion. The Performance and Learning Review underscored that social inclusion remains relevant and fully aligned with the BiH 2019-2021 Economic Reform Program (ERP).

14. **The Program is also aligned with the maximizing finance for development approach,** which aims at promoting the judicious use of scarce public and concessional resources to crowd-in commercial capital and minimize the public debt burden on clients, while delivering sustainable and affordable infrastructure services. This project aims at putting in place sector reforms which include regulatory, pricing, and institutional mechanisms that should improve the credit-worthiness of PUCs, facilitating their access to commercial financing in the future.

#### Rationale for Bank Engagement and Choice of Financing Instrument

15. **The Bank has a longstanding partnership with BiH through previous lending operations in several areas, including wastewater management.** Implementation completion reports (ICR) for two recently closed projects financed by the Bank, the GEF Water Quality Project and Sarajevo Waste Water Project, highlighted the need to secure sustainability of investments and commitment of the authorities at all governmental levels to ensure an enabling environment for modernization of the sector by improving the institutional, financial and regulatory framework in any new project. The Bank has also supported advisory services and analytics activities targeting municipal government reforms and strengthening local governance for service delivery (2009). More recently, in 2017 the Bank carried out a water sector institutional framework review with specific recommendations for improving the overall framework for water services delivery in BiH. In the same year, the Bank, through the Danube Water Program (DWP)<sup>16</sup> also supported, among other analytical work, the development of a review of rural service delivery in BiH and six other countries. The recommendations surfacing from this advisory work and lessons learned from the implementation of lending operations are key elements for the design of the proposed Program. The DWP has also been a vehicle to engage on sector issues for the last 5 years, not only in BiH but also in other countries of the region. Through it, a number of sector-wide instruments for systematic capacity building and utility benchmarking for performance improvement have been developed (see also paragraph 33).

16. **Furthermore, the World Bank is well placed to build on its strong regional and global expertise to support the Government's agenda for the modernization of the WSS sector.** The Bank has wide international experience in supporting

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<sup>16</sup> The Danube Water Program ([www.danube-water-program.org](http://www.danube-water-program.org)) is a regional technical assistance program supporting smart policies, strong utilities, and sustainable services in the Danube Region by partnering with regional, national, and local stakeholders. It is implemented by the World Bank and the International Association of Water Supply Companies in the Danube River Catchment Area (IAWD) with funding from the Government of Austria.



national programs to modernize water utilities and the overarching framework for the WSS service provision. Finally, the Bank can leverage resources from multiple donors to create a set of incentives and enforcement mechanisms, promoting that the investments contribute directly and sustainably to better services, in the context of EU accession and harmonization with the EU legislation.

17. **Choice of Financing Instrument.** The IPF instrument, used in previous Bank-supported interventions in BiH, focused on construction of specific wastewater treatment plants and distribution networks, has shown its limits. It included some institutional strengthening activities, but these were limited to the development of studies and guidelines. Without incentives for more transformational actions, such as comprehensive set of institutional and regulatory interventions – which the proposed Program intends to do – these institutional measures had limited impact. In addition, none of the previous projects sought to influence sector policies at the governmental level but rather remained confined to the utility level. The proposed operation will elevate the dialogue on sector reforms to the higher government level, particularly on financial and operational sustainability. Given the complexity of sector organization in BiH, the choice of the PforR instrument responds to the needs to shift the focus towards financial and institutional sustainability of service delivery rather than mainly for infrastructure investments. Furthermore, performance-based transfers to champion<sup>17</sup> or frontrunner municipalities should create financial incentives to support implementation of needed reforms. A recent training program organized in Vienna jointly by the OPCS and the Water GP, attended by six representatives from BiH, improved understanding of the PforR instrument.

18. **From the point of view of the strategy of approximation to the EU in environmental sectors, the proposed Program would also help to put in place effective coordination and harmonization mechanisms between government levels to enable adequate response to the existing international obligations of BiH, with regards the EU water related legal requirements - and to be able to further leverage grants and IFI financing for the sector.** In this sense, BiH authorities are responsible for ensuring the application of the EU water acquis in its entire territory. Specifically, the Ministry of Foreign Trade and Economic Relations is responsible for defining policies and general principles, coordination of activities and harmonization of plans made by the Entity authorities and other institutions at international level in the environmental sector, whilst not precluding constitutional/legislative competences of the environmental institutions in BiH that lay within Entity, Cantonal and local government levels.

### C. Program Development Objective(s) (PDO) and PDO Level Results Indicators

#### Program Development Objective(s)

The Program development objective is to support the government of Bosnia and Herzegovina to strengthen the institutional capacity at Entity and Municipal level for improved public WSS service delivery.

#### PDO Level Results Indicators

19. The Program will support the following three result areas:
- i. Modernization of institutional and regulatory environment;
  - ii. Strengthening of municipal WSS service delivery framework; and
  - iii. Improvement of access, quality and efficiency of WSS service delivery.

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<sup>17</sup> Indicators to identify champion municipalities and utilities will be determined during project preparation, but should consider those which showed commitment, proactivity and achieved results in the process of improving services (i.e. defined and signed Service Agreement with PUCs, decreased NRW, adopted business plans, etc.).



20. Below is a (non-exhaustive) list of preliminary indicators (development objective and intermediary indicators, as well as outputs) by result area that have been identified to measure achievements. During preparation, decisions will be taken on which indicators will be used as disbursement linked indicators (DLIs), which ones will be absorbed into the program action plan, and which ones will simply be included in the program's results framework. The initial set of indicators have been identified based on the technical assessment of the program and will be discussed in detail with the BiH counterparts during preparation.

#### **Result Area 1: Modernization of institutional and regulatory environment**

1. WSS sector institutional and regulatory framework adjusted (through approval of necessary legal guidelines) (unit Y/N)
2. WSS Monitoring system with a respective institutional arrangement established (at Entity/Cantonal level) (unit Y/N)
3. Financing framework established (through approval of financing framework) (unit Y/N)
4. Capacity building mechanism institutionalized and being used (unit Y/N)

#### **Result Area 2: Strengthening of municipal WSS service delivery framework**

1. Service agreements (between municipalities and PUCs) developed and signed (unit - No Municipalities)
2. Business Plans (BP) developed and approved (unit - No of PUCs)
3. Capital investment program prepared (No of Municipalities/PUCs)
4. Number of PUCs staff participating in capacity building programs (unit – No of PUCS staff disaggregated by gender)

#### **Result Area 3: Improvement of access, quality and efficiency of WSS service delivery**

1. Operational (NRW reduction, energy efficiency, water quality, etc.) indicators improved (unit - % of decreased NRW, energy bill decreased, etc.)
2. Financial (billing and accounting, tariff setting) indicators (increased revenues, evidenced cost recovery, etc.)
3. Number of people with new water supply connections and adequate service level (unit - number of people staff disaggregated by gender)
4. Number of people with new sewerage connections as a result of the Program (unit - number of people staff disaggregated by gender)

### **D. Program Description**

#### **PforR Program Boundary**

21. **Government's strategy for the WSS sector:** The vision of key government sector authorities at the State and Entity levels, reflected in the EU Environmental Approximation Strategy of BiH and Entity Water Managements strategies, outlines different institutional and regulatory interventions to provide legal, technical and financial support to key sector institutions to effectively fulfill their respective roles (with regards to sector policy making, financing, oversight of performance and compliance with legal framework by local governments and PUCs) and ultimately achieve the provision of universal, quality and sustainable services in BiH. Some of the key conclusions for sector development (as outlined on the BiH EU approximation strategy) refer to: i) an improvement of the overall sector governance and the strengthening of current sector institutions at different levels of government; ii) the establishment of an adequate financing framework through further development of the existing sector financing mechanisms (including tariffs, the functioning of environmental protection funds of the two Entities and BD of BiH, and the setting of a financing line for readily available



co-financing for environmental infrastructure projects to be funded through grants and loans); iii) the strengthening of PUCs as an extremely important part of the EU approximation effort, and the need to introduce regulation and to promote scale of operations and extension and modernization of service providers (also as they will be the recipients of the largest portion of grants under EU accession process); and iv) the development of a solid pipeline of infrastructure projects (in compliance with EU requirements and international good practices). The water directive<sup>18</sup> specific implementation plans adopted at the Entity level, and the water management strategies of the FBiH and RS reflect similar principles and objectives, and specific action plans and activities for strategy implementation are ongoing or under preparation both in the FBiH and the RS.

22. **The Government, with the Bank support, is currently preparing a *BiH Water and Sanitation Services Modernization Program (WASHMODE)* to be supported by the proposed Program. The WASHMODE will enable BiH (in principle both Entities and BD) to implement the above-mentioned vision and strategies for BiH's water and sanitation sub-sector (as part of a broader integrated water resources management approach for future sector development). The program is based on two key pillars:**

(i) **Pillar I: WASH sector modernization measures:** The objectives of the sector's modernization include better alignment of the WSS legal and institutional framework, modernizing the PUCs, improving the quality of WSS services offered to all citizens in BiH, and achieving WSS sector financial viability and sustainability. The modernization program will require the commitment from the higher levels of government at the State, Entity and Cantonal levels in terms of putting in place the required modernization measures and financing the improvements and investments. Many of these measures would be facilitated by the creation of the WASHMODE platform and incentive framework (see section below). The program has yet to be discussed and endorsed by the higher levels of government in both Entities. In the RS, there is already high-level commitment to include the communal services (including WSS) as part of the broader economic reform program, and there is a proposal developed by the line Ministry with regards to institutional arrangements for regulatory oversight and provision of technical assistance to local governments and WSS utilities. Provided political commitment exists, the sector modernization program could become a part of the 2019-2021 Economic Reform Program for the entire BiH.

(ii) **Pillar II: Water Supply and Sanitation Infrastructure investment program:** The objectives of this pillar are to improve the quality and efficiency of WSS service delivery and expand the coverage of water and sanitation infrastructure in urban and rural areas. In this regard, it would finance investments for the construction of new and the rehabilitation of existing water supply systems, the expansion of wastewater collection and treatment, improving O&M of wastewater treatment systems, service quality improvements (water quality, service continuity programs, commercial management, etc.) and service efficiency improvements (non-revenue water reduction, asset management, energy efficiency programs, etc.).

23. **A key foundation of the new Government program is the realization by decision makers that there is a need in BiH to introduce incentives for local governments and utilities as well as more integrated and systematic support for them to improve service delivery and to achieve a better financial and operational performance, eventually leading to a better position to attract commercial financing.** While local governments have the mandate to deliver services in support of national WSS targets, many lack the expertise, resources and incentives they need to reach their targets. To change this, the proposed Program will introduce performance-based financing to create a system of financial incentives ("carrots") for local governments and increased public monitoring and oversight of compliance with regulatory requirements ("sticks"), to encourage champions and move the local governments and utilities to improve service delivery in line with central governments strategies. The third leg of the package to foster changes at the local level will be the provision of technical assistance and capacity building to the local governments and municipalities based on specific needs and using standardized approaches and capacity building mechanisms existing in-country. These incentives and technical

<sup>18</sup> For the Drinking Water Directive (DWD) and the Urban Wastewater Treatment Directive (UWWTD)



support packages will be managed by the Entity level governments as a basic platform for the country wide water supply and wastewater services modernization - the WASHMODE Platform - whose establishment and operationalization will be supported by an IPF component. The WASHMODE platform would build on various existing Government – and other development partner programs (EIB WATSAN, UNDP MEG, EBRD, DWP, others)<sup>19</sup> and instruments - to form a comprehensive sector-wide framework for financing, technical assistance and capacity building. Ultimately, the improved financial, operational and overall solid sector governance will also create an enabling environment that would gradually attract commercial financing to the Sector.

**Table 1: WASHMODE Program of Expenditures and PforR boundary (TENTATIVE)**

<b>Government WASHMODE program pillars</b>	<b>Government program (EUR)</b>	<b>PforR (EUR)</b>	<b>IPF component</b>
<b>Pillar I: WASH Sector Modernization Measures</b>	<b>30,000,000</b>	<b>10,000,000</b>	<b>5,000,000</b>
A. Legal and Regulatory Framework alignment	5,000,000	2,500,000	
B. Municipal and PUC modernization measures	8,750,000	3,500,000	
C. Establishment of WSS information system	5,000,000	2,500,000	
D. Establishment of WASHMODE Platform and results-based financing mechanism	5,000,000	1,000,000	4,000,000
F. Capacity building and technical support to municipalities and PUCs	6,250,000	500,000	1,000,000
<b>Pillar II: Water Supply and Wastewater infrastructure investment program</b>	<b>428,000,000</b>	<b>60,000,000</b>	
G. Water supply quality and efficiency investments	65,000,000	27,000,000	
F. Water supply network expansion in urban and rural areas	183,000,000	25,000,000	
I. Sewerage network expansion and WWTP construction	180,000,000	8,000,000 <sup>20</sup>	
<b>Total</b>	<b>458,000,000</b>	<b>70,000,000</b>	<b>5,000,000</b>

24. **BiH’s Program of Expenditures and PforR Boundary: The ongoing BiH program of expenditures (for capital expenditure) for the WSS sector from 2019-2025 amounts to around EURO 458 million<sup>21</sup>**, to be funded from different sources, including EUR 75 million grant funding from EC and other bilateral donors, IFI and MDB loans (EUR 220 million) and revenues from tariffs and fees/taxes (EUR 90 million approx.). The proposed PforR would partially finance pillar I of the government’s program with EUR 10 million and partially finance Pillar II with EUR 60 million (see Table 1). An IPF component would finance EUR 5 million for technical assistance and capacity building to develop the WASHMODE platform and to operationalize the PforR implementation. The Program boundary was selected given the Bank’s value add with regards to the design and implementation of sector modernization programs and given that most of the financing for pillar II of the program is already secured by other development partners. The PforR instrument offers a unique opportunity to provide financial incentives for difficult reform measures. Under pillar II of the government’s program, the PforR would disburse for infrastructure investments that deliver results in access to water services and its quality and efficient delivery in a performance-based and demand-driven manner in a number of municipalities, where local

<sup>19</sup> EIB WATSAN-European Investment Bank Water and Sanitation Program, UNDP MEG-United Nations Development Program Municipal Economic Governance Program, EBRD-European Bank for Reconstruction and Development, DWP-Danube Water Program.

<sup>20</sup> The PforR would support only the construction of new sewerage connections, not of new wastewater treatment plants. It is expected, however, that soft activities targeted at improving the operational and financial management of PUCs will have a direct effect on better capacity for O&M of existing WWTPs.

<sup>21</sup> Government program of expenditures is based on current firm committed financing to the sector by IFIs and donors (and estimated CAPEX by local governments) which is likely to be underestimated. To be finetuned during preparation as the Government’s expenditure framework is reviewed.



government and PUCs are committed to implementing the requested measures. The proposed PforR will finance the WASHMODE by focusing on three results areas:

- **Result Area 1: Modernization of institutional and regulatory environment.** This Results Area ultimately aims to align the WSS sector institutional and regulatory framework at the Entity and Cantonal levels to clarify roles and reduce existing overlaps to improve overall WSS sector governance and sustainability. Actions would imply decisions (in the form of guidelines within existing laws) at highest levels of government, including within line ministries at the Entity levels in both FBiH and RS, as well as by line ministries in selected Cantons, and ministries of finance. Implementation of the activities under this Results Area does not preclude implementation of Results Areas 2 and 3. The following results (at output and outcomes level) are preliminarily foreseen under this Results Area:

- 1) **Strengthening the WSS sector legal and regulatory framework** (Entity and Cantonal level) to introduce sector wide requirements, including inter alia the following: i) the requirement of Signing of Service Agreements/contracts between municipalities and water service providers; ii) the development of service provider KPIs framework that requires regular reporting (benchmarking via water information system); iii) the development of an appropriate tariff setting methodology which municipalities must comply with; iv) the introduction of capacity building obligation at the municipal and service provider levels; and v) the introduction of requirement of municipalities and PUCs to prepare and maintain a registry of public and non-public service providers (self-supply, community-led, private operators, etc.) in entire jurisdiction and provide support to these system. The mentioned requirements will be also embedded in the WASHMODE rules of operation as a requirement for the local governments and utilities to access the Program's financing (some of it to be given as grants, serving as an incentive to change the modus operandi at the local level), and eventually over the course of the program these requirements could become part of the legislative framework, as the preparation and approval of new laws could take a longer timeline.<sup>22</sup>
- 2) **Modernized data and information management systems and establishment of the WSS Services Sector Information and Monitoring system (with respective institutional arrangement at Entity/Cantonal level)** for monitoring the performance of municipalities and water service providers, undertake benchmarking, conduct oversight of compliance with requirements which would eventually be institutionalized, undertake future regulation of PUCs (for tariffs). The management of such system would be housed in the appropriate institution in each Entity/Canton (i.e. within the Water Agencies, or the Cantons, a new regulatory agency, or a new council as being proposed in the RS).
- 3) **Financial Incentives Mechanism established** through the decision to introduce the WASHMODE platform with clear operating rules for local governments and utilities to access the financing conditioned to their compliance with the rules (listed under point 1) above). This mechanism would provide incentives (grants) to support local government commitment to modernization and performance improvements (see section B). The Program will work under a performance-based and demand-driven approach, so it is expected that those champions committed to abiding by the rules and improving service (based on yearly assessment of their performance) will be participating.

<sup>22</sup> Global knowledge (*Utility Turnaround Framework, Water GP, 2019*) shows that incentives can be embedded in different mechanisms. For example, the UTF finds that initial utility improvements can be achieved without an overhaul of the legal framework. In many of the cases reviewed at global level, once improvements were made to enhance the autonomy and credibility of the utility, they were followed by complementary changes to the legal and regulatory frameworks. In some cases, a strong policy aided successful reform, and in others, where a comprehensive policy framework was absent, a strong set of laws was sufficient. The key is that incentives are aligned and mechanisms do not contradict one another.



- 4) **Professionalized sector workforce and improved management and technical skills at municipal and PUC levels** through the decision to provide support to local governments and WSS utilities with TA and capacity building. Special attention will be given to attract young professionals and provide opportunities for training to female staff or interns;
  - 5) **Improved citizen engagement (CE) in water sector management** through raising and promotion of the water service sector at all levels in BiH. The Governments in BiH are interested in implementing comprehensive communications and citizen engagement initiative around the WASHMODE program that would cast light constructively on the ails of the current system; the outreach would support those emerging reform champions at the local and Entity levels by providing them with communications tools and messages and dissemination of good practices; and civil society would be mobilized to monitor the performance of utilities and constructively demand improvements in service delivery. Measures to ensure that women as well as men have a voice in community engagement will be incorporated. An early step could be to activate public conversation about the challenges in the sector and the possible avenues to address them (i.e. which is already happening though regular meetings with other development partners and participation in different platforms such as platform for dialogue, national water conferences and others). At the level of municipalities and PUCs, citizen engagement (under results are 2 and 3) CE measures would include improved customer feedback systems, formalizing customer representation in utility oversight, as well as social mobilization and communication campaigns to address tariff increases and create willingness to pay for centralized services<sup>23</sup>.
- **Results Area 2: Strengthening of municipal WSS service delivery framework.** This Results Area would support the development of a clearer relationship of autonomy and accountability between municipal governments and PUCs. It would target a limited number of champion utilities and municipal governments and/or Cantons of the FBiH and the RS and BD which will be willing to participate in the WASHMODE platform and comply with the WASHMODE rules. The participants in the program from local level of government would in principle not be pre-selected (but hopefully identified) and the program would be open to all local governments and PUCs in the country. Utilities participating in Results Area 2 will fall under different categories (of capacities, local institutional development for service delivery, performance etc.). Each might have specific institutional, financial or operational issues which require attention to modernize the services delivery framework, to introduce reform or adjustments or to take the sector forward (tariffs, lack of service agreement, financial management, excessive workforce, asset management or a lack of separate accounting from municipal government, need to prepare a utility improvement plan (general or targeting a specific area, etc.) but all would need to have a minimum in place. Eligibility criteria and rules of the game for municipalities to participate in the Program will be defined and will consider lessons learned from different projects implemented so far in the Country. Local Governments and PUCs will receive grants from WASHMODE based on initial implementation of results and annual assessments of the implementation of performance improvement plans (see section B). Some of the expected outcomes are the following:
    - 1) **Improved accountability and autonomy of PUCs towards local governments** through the development and signing of a Public Service Agreement between the municipality and the PUCs based on an agreed PUC Business Plans (BP)<sup>24</sup>.

<sup>23</sup> World Bank (2018) highlights Kosovo's success in increasing rural access. where locally operated systems were upgraded, expanded and brought under public utility management, accompanied with extensive social mobilization and communication campaigns.

<sup>24</sup> The BP would include inter alia: i) Targets for the Key Performance Indicators (KPIs) to be achieved by the utility and reported on (including NRW, energy efficiency, etc.); ii) Development of a subsidy scheme for low-income household; iii) Agreement on financing for OPEX and CAPEX; iv)



- 2) **Modernized PUCs with stronger focus on commercial, operational and financial practices** through the preparation of the PUCs BP targeting organizational, financial and operational areas optimization of existing organizational structures, including financial restructuring (payment of arrears to workers, tax administration as well as those related to court procedures and interests), workforce and organizational restructuring;
  - 3) **Improved PUC creditworthiness and access to financing** (including commercial financing) by supporting best performing WSS service providers to further improve its financial efficiency towards creditworthiness and to access to commercial financing, also for the development of rural programs (which might require additional financing mechanisms);
- **Results Area 3: Improvement of access, quality and efficiency of WSS service delivery.** This Results Area would be closely linked to the results of Result Area 2 as specific actions per utility would stem from their developed BPs. Actions in this Results Area aim to improve of the access, quality and efficiency of WSS services and will be implemented by service providers:
    - 1) **Improved quality and efficiency of the services** through investments for improved water quality and water continuity programs and for NRW reduction and energy efficiency programs.
    - 2) **Increased access by the population to water supply and sanitation infrastructure** and WSS services in selected municipalities and in rural areas;

25. **An IPF component would ensure adequate technical assistance is provided for program implementation.** Through an IPF component, the World Bank funds will be used to pay for 'specific expenditures' to fund a set of selected, discrete technical support and capacity-building activities which are needed to support the achievement of the Program's objectives in an efficient and sustainable way. Funds will be used to finance further strengthening of capacities for Program implementation, the development and operationalization of the WASHMODE Platform as well as capacity building and technical support to municipalities and PUCs to adhere to the WASHMODE principles and rules. Specifically, this technical support package will assist the Governments in: (a) Program coordination and local-level technical support for the implementation of the PforR Program approach; (b) undertaking of planning, systems strengthening, capacity building, and financial management improvement activities; (c) M&E activities including impact evaluations and qualitative assessments of Program results; (e) verification of the DLIs. This support will focus on building the capacity of the Government staff and systems with aim to lay the foundation for a long-term, sustainable set of TA activities to be absorbed and continuously financed by the Entities, Cantons, municipalities or PUCs. The long-term vision for the WASHMODE institutional set up is to gradually evolve in its capacities towards becoming a future regulatory body for the sector on Entity/Cantonal level. In the RS, the Ministry of Agriculture, Forestry and Water Management is developing a framework that should be the basis for future regulation of the sector, where a central role would be given to local governments, PUCs and their associations on one side and to Entity level ministries and institutions on the other side. In FBiH, the Ministry of Agriculture, Water Management and Forestry is currently starting discussions with Water Agencies on strengthening the regulatory framework as well.

#### WASHMODE Platform

26. **The proposed PforR would support the overall enhancement of current sector financing mechanisms to put in place a robust incentive system to encourage efficiency and sustainability.** Given that disbursements from the Bank loan proceeds will flow straight into the public budget systems upon achievement (and verification) of results, the achievement

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Staffing policy; v) Tariff policy and vi) a pipeline of WSS sector projects developed through preparation of solid investment programs to increase coverage in the entire municipal service area, targeting expansion to unserved rural areas; vii) Assessment to address gender gaps of the utility.



of program objectives (through delivery of expected outputs and outcomes) is strengthened. The funds would be passed on to the Cantonal and local level based on the established flow of funds in country systems (including from environmental protection funds and Entity, Cantonal and municipal budgets) and those improvements to be introduced by the WASHMODE. The sector financing mechanisms in each Entity would be further reviewed during the preparation of the PforR. Upon the achievement of results under Results Area 1: Modernization of institutional and regulatory environment, the relevant Entity (and some Cantonal) institutions would receive PforR funds for DLI achievement rewarding initial actions for decisions on proper sector policy making, oversight and monitoring of compliance and utility performance framework.

27. **For the local level, the proposed PforR would provide financing during the implementation of the Government program for the incentive grants to be managed from the WASHMODE platform**, linking the achievement of results to flow of funds under the Bank's PforR through DLIs. The WASHMODE platform (grants and TA/capacity building) is expected to be established within first year of implementation (and advanced during Program preparation). It would be managed by the relevant government institution in each Entity and would incentivize municipalities to further achieve and maintain results in line with the programs objectives (strengthened institutions and service providers, improved performance and quality of services, improved access to services in rural areas, improved financial viability of PUCs and creditworthiness, etc.), as follows:

- **Upon the achievement of results<sup>25</sup> under Results Area 2: Strengthening of municipal WSS service delivery framework**, the WB funds would be disbursed to the central government, and then transferred to Cantons and municipalities in form of *Modernization Grants*. Modernization grants would be a one-off grant to participating municipalities as an incentive for the local governments to continue implementing the much needed but politically difficult reform measures (service agreements, organizational restructuring, commitment to sustainable tariffs and capacity building, etc.);
- **In order to foster the achievement of results under Results Area 3 - Improvement of access, quality and efficiency of WSS service delivery**, the WSS utilities would receive *Performance-Based Grants* which would be given on an annual basis. This first-year grant would come from the 25 percent PforR advance, and the subsequent would be based on the progressive Results Area 3's DLIs achievements and disbursements. This arrangement would continue while the program lasts, but potentially to be institutionalized as WSS sector financing mechanism under existing and enhanced country systems, based on continued achievement of quality, performance and access targets (specific DLIs to be selected during preparation), as an incentive for those that achieve performance improvements as included in utilities' service agreement/ business-plan/utility improvement program. For those best PUCs performers<sup>26</sup>, the Performance Based grants could be combined with other financing to form a mixed package of loan and grant financing, including government guarantees (*catalytic financing*), for utilities to finance their CAPEX Program, while continuing to improve financial situation and creditworthiness.

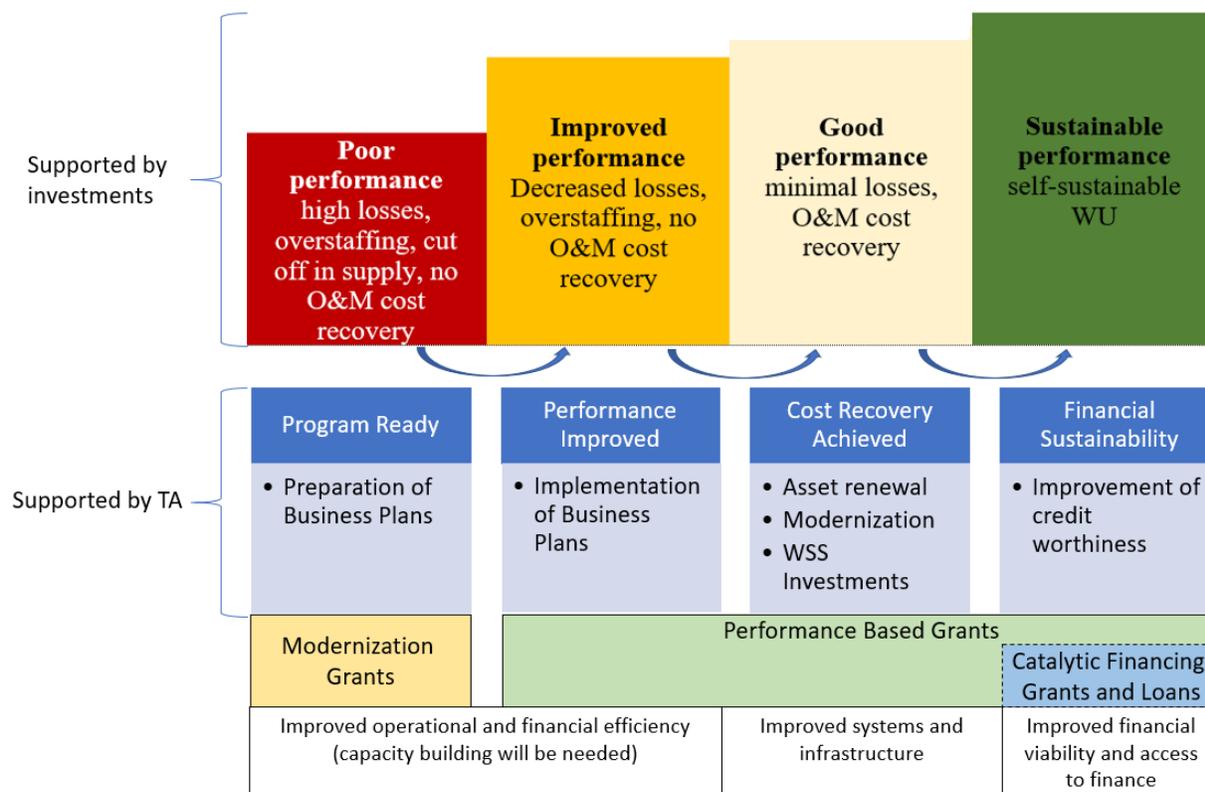
28. **Figure 2 below shows how the financial incentives and capacity building will be targeted to local governments and public utilities from the WASHMODE platform based on their departing situation to stimulate improvements through focusing on operational and other measures.**

<sup>25</sup> Note that WB can advance 25 percent of loan funds prior to achievements.

<sup>26</sup> Performance criteria to be developed during preparation.



Figure 2: General Outline of WASHMODE



29. **Given current weak capacities at local level however, financial incentives alone will not be enough for local governments and utilities to make the necessary improvements. The Government program would hence include the development of a mechanism by which local governments and utilities can access necessary TA and capacity building.** Capacity building would be provided through local institutions and country systems, building on existing initiatives and donor funded programs in BiH and at regional level to support the strengthening of sector institutions, information systems and policy tools<sup>27</sup>. The WASHMODE platform would include a system whereby local governments and PUCs are classified according to their level of performance and financial sustainability, and according to the local level of development and operational situation, are offered a capacity building package using existing in-country and regional programs and platforms. The costs to develop the overall mechanism and carrying out the ad-hoc TA or capacity building would in principle be financed through the IPF component

<sup>27</sup> For example, the Aquasan Network BiH is currently a capacity building hub for the implementation of the Danube Learning Partnership (D-LeaP) with programs offered to WSS utilities management and staff on NRW management, asset management and energy efficiency. Aquasan is also interested in becoming a hub for upcoming D-leaP Utility Financing Program, and is also a partner in the RCDN for strengthening of capacities of local government units and PUCs. The MOFTER, the Association of Cities and Towns of Federation BiH and the WaterWorks Association of RS are also successfully implementing a system for PUC performance indicator data collection, management and undertaking of certain level of benchmarking supported by the DWP. The MEG Project is successfully delivering capacity building on the ground through the involvement of UNDP and consultants, etc.



30. **The WASHMODE platform will build upon and enhance the existing financing framework for the water sector in BiH, which is defined by Entity Laws on Water.** In accordance with these laws, basic revenues in the water sector (and this refers to overall water sector, and not specifically the WSS subsector) are provided from the sources indicated in Table 2, which includes general water fees (tariffs), special water fees, revenues from lease of water properties, Entity, Cantonal and local government budgets, credits and loans, donations, and others. The entire existing sector financing mechanism will be looked at in detail during preparation and improved by the Program. In addition, there is no specific financing window or line from central budget for the water and sanitation sub-sector, and most CAPEX is financed through international loans, often putting excessive financial burden on public utilities. Success of these investments also depend on local government commitment to continuous improvement in service delivery and effective and efficient PUC functioning, which are often in a situation of weak management and technical capacities. The introduction of the WASHMODE incentives, TA and capacity building would provide a solution to address these weaknesses. As stated in the sector context, the WSS sub-sector also suffers from inadequate tariff setting methodologies and overall revenues from tariffs are currently insufficient to cover the costs of operating and maintaining the existing water and wastewater systems. The Program considers the need to use financial incentives to move the sector forward (which has proven successful in BiH under the MEG project). Also because of low levels of cost coverage, it is necessary to provide a mechanism of financing for many municipalities to introduce operational efficiency improvements coupled with infrastructure development. The level of financial incentives (through grants coming from DLI achievements during the duration of the project) required by the utilities would be decreasing over time as tariffs levels (together with operational efficiency improvements) are such that they enable cost recovery to be reached and the sector’s financing mechanism (through water fees, etc.) is working properly. The GoBiH EU Environmental Approximation Strategy acknowledges that measures must be taken to eliminate present cross-subsidization of tariffs and to provide reference parameters for service charges relating service levels to costs, while considering the maximum affordable tariffs and full cost recovery tariffs as reference parameters for project evaluation and the regular setting of tariffs. The establishment of appropriate tariff setting principles and guidelines for local governments to follow would be accomplished under Results Area 1 of the PforR.

**Table 2. Sector financing sources**

FBiH	RS
<ul style="list-style-type: none"> <li>• General water fees;</li> <li>• Special water fees;</li> <li>• Budgets of FBiH, cantons, cities and municipalities;</li> <li>• Credits/Loans;</li> <li>• Funds provided by special law;</li> <li>• Donations and other funds in accordance with applicable laws.</li> </ul>	<ul style="list-style-type: none"> <li>• Special water fees;</li> <li>• Revenues generated by lease of public property;</li> <li>• Revenues from general part of budget of Republic of Srpska;</li> <li>• Donations and other funds in accordance with applicable laws.</li> </ul>



## E. Initial Environmental and Social Screening

31. **The program aims to modernize the present water supply system throughout Bosnia and Herzegovina. The environmental impact assessment laws in place manage the associated environmental risks with large infrastructure and its reconstruction.** Rehabilitation may not require an EIA and an environmental permit under relevant Entity/Cantonal law, so there is a difference between the World Bank due diligences and those in place within the responsibility of the two Entities of BiH. Furthermore, small interventions that are dubbed as regular maintenance are not subject to environmental reviews and would require the water supply companies / public utilities to have procedures in place that would identify the associated impacts and propose mitigation measures. These usually entail limited impacts such as dust, noise, waste management and traffic management, but can also deal with the water supply bodies, water quality and potable water treatment. Furthermore, taking into consideration the fragmentation of the sector and the fact that it is almost entirely managed at the local level the existence of such procedures and the capacity of the overstuffed and yet under-efficient public utilities to tackle environmental risks requires further assessment. The Environmental and Social Systems Assessment (ESSA) will set forth the Environmental and Social risk screening criteria for exclusion of high-risk activities under the program which would not be eligible for PforR as a financing instrument. The scope of the project activities and the overall objective of the Program, at this stage, will not support any activities that would have either environmental or social risks that are high or impacts that are significant, irreversible or go beyond the project area. However, if such projects would arise for potential support during the implementation of the Program, then the screening and exclusions as set forth in the ESSA would be applicable and therefore ensure no high risk activities are financed. In addition, the screening criteria will outline how to bridge any gaps identified between World Bank and country procedures.

32. **The Environmental and Social Systems Assessment (ESSA) will use a risk management targeted approach to review and evaluate social and environmental management systems and of the implementing capacities of the respective government agencies that will participate in the Program and their consistency with the core principles and attributes specified in OP /BP Program-for-Results Financing.** It will be prepared, consulted upon, and disclosed prior to appraisal. The ESSA will examine the scope, context and potential impacts of the Program from an environmental and social perspective. The content of the ESSA will include, but not be limited to: (i) a brief description of the Program, including the objectives, relationships between government's program and the PforR; (ii) potential environmental and social risks, impacts and benefits, (iii) institutional arrangements and mechanisms in place to deal with the potential environmental and social risks; (iv) identification of areas in which the implementing Entities should improve procedures and performance, (v) promotion of social sustainability in the Program design; how it avoids, minimizes, or mitigates adverse impacts, including adverse impacts on physical cultural resources and promote informed decision-making relating to the Program's impacts; (viii) protection of public and workers safety against the potential risks associated with:

- (i) construction and/or operations of facilities or other operational practices under the Program;
- (ii) managing of land acquisition and loss of access to natural resources in a way that avoids or minimizes displacement, and assist the affected people in improving, or at the minimum restoring, their livelihoods and living standards;
- (iii) give due consideration to the cultural appropriateness of, and equitable access to, Program benefits, giving special attention to the rights and interests and concerns of vulnerable groups;
- (iv) promote gender mainstreaming in accessing Program benefits and addresses Program relevant gender gaps (if any)
- (v) provide adequate, meaningful, timely, empowering stakeholder engagement activities including grievance channels for citizens affected by the program to have be able to express their grievances,
- (vi) inputs to the integrated risk assessment.



33. **The ESSA is also intended to assess adequacy of the Program’s institutional arrangements in place in the form of institutional, regulatory and overall capacity to manage social benefits (including positive), impacts (including adverse) and risks.** The assessment shall focus on both Entities within BiH as the remits, legal and regulatory framework in managing social risks and impacts sometimes reside at Entity level exclusively without having overarching regulations and the difference in approach, as is case with the legal framework guiding land acquisition and resettlement. The main social risks and impacts seem to heavily gravitate to the Results Area 3: Improvement of access, quality and efficiency of WSS service delivery, as activities envisaged to deliver results include investments in new and rehabilitation of existing infrastructure. While the second type of activities is unlikely to generate adverse large-scale social impacts the investment in new infrastructure might require land acquisition and therefore should be diligently screened for potential high risk impacts, and continue to do so throughout the Program preparation and implementation period. Under sanitation, investments are limited to the expansion of sewerage connection. The construction of new WWTPs is not envisioned under the Program.

34. **The ESSA will consider the potential social impacts of increasing tariffs and the tariff setting methodology proposed in Results Area 1, particularly for low income households and the gender disaggregated impacts of Tariff increase.** The scope in this area will reflect on respective governmental/utility provider plans of both Entities within BiH whether increase of WSS tariffs is considered, up to what level and during which time span. It will further elaborate on the potential tariff impacts on all categories of consumer (urban and rural) with the assessment of potential mitigation of tariff increases for the poor households vis-à-vis the countrywide affordability of WSS. The adequacy of legislation at national/entity level for mitigating the impacts of tariff increases on the poor through subsidies and benefits to be paid to eligible vulnerable consumers will be analyzed.

35. **The Results Area 2 relates to inter alia a workforce and organizational restructuring as a response to specific issues which, if addressed, would modernize the service delivery framework and take the sector forward.** However, these actions may be associated with adaptive work force management and subsequently retrenchments and /or similar measures leading to adverse impacts on livelihoods of workforce under direct impact and their families and households. The ESSA will assess the capacity of existing systems, including the legal framework pertinent to workers rights and mitigation measures, to plan and implement effective measures and social impact management and to determine if any measures would be required to strengthen them. Such measures will be spelled out in a Program Action Plan (PAP).

36. **The preparation of ESSA and development of measures to strengthen the Program intends to benefit from various inputs, information and consultation process, including face to face interviews with local governments and utilities in a number of rural and urban 10 cities/ municipalities across the country to include perspectives from urban and rural beneficiaries.** To inform the analysis of benefits, impacts and risks further consultations consisting of interviews and focus group discussions with program beneficiaries, stakeholders, and interest parties including relevant non-governmental stakeholders and gender disaggregated focus group discussions with urban and rural water and sanitation users from different socio-economic levels. This all-in addition to the public consultations to be held on the draft ESSA document.

37. **Gender.** The CPF recognizes that there are still considerable gender gaps in BiH, specifically related to access to economic opportunities. Although women have educational parity with men, and even high access to tertiary education, female labor force participation (41 percent, 2015) lags far behind male participation rates, and is not at par for the country’s development. Women face unequal opportunities due to social norms concerning the type of work and level of managerial responsibility considered suitable for women. The fact that only quarter of BiH utilities’ staff is female, and just 3 percent of engineers<sup>28</sup> illustrates women’s limited advancement in the WSS sector. Gender assessments of three

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<sup>28</sup> IBNET data



large utilities in the region<sup>29</sup>, and a global study on women in utilities<sup>30</sup> point to numerous barriers women face along the employee lifecycle (recruitment, retention, career advancement). During preparation, rapid gender assessments will be carried out in a few sample PUCs to inform actions and indicators that are suitable to close and monitor the gender gap in the sector. The proposed Program requires all utilities to develop a Business Plan, which is required to have a gender diagnostic, and include a proposal for HR management and development indicating specific HR measures to enhance gender equality in the workplace and to raise awareness. During preparation measures will be proposed, e.g. gender quote for the national training program to ensure that female staff are offered upskilling to advance their careers. Preparation will also assess the options to develop internship programs (in coordination with utility association and educational institutes) to attract more female engineers in the utilities.

38. **The risk assessment will cover both the preparation and implementation periods of the Program and shall focus inter alia to the institutional responsibilities for implementing social management**, which include the roles and responsibilities for areas applicable to the Program which could include resettlement/land acquisition; procedures for resettlement planning; scope of social assessment and/or social analysis; eligibility for compensation under resettlement and land acquisition programs; supervision; consultation requirement; stakeholder involvement in planning and implementation; communications and information disclosure strategies; grievance redress mechanisms; oversight and monitoring, including indicators and funding of resettlement; rights, procedures and requirements; vulnerable people such as landless or informal settlements; social conflict; international social agreements and treaties; and the relevant legal and regulatory framework and procedures applicable to the Program. The results of the assessment shall determine the social actions of the Program Action Plan.

39. **Greenhouse gas accounting and climate co-benefits analysis is not required for PforRs. However, the project team will explore the possibility of assessing the climate co-benefits during project preparation.** For example, within Result Area 3, energy efficiency measures are envisaged and might be considered as mitigation co-benefits.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	Yes
Projects in Disputed Areas OP 7.60	TBD

Summary of Screening of Environmental and Social Risks and Impacts of the IPF Component

This Environmental and Social Review Summary (ESRS) has been prepared for the Investment Project Financing (IPF) component of the PforR operation. The IPF component project activities consist of technical assistance (TA) activities to support the discrete technical support and capacity-building activities which are complementary to those undertaken directly by the Government under the Program, and which will support the achievement of the Program’s objectives. Funds will be used to finance further strengthening of capacities for Program implementation, the functioning of the WASHMODE Platform as well as capacity building and technical support to municipalities and PUCs. Specifically, this technical support package will assist the Government in (a) Program coordination and local-level technical support for the implementation of the PforR Program approach; (b) undertaking of planning, systems strengthening, capacity building, and financial management improvement activities; (c) M&E activities including impact evaluations and qualitative assessments of Program results; (e) verification of the DLIs. This support will focus on building the capacity of the Government staff and systems with aim to set institutional capacities which will continue activities upon project

<sup>29</sup> Using state-of-the art Economic Dividends of Gender Equality assessment. See also [www.danubis.org](http://www.danubis.org) (link to be added)

<sup>30</sup> World Bank (forthcoming). Women In utilities.



completion with overall vision to set basis for future regulatory body for the sector on Entity level.

Technical Assistance activities are anticipated to have a net positive impact on the population by supporting the efficiency and delivery of water. There are no civil works under the TA. Effective stakeholder engagement and strengthening ownership of this activity will be important for successful implementation and mitigation of risks associated with this activity and very low risk of any potential negative social impacts. Rating is substantial to be consistent with the main P4R project”.

Although none of the ESS directly apply to the scope of the TA, it is understood and obligatory that any of the Terms of Reference and outputs that may have direct or indirect environmental implications will be prepared for the technical assistance studies will be in line with WB’s ESF and ESSs.

**Note** To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document.

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