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MEMORANDUM AND RECOMMENDATION
OF THE
MANAGING DIRECTOR
TO THE
PRESIDENT OF THE
INTERNATIONAL DEVELOPMENT ASSOCIATION
ON A
PROPOSED INTERIM FUND CREDIT
IN THE AMOUNT OF SDR 4.9 MILLION
TO
BOSNIA AND HERZEGOVINA
FOR THE
LOCAL INITIATIVES PROJECT

November 19, 1996

**Agriculture and Regional Development Operations Division
Central and Southeastern Europe Departments
Europe and Central Asia Region**

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CURRENCY EQUIVALENTS

Currency unit = Bosnia and Herzegovina Dinar (BHD)

100 BHD = US\$ 0.67

(as of August 30, 1996)

WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS AND ACRONYMS

BH	Bosnia and Herzegovina
CGAP	Consultative Group to Assist the Poorest
ETF	Employment and Training Foundation
EU	European Union
FETF	Federation of Bosnia and Herzegovina Employment and Training Foundation
IDA	International Development Association
IFC	International Finance Corporation
ITF	Interim Trust Fund
LID	Local Initiatives Department (of the Employment and Training Foundation)
NS	National Shopping
NGO	Non-Governmental Organization
RETF	Republika Srpska Employment and Training Foundation
RS	<i>Republika Srpska</i>
SBH	State of Bosnia and Herzegovina
SOE	Statement of Expenditure
UNHCR	United Nations High Commissioner for Refugees

GOVERNMENT FISCAL YEAR

January 1 - December 31

Vice President	:	Johannes Linn
Department Director	:	Jean-Michel Severino
Country Director	:	Christine Wallich
Division Chief/Manager	:	Michele de Nevers
Staff Member	:	Sarah Forster

BOSNIA AND HERZEGOVINA
LOCAL INITIATIVES PROJECT

Credit and Project Summary

- Borrower:** Government of Bosnia and Herzegovina
- Implementing Agencies:** Employment and Training Foundations of the Federation and Republika Srpska
- Beneficiaries:** Three main target groups in the Federation and Republika Srpska: (a) displaced persons, war widows, war victims, and returning refugees; (b) small farmers and rural unemployed; and (c) urban unemployed and microentrepreneurs, with a special focus on demobilized soldiers
- Poverty Category:** Program of Targeted Interventions
- Credit Amount:** SDR 4.9 million (US\$ 7.0 million equivalent)
- Terms:** Standard IDA, with 35 years maturity and 10 years grace
- Project Objectives:** To address the urgent need to assist economically-disadvantaged and war-affected groups in Bosnia and Herzegovina to restart economic activities and make the transition from dependence on humanitarian assistance to active employment.
- Project Description:** The Project, to be implemented over two years, would include the following components:
- (a) **Microcredit Programs**, disbursing about 5,000 small loans for income-generating activities and microbusinesses by contracting with microcredit service providers.
 - (b) **Microfinance Capacity Building**, providing the technical assistance and training needed to develop successful microcredit programs that have the potential to be sustainable over the long term
 - (c) **Project management**, finance the establishment and operational costs of the Local Initiatives Departments of the Employment and Training Foundations in the Federation and Republika Srpska.

This report is based on a pilot project that has been carried out in Tuzla since February 1996, as well as the findings of a pre-appraisal mission that visited Bosnia and Herzegovina from May 27-June 16, 1996, comprised of Maria Nowak (EC1/2AR), Kathryn Funk (EC1/2AR), Leila Webster (PSD), Lawrence Yanovitch (FINCA, consultant), Connie Max (FINCA, consultant), and Wallace Kaufman (Business Environment Consultant), and an appraisal mission that visited Bosnia and Herzegovina from September 3-September 15, 1996, comprised of Sarah Forster (Task Manager, EC2BA), Maria Nowak (EC1/2AR), and Timothy Lyman (Legal Consultant). The Peer Reviewers are Jacob Yaron (AGRPW) and Mohini Malhotra (CGP). The Division Chief is Michele de Nevers, the Country Director for Bosnia and Herzegovina is Christine Wallich, the Department Director is Jean-Michel Severino, and the Vice President in charge is Johannes Linn.

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Financing Plan:	IDA Interim Trust Fund	US\$ 7.0 million
	Govt. of Italy Grant	US\$ 3.3 million
	EU/PHARE (requested)	US\$ 3.0 million
	<u>Other (to be identified)</u>	<u>US\$ 4.7 million</u>
	TOTAL	US\$ 18.0 million

Economic Rate of Return: Not applicable.

Project Benefits and Risks: Major immediate **benefits** include: (a) the promotion of about 7,000-10,000 microenterprises or income-generating activities, which would create employment and help restart the economy; and (b) the strengthening of local institutions and NGOs that could provide financial and non-financial services to the self-employed and microenterprises on a long term basis.

The main project-specific **risks** are: (a) Continued Government commitment to building the capacity of NGOs as microcredit service providers. Through the Project, IDA will be working closely with the Government to raise their awareness as to the role of non-bank financial institutions in providing credit and related services to microentrepreneurs. (b) The potential application of a “central planning” approach by the Local Initiatives Department towards service providers and by microcredit service providers towards their clients could hinder appropriate loan delivery. (c) Lack of institutional capacity among microcredit service providers could result in poor portfolio performance, particularly low repayment rates. Microcredit service providers and the Local Initiatives Departments will be provided hands-on technical support and training in microcredit delivery and a market-oriented approach to microenterprise development. Service providers will also receive training in portfolio and financial management and assistance in putting in place systems and procedures for default management. (iv) Political interference in program selection or loan distribution. This risk will be limited by applying standard operational procedures and program selection criteria to assure transparency, and establishing a Credit Committee responsible for program approval that represents broad participation and a range of expertise.

Staff Appraisal Report: Not applicable. A Technical Annex is attached.

Project ID Number: 45311

Map: IBRD 28382

**MEMORANDUM AND RECOMMENDATION OF THE MANAGING DIRECTOR
TO THE PRESIDENT OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION
(THE ASSOCIATION ACTING AS ADMINISTRATOR OF THE INTERIM TRUST FUND)
TO BOSNIA AND HERZEGOVINA
FOR THE LOCAL INITIATIVES PROJECT**

1. I submit for your approval the following memorandum and recommendation on a proposed Interim Fund Credit to Bosnia and Herzegovina in the amount of SDR 4.9 million (US\$ 7.0 million equivalent) to help finance the Local Initiatives Project in both the Federation of Bosnia and Herzegovina and Republika Srpska. The proposed Credit would be on International Development Association (IDA) terms, with 35 years maturity, including 10 years of grace. Cofinancing in an amount of US\$3.3 million is secured, and cofinancing of US\$7.7 million is being sought from other donors.

Project Background

2. Unemployment is one of the most fundamental post-war issues that Bosnia and Herzegovina has to face. After four years of war, economic activity is virtually at a standstill with estimates of the current gross national product ranging from 5-15 percent of pre-war levels. The collapse of the economy means that today the unemployment rate is nearly double that in 1991. About 50-60 percent of the current labor force of 1.1 million are estimated to be formally unemployed. There is also significant underemployment, as many who once had formal sector jobs now rely on informal sector activities and agriculture to make a living. Of particular concern, are the employment prospects of those most directly affected by the war -- the internally displaced, demobilized soldiers, war widows, war invalids and returning refugees -- many of whom lost both their homes and their jobs during the war and are now dependent on humanitarian assistance.

3. Job creation based on self-employment and micro and small enterprise development is likely to play a key role in the reduction of the high unemployment rate and the post-war recovery and transition towards a free market economy. Such a trend towards rapid growth of self-employment has occurred in virtually all industrialized countries, and particularly in the transition economies where the collapse of state-owned enterprises, the main source of employment, left many people redundant and in search of new ways of earning a living.

4. There is a spectrum of unemployed and micro and small enterprises in need of assistance in Bosnia and Herzegovina. At the lowest end of the spectrum are those with no prior private business experience whom war-related circumstance has left as a new category of unemployed and for whom self-employment represents a new opportunity for making a living. These include vulnerable groups, such as women widowed during the war who, as the new breadwinners for their families, wish to start their own income-generating activities; and demobilized soldiers who prior to the war worked in socially-owned enterprises that have now collapsed and need to find a new means of earning an income. Similar prospects are faced by thousands of internally displaced and refugees from Bosnia and Herzegovina who are unable to return to their homes and previous jobs. These people represent a potential "pre-entrepreneurial class" that could provide part of the basis for future private sector growth in Bosnia and Herzegovina. To realize this potential they require both financial and technical support, yet typically such groups are not eligible for assistance for bank lending either because they represent too much of a credit risk, lacking both collateral and prior business experience, or because the transaction costs of processing the small loan amounts that they require (typically less than DM10,000 is needed to start-up self-employment or a microenterprise) are too high. Business support services are also lacking for such clientele in Bosnia and Herzegovina.

5. At the upper end of the spectrum, are small private enterprises which existed prior to 1991 but lost their equity capital base during the war, either as a result of accounts having been frozen at the former central bank in Belgrade, or because private savings were used up during the war years, or because fixed assets were damaged or destroyed. To be able to resume production, these enterprises have to repair damaged facilities and equipment, acquire new equipment and gain access to a minimum stock of raw materials and other inputs. Such enterprises require access to external financing -- a rehabilitation credit of up to DM 30,000 could finance fixed assets and working capital needs while providing employment for 2 to 3 additional workers.

6. Access to credit by these target populations is extremely limited in Bosnia and Herzegovina today. Banks in Bosnia, whether state-owned or private, have only limited amounts of deposit resources due to a general lack of confidence in the banking system on the part of the general public. As a consequence, credit is severely restricted and expensive (up to 5 percent per month). Available credit is mostly very short term, reflecting the short maturity of deposits and is mostly for trade activities. While average loan size is small by international standards at about DM 100,000, few if any loans are extended in amounts below DM 50,000. Lending is not so much based on collateral as it is based on relationship, particularly with the banks' own shareholders. Credit availability has improved with the start-up of two donor financed credit lines (IDA and USAID). However, loans under these programs range from about DM 100,000-DM 1,000,000 and tend to benefit existing medium-sized enterprises. In this environment, access to formal credit by microentrepreneurs and by small businesses is extremely limited. There is also little evidence that informal financial systems have emerged on any scale to compensate the shortage of formal credit. As a consequence, the development of micro and small businesses whose contribution to the future growth of employment and production is critical to the country could be stunted by insufficient access to finance.

An IDA/IFC Approach to Micro and Small Enterprise Lending in Bosnia and Herzegovina

7. IDA and IFC have together developed a coordinated approach to meet the currently unmet credit needs of micro and small enterprises in Bosnia and Herzegovina. It is an institutional approach that aims to develop institutions that are able to meet the differing financial and non-financial needs of the full spectrum of micro and small enterprises described above. It is possible, though somewhat arbitrary to divide this spectrum into three groups depending on loan size and on the mix of technical assistance and social support required by the borrower. Each group can in turn be associated with an institutional structure which best answers the needs of that particular segment.

8. At one end of the spectrum, credits would be very small (loans would likely have a maximum size of DM 2,500) targeted towards vulnerable groups, such as war widows, with little or no prior business experience wishing to establish income generating activities. Loans to this target population would typically be disbursed via groups, where members of the groups guarantee the repayment of each other's loans. Little or no technical assistance would be provided as the credit provider relies on the judgment of the group members as to the borrowers' business abilities, however, considerable social support is offered by the group lending methodology. Elsewhere in the world, a non-profit, non-governmental organization (NGO) has proved to be the best type of institution for delivery of credit using this methodology, as group formation requires social and community participation skills, as much as financial skills. The social support offered by such a solidarity group lending approach can be as important to the borrowers as the access to credit. Such an NGO would be dependent on infusions of grant funding. Given the small loan amounts, sustainability is a difficult goal to achieve with this type of program. Such programs, therefore, might have a long-term dependence on subsidies or have a finite life and cease to operate once their mandate had been fulfilled and clients' credit needs could be met from more specialized microcredit operators.

9. In the middle of the spectrum, loans would have a likely maximum size of 10,000 DM (about \$7,500) and would be disbursed using an individual lending methodology in which loans are guaranteed by the borrower's collateral and/or cosigners. Loan analysis is based on a more detailed viability analysis of the business to be financed and program staff typically have close relations with their clients. Often these programs incorporate technical assistance and training in business management for the potential borrower prior to disbursing a loan. The institutional vehicle for delivery of the TA/credit mix could also be an NGO dependent on grant funding but on a progressively declining basis. If it can build up a sufficiently large portfolio, such an NGO can achieve financial sustainability. At this point, it is often advisable to formally separate the non-profit TA activities from the more profitable credit business and the latter would probably need to be restructured into a formal financial entity, either a bank or a non-bank financial institution.

10. To serve the top end of the micro and small enterprise spectrum would be a formal financial institution specialized in microfinance, whose loans could be as high as DM 30,000 (about US\$20,000). It would operate on a for profit basis and would provide no TA to its clients. Its market would still be considerably below the loan size that the formal banking sector institutions currently service. Its lending methodology would also be different from that of regular commercial banks. Creditworthiness of clients would be based on cashflow estimates and loan size/maturity on the basis of the resulting debt repayment capacity, not on the basis of collateral. Lending rates would be significantly higher than in the regular banking sector to allow full cost recovery and a measure of profitability. However, such a financial institution would require grant financing to cover administration and technical assistance costs during the start-up phase if it is to reach a profit-making point within a 2-3 year period.

Support for Micro and Small Enterprises in Bosnia and Herzegovina: Implementing the Approach

11. Under the Local Initiatives Project, IDA proposes to serve the credit needs of microenterprises towards the bottom end of the micro and small enterprise spectrum through NGOs and local organizations. These organizations are in a position to reach the most economically disadvantaged groups -- war widows, demobilized soldiers, displaced persons, returning refugees -- and would provide loans up to a maximum amount of DM 10,000. Under the Project, they would be provided considerable technical assistance and training to build-up their expertise in microfinance. Different organizations are likely to use different credit delivery methodologies, including solidarity group lending and individual lending, and some would provide technical assistance and training support in addition to purely financial services. It is expected that some of these NGO microcredit service providers will build the institutional capacity to develop microcredit programs of large enough outreach and operational efficiency to achieve financial self-sustainability over a 5-7 year timeframe; others, however, are likely to remain small and targeted to marginalized groups where reaching sustainability is a more difficult goal to achieve.

12. By contrast, under a forthcoming project, IFC proposes to support the upper end of the spectrum via the creation of a commercial bank specialized in lending to micro and small enterprises. This Microenterprise Bank for Bosnia and Herzegovina (BMBH) aims to achieve commercial viability within a 2 to 3 year timeframe. Loans would range up to 30,000 DM and interest rates are likely to be somewhat higher than those of most of the service providers under the IDA (ITF)-financed project. The proposed BMBH is not expected to provide any technical assistance to its clients though such support may be available to them through some of the IDA (ITF)-financed NGOs. BMBH would be a private sector corporation licensed to operate as a bank. Shareholders would include IFC, EBRD, and a foreign management service company hired to manage the operation. The bank would aim for rapid portfolio expansion, reaching over 1,000 clients by the end of the second year. Together, these two projects form a continuum addressing urgent micro and small enterprise credit needs and broadening and deepening financial services in Bosnia and Herzegovina.

World Bank Strategy and Programs in Bosnia and Herzegovina

13. On April 1, 1996, Bosnia and Herzegovina (BH) fulfilled the conditions of succession to the Socialist Federal Republic of Yugoslavia's membership in the Bank, IDA and IFC. Membership is retroactive to February 25, 1993.

14. Since early 1995, the Bank Group has been deeply involved in developing a donor-funded reconstruction program for BH. A joint mission of the Bank, IMF, EU and EBRD in late 1995 resulted in the proposed Priority Reconstruction Program which was first presented to a donors' meeting, co-sponsored by the Bank and the EU in Brussels, a week after the signing of the Paris/Dayton Peace Agreement. This meeting led to donor commitments of about US\$600 million for immediate reconstruction activities. A second donors' conference, again co-chaired by the Bank and the EU, was held in mid-April 1996, and resulted in additional donor pledges on the order of US\$1.2 billion for financing priority reconstruction activities during 1996.

15. The Bank has been following a broad-based assistance strategy, which seeks to leverage its limited resources with significant resource transfer from donors. Before arrears resolution, the Bank supported a series of immediate assistance programs through a special Trust Fund for Reconstruction of Bosnia and Herzegovina (TFBH) which is providing US\$125 million on concessional terms equivalent to those offered by IDA, as well as an additional US\$25 million in grant funds. Seven emergency operations, committing the entire US\$150 million, were approved under the TFBH. The resolution of arrears, made possible by the Consolidation Loan package, allowed regular IDA lending to begin in June 1996. The Bank is continuing to focus on supporting the reconstruction program in the infrastructure and social sectors, with special emphasis on employment creation. Its assistance program has also been broadened to include support for the initial phase of the government's macroeconomic and institutional reforms. The Transition Assistance Credit, approved by the Board in September 1996, was the first operation focusing on major institutional issues of the Federation and a series of structural reforms that are needed for advancing the transition to a market-economy. Further policy-enhancing investment or adjustment operations are envisaged to support institution-building at the state and entity level, in the financial sector as well as trade liberalization. In the area of reconstruction, future Bank operations will support the recovery of industry and employment generation, the rehabilitation of infrastructure (energy and transport), agriculture (forestry) and basic social services (health and education). Limited IDA (ITF) resources will continue to make partnerships with other donors key.

Rationale for World Bank Involvement

16. Since early 1995, the World Bank has been deeply involved in developing a donor-funded reconstruction and recovery program for Bosnia and Herzegovina, in close collaboration with governmental authorities and international donors. This \$5.1 billion, three- to four-year multi-sectoral program was first presented to the donor community in December 1995 at the First Donors' Conference in Brussels. The primary objective of the program is to provide sufficient financial resources to initiate a broad-based rehabilitation process that will jump-start economic recovery and create jobs. Employment generation is a central theme of the reconstruction program. Within its framework, the World Bank has assisted the authorities design a separate program specifically to create employment opportunities and assist the unemployed find jobs. This employment generation program has three dimensions -- labor-intensive public works to provide temporary job opportunities and income for the unemployed, a support program targeted at assisting demobilized soldiers reintegrate into the job market, and this Project which will provide credit and related business services for micro and small enterprise development.

17. There are four main reasons for promoting self-employment and microentrepreneurship in Bosnia and Herzegovina through delivery of microcredit and related business services:

- First, is the urgent need to *assist people make the transition away from unemployment and dependency on humanitarian assistance to active employment and income generation*. Active assistance in the form of microcredit and other business support can be a key factor in helping many war-affected groups, such as displaced women and demobilized soldiers, reenter the economy and look toward the future, rather than remaining passive and dependent on humanitarian assistance. This is a top priority of both the Government and the major donors.
- Second, with the collapse of state enterprises and the transition towards a more market-oriented economy, *self-employment and microenterprises are likely to play an important role in the future economy of Bosnia and Herzegovina* but need support if this potential is to be fulfilled.
- Third, promotion of self-employment through *microenterprise promotion can be a cost-effective alternative to long-term dependency on unemployment benefits* which would otherwise result. Job creation through microenterprise financing is generally more cost-effective than annual unemployment benefits. In Poland, for example, the average cost of creating a job ranges from US\$550-1,000 under microenterprise promotion schemes supported by the World Bank which compares favorably with the alternative of unemployment benefits, which average about US\$1,000 per person per year. Active employment also reduces the social problems associated with high rates of unemployment. This is a central concern in Bosnia and Herzegovina, where fears exist that lack of work is one factor that could contribute to renewed social unrest.
- Finally, the approach taken in this Project, namely to build the capacity of non-governmental organizations as microcredit service providers, will *strengthen the capacity and sustainability of the NGO sector in Bosnia and Herzegovina*. Strengthening the NGO sector is part of the broader task of increasing the role of civil society in development which is increasingly recognized as a prerequisite for democratic and broad-based development. Such efforts are particularly necessary in the post-conflict environment of Bosnia and Herzegovina.

Lessons Learned from Previous Bank/IDA Experience

18. There has been no World Bank/IDA involvement in BH since its independence in 1991. However, there is considerable IDA experience with microcredit components in Albania under the Rural Poverty Alleviation Pilot Project (Cr. 2461-ALB), the follow-up Rural Development Project (Cr. 2680-ALB), and the Urban Works and Microenterprise Pilot Project (Cr. 2770-ALB). Experience with village credit funds in Albania has shown that (a) availability of microcredit can have an important psychological effect on restoring economic initiative and cutting dependency; and (b) participation of the borrowers in the design and implementation of the microcredit program can result in strong program ownership and very high repayment rates. In addition, the Project has drawn on the considerable worldwide experience of microfinance, much of which is being disseminated and integrated into World Bank operations by the Consultative Group to Assist the Poorest (CGAP).

Tuzla Pilot Projects

19. In order to assess the needs and constraints of the target population, experiment with methods, and test the implementing arrangements, a pilot project (about US\$500,000) was initiated in February 1996 in Tuzla Canton using grant financing from the Netherlands Government (Bank-implemented Trust Fund 020873). Under the pilot, three NGOs were contracted to carry out microcredit pilot programs targeting three different target groups -- displaced women, rural unemployed and demobilized soldiers. All three programs have experienced considerable success; by the end of 1996, over 250 loans will have been disbursed ranging from 500DM-10,000DM apiece, for a total loan portfolio of about 480,000DM (US\$320,000). The pilot microcredit programs have been carefully monitored as regards: (a) reaching the target population; (b) employment creation; and (c) sustainability. Lessons drawn from the Tuzla pilot project have been incorporated into the Project design, and are being used to define the Local Initiatives Departments' operational procedures and microcredit program criteria.

Relationship with other Bank-financed Projects

20. The Project would complement several other projects, particularly the *Demobilization and Reintegration Project*—which aims to assist the economic reintegration of the unemployed, particularly demobilized soldiers, into the civilian workforce by financing job counseling, training and education—and the *Public Works and Employment Project*—which aims to create rapid employment for those unemployed or displaced as a result of war, by financing labor-intensive, local public works projects. Microcredit available under the Local Initiatives Project could be complemented with business or vocational training financed under the *Demobilization and Reintegration Project*. The *Public Works and Employment Project* is complementary in the sense that it provides temporary employment, while the *Local Initiatives Project* will support permanent employment through the development of micro and small businesses. The Project would also complement the *Emergency Recovery Project's Social Welfare Fund*—which provides cash payments to an estimated 250,000 persons during the transition period—by providing an active employment policy as an alternative to cash payments, and by helping to prevent long-term dependency on social welfare.

21. In terms of Projects that provide financial support to the private sector, this Project helps increase credit availability in Bosnia and Herzegovina across the full range of private enterprises. At the top end of the small-medium enterprise sector, the Emergency Recovery Project's (ERP) Revolving Line of Credit program provides bank loans through the existing banking system to small- and medium-sized enterprises up to 300,000 DM. In the middle of the range, the forthcoming IFC project previously described would support the start-up of a commercial microcredit bank specialized in lending to micro and small entrepreneurs with loans up to 30,000 DM. The Local Initiatives Project complements this project by targeting the lowest end of the microenterprise sector by providing grassroots financial intermediation for potential microentrepreneurs who would not normally have direct access to banks up to a maximum loan size of 10,000 DM.

Project Objectives

22. The Project's **primary objective** is to:

- address the urgent need to assist economically-disadvantaged and war-affected groups in Bosnia and Herzegovina restart economic activities and make the transition from dependence on humanitarian assistance to active employment. This will be achieved by disbursing about

5,000 subloans up to a maximum of 10,000 DM each for income-generating activities based on self-employment and microenterprises.¹

23. The Project's **secondary objectives** are to:

- jump-start the 5-10 year process of establishing financially viable microcredit institutions in Bosnia and Herzegovina, by contracting non-governmental organizations (NGOs) which meet specified eligibility criteria to disburse these loans and providing them with the technical support and incentives to develop high-performing operations, especially as regards repayments, operational efficiency and increasing financial self-sufficiency; and
- provide feedback to the Government and support improvement of the business environment for the start up and expansion of self-employment and micro and small businesses, as well as the environment for non-bank microfinance institutions.

24. The Project's target population comprises economically disadvantaged persons and micro-entrepreneurs who do not have access to business loans from commercial financial institutions, including: (a) those most directly affected by the war, namely displaced persons, war widows, war invalids, and returning refugees; (b) small farmers, rural unemployed and microentrepreneurs; and (c) urban unemployed and microentrepreneurs, especially demobilized soldiers.

Project Components

25. The project would consist of the following components:

(i) **Microcredit Programs (US\$15 million or 85% of Total Cost):** Under the Project, about 7,000-10,000 small loans would be provided for income-generating activities and microbusinesses. In order to disburse the microloans, the ETF Local Initiatives Departments (the overall implementing agency) would contract an estimated 12-18 microcredit service providers (non-Governmental legal entities) in the Federation and Republika Srpska as agents to approve, supervise, and follow up the collection of microloans and to provide related non-financial microbusiness services to borrowers (such as business training, marketing advice and business incubator services). Microcredit service providers would receive a performance-based management fee in order to cover the direct operating costs of administering the loan funds. This component would provide financing for both the microcredit funds and the management fees.

It was agreed at negotiations that microcredit service providers and programs would be selected in accordance with operational procedures and criteria detailed in the Project's Operational Manual, which would be at all times acceptable to IDA, and finalization of which is a condition of effectiveness. Microcredit programs would be proposed by potential microcredit service providers, which would be non-government organizations or associations that have successful microcredit experience or, at least, an established track record of successful delivery of other services to their proposed target population. The microcredit service providers would either be local organizations, or foreign NGOs that would agree to forming an independent local organization over an agreed time period to take over their microcredit operation. Microcredit service providers are expected to use a range of microcredit delivery methodologies, adapting world-wide microcredit experience to the specific needs of their target populations and to

¹ Microenterprise /microbusiness is defined as less than 5 employees (mainly family businesses).

conditions and traditions in Bosnia and Herzegovina. Self-sustainability would be an eventual goal of the most successful microcredit service providers. Given the limited number (12-18) of microcredit programs to be financed, it was agreed at negotiations that microcredit program selections and agency agreements would require no objection by IDA.

(ii) **Microfinance Capacity Building (US\$1.5 million or 9% of total cost):** Given that microcredit and microenterprise promotion is a completely new field in Bosnia and Herzegovina, the microcredit services providers and the Local Initiatives Department will require considerable technical assistance and training to develop successful microcredit programs that have the potential to be sustainable over the long term. The Project includes a total of 60 months of foreign consultancies (36 months long term; 24 months short term) for which grant financing is sought, as well as financing for local consultants. Technical assistance would be provided for the Local Initiatives Department (LID) staff and for microcredit service providers. Specifically, the following types of technical assistance would be financed: (a) expert microfinance advice to the LID and participating service providers; (b) development and refining of project operational procedures; (c) setting up of project accounting systems and financial controls; (d) establishment of a management information system for project monitoring and portfolio management; (e) establishment of a system for reviewing and monitoring the business environment and providing input to government policy reform; and (f) provision of assistance with specific microbusiness marketing or supply problems. Regular hands-on training would also be provided for (a) LID staff; and (b) service providers in microcredit delivery, and portfolio and financial management.

(iii) **Project Management (US\$1.3 million or 7% of Total Cost):** Financing is provided for the establishment and operational costs of the Local Initiatives Departments in the Employment and Training Foundations (ETFs), which would manage the Project and be responsible for selecting, supporting, and monitoring microcredit programs. The ETFs, which have been set up in the Federation and Republika Srpska, also act as umbrella foundations for two other IDA-financed employment generation projects—the Public Works and Employment Project and the Demobilization and Reintegration Project.

Project Cost and Financing

26. The total estimated cost of the project is US\$18 million equivalent, net of taxes and duties; US\$12 million for the Federation and US\$6 million for Republika Srpska. Of the total project cost of US\$18 million, IDA (ITF) would finance US\$7 million (39 percent of total costs). The Italian Government has also agreed to provide 5 billion Italian lira (about US\$3.3 million) as joint cofinancing. Cofinancing has also been requested from EU-Phare (about US\$3 million) and is under consideration but may not be available before mid-1997. The remaining US\$4.7 million cofinancing is being sought. During the pilot phase of the Project, financing was provided by the Dutch Government (US\$800,000) and by the UNHCR (US\$1 million) to start up pilot microcredit programs prior to the full-scale Project. The Project is designed in such a way that it can become fully operational with only IDA (ITF) financing; the scale and geographic reach of the Project can be adjusted according to financing available.

27. A breakdown of the project costs and financing plan are shown in Schedule A. Procurement amounts and methods and the disbursement table are presented in Schedule B. A timetable of the project's key processing steps and the status of Bank Group operations in Bosnia and Herzegovina are provided in Schedules C and D respectively.

Project Implementation

28. The Project would be implemented over 2 years, during which time it would finance microcredit programs that test different ways of rapidly promoting income-generating activities among different segments of the target population, building on the existing experience of many NGOs and local institutions. Microcredit service providers (primarily NGOs) would be contracted by the Local Initiatives Departments of the Employment and Training Foundations (ETFs) as agents to make loans to the final beneficiaries. The main reason for adopting an agency model, as opposed to a financial intermediation model, is that, given the lack of prior microcredit experience of NGOs in Bosnia and Herzegovina, it is not considered advisable to hand over ownership of the project funds to NGOs at this stage. The agency model allows the ETF to maintain control of the funds in the case of poor portfolio performance.

29. The trade-off of adopting this model is that the credit risk, the ultimate incentive to ensure high repayments, remains with the ETF. Given this, the project has incorporated several incentive measures to ensure high repayment rates and increasing operational efficiency and to encourage the microcredit service providers to move towards financial sustainability. The incentive system would work as follows:

- Within each agency agreement, *performance targets* would be agreed, including targets for criteria related to outreach, number of loans disbursed, portfolio quality (including repayment rates), operational efficiency and financial sustainability. These performance targets would reflect the institution in question and the nature and stage of development of its operation. Given that these are start-up operations, no service provider will be expected to reach full financial sustainability within the life of the project (the most successful microfinance institutions normally take 3-5 years minimum to reach this stage); however, from the outset service providers will be encouraged to aim for increasing operational efficiency and self-sustainability. This includes setting real positive interest rates, based on a target of covering costs (operating costs, inflation, loan losses and cost of funds) within a reasonable period (e.g. 3-5 years). Interest rates for each program will be agreed between the service providers and the ETF.
- under the agency agreement, the first tranche of the approved microcredit program would be deposited into the microcredit service provider's local "*agency account*" from the Special Account. This agency account would be opened in a local commercial bank selected by the service provider and acceptable to the ETF. In addition, the microcredit service provider would be provided with a *management fee* to cover the direct operating costs of administering the loan fund deposited into a separate bank account ("*non-agency account*").
- at the end of the period for disbursement of the first tranche of credit funds (typically six months), the ETF technical staff (assisted by the expatriate microcredit expert) would evaluate the microcredit service provider's program and make an assessment of whether the service provider had reached the agreed performance targets. If all performance targets have been met, i.e. performance is fully satisfactory, the ETF would authorize the transfer of 100% of the interest repayments from the agency to the non-agency account as a *performance fee*, with the obligation that this fee be used for the purposes of the Project. In the event that the performance targets are not fully met but performance is satisfactory, less than 100% of the interest repayments would be awarded to the service provider. In both instances, the next tranche of financing would be disbursed. In the event of unsatisfactory performance, the ETF has the option of suspending the agency agreement and renegotiating it, if it is judged that there is the potential for performance improvement, or terminating the

agency agreement and reallocating the agency account funds to a new or better performing service provider.

- repayments by the borrowers would be made into the appropriate local agency account. It has been agreed during appraisal, that the *loan funds would remain and be revolved at the local level* under the management of the microcredit service provider, unless bad performance justified closing the local agency account and reallocating the funds elsewhere.
- grant financing for overhead costs (the management fee) would progressively be diminished as the interest repayments increase and the microcredit service provider moves towards financial sustainability.
- as a further incentive, it was also agreed during appraisal, that if a microcredit service provider meets a certain level of operational efficiency and satisfactory progress toward financial self-sufficiency (as per performance criteria defined in the Operational Manual), the ETF could grant the balance of the agency account to the service provider as a *capitalization grant* for future independent operations. Judgment as to whether to grant capitalization grants to any service providers within the Project period would be made in the final semester of the Project by the ETF and IDA.

30. A Project mid-term review would be carried out with the participation of the ETF Local Initiatives Departments and the World Bank to evaluate the results of the microcredit programs and to select "best practices" for promoting income-generating activities in each of the three target population groups no later than December 31, 1997. A follow-up project could focus on supporting the most successful microcredit service providers and credit delivery methodologies identified during this 2 year project, with an increased emphasis on institution building and long-term financial sustainability.

Project Sustainability

31. The Project is an emergency operation that has a primary objective of supporting individual economic initiative and assisting people start-up microenterprises. However, its secondary objective is to lay the groundwork for the development of sustainable microfinance institutions in Bosnia and Herzegovina. It is estimated that about 12-18 NGO microcredit service providers will be selected, of which 3-5 may eventually become fully financially sustainable microcredit institutions that will continue to serve the smallest credit clients and promote entrepreneurship over the long term. A further 4-6 may also continue operations beyond the two-year life of the Project but will remain dependent on subsidies. The remainder of the service providers, though fulfilling the primary objective of assisting economically disadvantaged groups start-up microenterprises, may not continue operations beyond the life of the Project.

Agreements Reached

32. During negotiations, the following principal agreements were reached between IDA and the Government on the implementation of the Project: (a) the Executive Director and other senior management positions of the ETF Local Initiatives Departments will be staffed satisfactorily to IDA prior to effectiveness; (b) microcredit programs will be selected according to criteria and procedures defined in an Operational Manual acceptable to IDA; (c) microcredit program selections and proposed agency agreements with microcredit service providers will require IDA no objection prior to execution of agency agreements; (d) the ETF Local Initiatives Departments will prepare and submit quarterly progress reports in a format satisfactory to IDA; (e) project accounts will be maintained in accordance with sound auditing practices and audited annually by an independent auditor acceptable to IDA; (f) a mid-term

review will be carried out jointly by IDA and the Local Initiatives Departments of the ETF no later than December 31, 1997; and (g) agreed performance monitoring indicators (Appendix 9) will be used to monitor the achievement of project objectives.

33. The following are *conditions of effectiveness*: (a) provision of a legal opinion or opinions on behalf of the Borrower and the Federation, satisfactory to IDA, that the Interim Trust Fund Development Credit Agreement has been duly executed and is legally binding in accordance with its terms; (b) satisfactory evidence of the execution of a Subsidiary Financing and Project Implementation Agreement, acceptable to IDA, between the State, the Federation and the Federation Employment and Training Foundation (FETF); (c) receipt of an opinion that the FETF Subsidiary Financing and Project Implementation Agreement has been duly executed and is legally binding upon the parties thereto; and (d) adoption by the FETF Local Initiatives Department of an Operational Manual acceptable to IDA.

34. The following are *conditions of disbursement for the Republika Srpska component*: (a) execution of a Subsidiary Financing and Project Implementation Agreement, acceptable to IDA; (b) receipt of an opinion that the RETF Subsidiary Financing and Project Implementation Agreement has been duly executed and is legally binding upon the parties; (c) adoption by the RETF Local Initiatives Department of an Operational Manual acceptable to IDA.

35. **Environmental Aspects.** Because it is an emergency project, the Project is not assigned an environmental category. Given the very small scale of the microbusinesses and self-employment activities to be supported, the project is expected to have little or no environmental impact. However, the project will be monitored during supervision to assure that there is no degradation to the environment from the business activities financed.

36. **Program Objective Categories.** By developing delivery mechanisms for very small loans to economically disadvantaged groups and microentrepreneurs, enabling them to reenter the economy, decrease their dependency on social assistance, and start or expand self employment and microenterprises, the Project supports the objective of poverty reduction.

37. **Participatory Approach.** Microcredit programs would be implemented by NGOs and local institutions, which have grassroots approaches and working relationships with the most vulnerable groups, especially displaced persons and war victims.

38. **Benefits.** Major immediate benefits would include (a) the promotion of about 7,000-10,000 microenterprises or income-generating activities, which would create employment and help to restart the economy; and (b) the strengthening of local institutions and NGOs that could provide financial and non-financial services to the self-employed and microenterprises on a long-term basis, so playing an important role in the reconstruction and economic transition process at the grassroots level. On a more general level, the project would foster entrepreneurship and solidarity; and it would help the most vulnerable groups by supporting their initiatives to become economically self-reliant. By promoting an active employment policy, the project would help prevent long-term dependency and the excessive fiscal and social costs related to unemployment.

39. **Risks.** There is a general risk of a resumption of hostilities in the region; it is hoped that rapid reconstruction and economic reintegration of vulnerable groups including demobilized soldiers through projects such as the *Local Initiatives Project* could help cement the peace process. The main project-specific risks are: (i) continued Government commitment to building the capacity of non-governmental organizations as microcredit service providers; (ii) a "central planning" approach of the Local Initiatives Department as regards the service providers and of the microcredit service providers towards their clients which could hinder appropriate loan delivery; (iii) lack of institutional capacity among microcredit

service providers which could result in poor portfolio performance, particularly low repayment rates, and (iv) political interference in program selection or loan distribution. The first risk will be addressed by working closely with the Government to raise their awareness as to the role of non-bank financial institutions in providing credit and related services to microentrepreneurs. The second two risks will be addressed by encouraging an approach in which borrowers perceive loans as their own private sector activity and service providers are given the incentives to act as fully responsible agents. Microcredit service providers and the Local Initiatives Departments will be provided hands-on technical support and training in microcredit delivery and a market-oriented approach to microenterprise development. Service providers will also receive training in portfolio and financial management and assistance in putting in place systems and procedures for default management. The risk of political interference will be limited by applying standard operational procedures and program selection criteria to assure transparency, and establishing a Credit Committee responsible for program approval that represents broad participation and a range of expertise.

40. **Recommendation.** I am satisfied that the proposed Interim Fund Credit would comply with Resolution No. 184, adopted by the Board of Governors of the Association on June 26, 1996, establishing the Interim Trust Fund and I recommend that the President approve it.

Caio Koch-Weser
Managing Director

Washington, DC
November 19, 1996

Attachments

Schedules A - E
Technical Annex
Map

**BOSNIA AND HERZEGOVINA
LOCAL INITIATIVES PROJECT**

ESTIMATED COSTS AND FINANCING PLAN

A. Project Cost Summary (US' 000)

	PY 1	PY 2	Total	As % of Total
I. Investment Costs				
A. Federation of Bosnia and Herzegovina				
1. Small-Scale Credit	4,150.0	3,772.0	7,922.0	44.0%
2. Management Fees to Service Providers	800.0	1,508.0	2,308.0	12.8%
3. Equipment	48.0	-	48.0	0.3%
4. Training and Studies	150.0	140.0	290.0	1.6%
5. Technical Assistance	580.0	350.0	930.0	5.2%
6. Operating Costs of FETF	251.0	251.0	502.0	2.8%
Subtotal Federation of Bosnia and Herzegovina	5,979.0	6,021.0	12,000.0	66.7%
B. Republika Srpska				
1. Small-Scale Credit	1,875.0	1,874.0	3,749.0	20.8%
2. Management Fees to Service Providers	377.0	754.0	1,131.0	6.3%
3. Equipment	48.0	-	48.0	0.3%
4. Training	60.0	60.0	120.0	0.7%
5. Technical Assistance	260.0	260.0	520.0	2.9%
6. Operating Costs of RETF	216.0	216.0	432.0	2.4%
Subtotal Republika Srpska	2,836.0	3,164.0	6,000.0	33.3%
Total PROJECT COSTS	8,815.0	9,185.0	18,000.0	100.0%

B. Financing Plan (US\$' 000)

	IDA (ITF)		Government of Italy		EU Phare (requested) and Other		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
	A. Federation of Bosnia and Herzegovina							
1. Micro-Credit Programs	3,959.9	38.7	2,046.0	20.0	4,224.1	41.3	10,230.0	56.8
2. Micro-Finance Capacity Building	217.9	21.8	38.0	3.8	744.1	74.4	1,000.0	5.6
3. Project Management	322.1	41.8	145.5	18.9	302.4	39.3	770.0	4.3
Subtotal Federation of Bosnia and Herzegovina	4,500.0	37.5	2,229.5	18.6	5,270.6	43.9	12,000.0	66.7
B. Republika Srpska								
1. Micro-Credit Programs	2,180.0	44.7	976.0	20.0	1,724.0	35.3	4,880.0	27.1
2. Micro-Finance Capacity Building	103.2	20.6	40.0	8.0	356.8	71.4	500.0	2.8
3. Project Management	216.8	35.0	94.4	15.2	308.8	49.8	620.0	3.4
Subtotal Republika Srpska	2,500.0	41.7	1,110.4	18.5	2,389.6	39.8	6,000.0	33.3
Total Disbursement	7,000.0	38.9	3,339.9	18.6	7,660.1	42.6	18,000.0	100.0

**BOSNIA AND HERZEGOVINA
LOCAL INITIATIVES PROJECT
PROCUREMENT AND DISBURSEMENT**

**A. Summary of Proposed Procurement Arrangements
(US\$ Thousands)^{1/}**

Category of Expenditure ^{2/}	National Shopping	Other ^{3/}	Total
Small-Scale Credit			
1. FBH		7,922	7,922
		(3,010)	(3,010)
2. RS		3,749	3,749
		(1,680)	(1,680)
Management Fees to Service Providers			
1. FBH		2,308	2,308
		(950)	(950)
2. RS		1,131	1,131
		(500)	(500)
Vehicles & Equipment			
1. FBH	48		48
	(48)		(48)
2. RS	48		48
	(48)		(48)
Technical Assistance & Training			
1. FBH		1,220	1,220
		(275)	(275)
2. RS		640	640
		(130)	(130)
Operating Costs of LIDs of ETFs			
1. FBH		502	502
		(217)	(217)
2. RS		432	432
		(142)	(142)
Total Project	96	17,904	18,000
	(96)	(6,904)	(7,000)

^{1/} Figures in parentheses are the estimated amounts to be financed by IDA (ITF).

^{2/} Categories are broken down by the Federation of Bosnia and Herzegovina component and the Republika Srpska component.

^{3/} The "other" category includes small loans less than 10,000 DM each (the beneficiaries of which would use their traditional purchasing practices of comparing price quotations); management fees to service providers; consulting services to be procured following Bank Guidelines for the Use of Consultants; and salaries, fees and other operating costs (travel and utilities).

B. Disbursement Categories

Items	Amount (US'000)	% Financing
1. Microcredit		
A. Federation	2,700	100%
B. Republika Srpska	1,500	
2. Management Fees to Microcredit Service Providers		
A. Federation	850	100%
B. Republika Srpska	450	
2. Goods		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally.
A. Federation	40	
B. Republika Srpska	40	
3. Consulting Services and Training		
A. Federation	250	100%
B. Republika Srpska	120	
4. Operating Costs of ETFs		
A. Federation	190	100%
B. Republika Srpska	120	
5. Unallocated		
A. Federation	470	
B. Republika Srpska	270	
Total	7,000	

C. Estimated Disbursement Schedule
US\$ million

	1st Semester	2nd Semester	3rd Semester	4th Semester	5th Semester
Semester	1.0	1.5	2.0	1.5	1.0
Cumulative	1.0	2.5	4.5	6.0	7.0
Cumulative as % of total	11%	36%	64%	86%	100%

**BOSNIA AND HERZEGOVINA
LOCAL INITIATIVES PROJECT**

TIMETABLE OF KEY PROJECT PROCESSING ACTIVITIES

- | | |
|--|--|
| (a) Time taken to prepare: | 6 months |
| (b) Project prepared by: | Government with World Bank assistance. |
| (c) World Bank appraisal mission: | September 3 -16, 1996 |
| (d) Negotiations: | September 18, 1996 |
| (e) Scheduled Board date: | December 12, 1996 |
| (f) Planned date of effectiveness: | March 15, 1997 |
| (g) Expected date of project completion: | December 31, 1998 |
| (h) Relevant PCRs and PPARs: | Not applicable |

STATUS OF BANK GROUP OPERATIONS IN BOSNIA-HERZEGOVINA

A. STATEMENT OF BANK LOANS^{a/}

(As of November 1, 1996)

Loan No.	Fiscal		Project	US\$ Million	
	Year	Borrower		(Less Cancellations) Loan Undisbursed	
Loans/Credits/Grants					
IBRD^{b/}					
4038-BOS	1996	Bosnia and Herzegovina	Consolidation Loan A	28.6	0.0
4039-BOS	1996	Bosnia and Herzegovina	Consolidation Loan B	284.9	0.0
4040-BOS	1996	Bosnia and Herzegovina	Consolidation Loan C	307.1	0.0
Total				620.6	0.0
Of Which: Repaid				24.9	
Total Now Held by the Bank:				595.7	

TFBH^{c/} (Under Disbursement)

TF-024030	1996	Bosnia and Herzegovina	Emergency Recovery Credit	45.0	24.9
TF-024031	1996	Bosnia and Herzegovina	Emergency Farm Reconstruction	20.0	15.4
TF-024032	1996	Bosnia and Herzegovina	Emergency Water Supply	20.0	14.7
TF-024033	1996	Bosnia and Herzegovina	Emergency Transport	35.0	26.4
TF-024034	1996	Bosnia and Herzegovina	Emergency District Heating ^{d/}	20.0	15.0
TF-024035	1996	Bosnia and Herzegovina	Emergency War Victims Rehabilitation	5.0	4.0
TF-024040	1996	Bosnia and Herzegovina	Emergency Education Reconstruction	5.0	0.8
Total				150.0	101.2

IDA

2897-BOS	1996	Bosnia and Herzegovina	Emergency Education Reconstruction	5.0	5.0
2896-BOS	1996	Bosnia and Herzegovina	Emergency War Victims Rehabilitation	5.0	5.0
2902-BOS	1996	Bosnia and Herzegovina	Emergency Housing Repair	15.0	10.1
2903-BOS	1997	Bosnia and Herzegovina	Emergency Power Reconstruction	35.6	22.5
2904-BOS	1997	Bosnia and Herzegovina	Emergency Public Works and Employment	10.0	8.6
2905-BOS	1997	Bosnia and Herzegovina	Emergency Landmines Clearance	7.5	6.9
2906-BOS	1997	Bosnia and Herzegovina	Emergency Demobilization and Reintegration	7.5	4.7
2914-BOS	1997	Bosnia and Herzegovina	Transition Assistance Credit	90.0	0.0
Total				175.6	62.8

B. STATEMENT OF IFC INVESTMENTS

(As of September 30, 1996)

Fiscal Year	Obligor	Type of Business	Gross Commitments		
			-----US\$ Million-----		
			Loan	Equity	Total
1977	Tvornica Kartona I				
	Ambalaze Cazin	Timber, Pulp and Paper	4.38	0.0	4.38
1985	Sour Energoinvest	Industrial Equipment and Machinery	10.00	0.0	10.00
Total Gross Commitments			14.38	0.0	14.38
Less: Participations, Cancellations, Terminations, Exchange Adjustments, Repayments, Writeoffs and Sales			23.5	2.6	26.1
Total Commitments Now Held by IFC			14.38	--	14.38
Total Undisbursed			--	--	--
Total Outstanding			14.38	--	14.38

November 19, 1996

a/ The status of these projects is described in a separate report on all Bank/IDA financed projects in execution, which is updated twice yearly and circulated to the Executive Directors on April 30 and October 31.

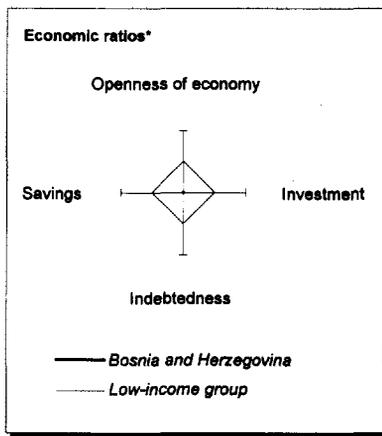
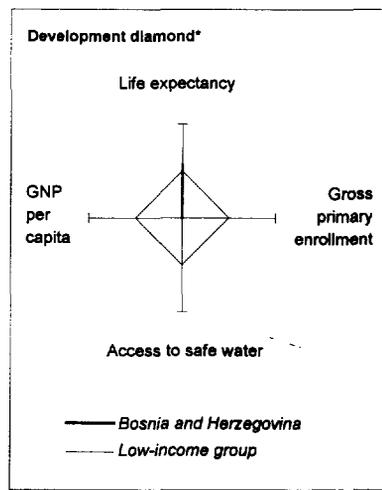
b/ Consolidation Loans A, B, and C were approved on June 13, 1996 and became effective on June 14, 1996.

c/ Trust Fund for Bosnia and Herzegovina.

d/ Disbursements to date are from the Project Start-Up Advance (of which US\$2 million is disbursed for Gas).

Bosnia and Herzegovina at a glance

POVERTY and SOCIAL	Bosnia and Herzegovina	Europe & Central Asia	Low- Income		
Population mid-1995 (millions)	4.4	488	3,188		
GNP per capita 1995 (US\$) a/	..	2,240	460		
GNP 1995 (billions US\$) a/	..	1,093	1,466		
Average annual growth, 1990-95					
Population (%)	-0.3	0.4	1.8		
Labor force (%)	0.3	0.6	1.9		
Most recent estimate (latest year available since 1989)					
Poverty: headcount index (% of population)	..	..	..
Urban population (% of total population)	49	66	29		
Life expectancy at birth (years)	71	68	63		
Infant mortality (per 1,000 live births)	19	23	58		
Child malnutrition (% of children under 5)	..	..	38	
Access to safe water (% of population)	..	..	75	
Illiteracy (% of population age 15+)	..	..	34	
Gross primary enrollment (% of school-age population)	..	97	105		
Male	..	97	112		
Female	..	97	98		
KEY ECONOMIC RATIOS and LONG-TERM TRENDS					
	1975	1985	1994	1995	
GDP (billions US\$)	..	..	..	2.5
Gross domestic investment/GDP	..	..	..	..
Exports of goods and non-factor services/GDP	..	..	..	15.0
Gross domestic savings/GDP	..	..	..	..
Gross national savings/GDP	..	..	..	..
Current account balance/GDP	..	..	..	-20.2
Interest payments/GDP	..	..	..	..
Total debt/GDP	..	..	..	129.4
Total debt service/exports	..	..	..	116.0
Present value of debt/GDP	..	..	..	..
Present value of debt/exports	..	..	..	..
	1975-84	1985-95	1994	1995	1996-04
(average annual growth)					
GDP	17.2
GNP per capita
Exports of goods and nfs	36.7
STRUCTURE of the ECONOMY					
	1975	1985	1994	1995	
(% of GDP)					
Agriculture	..	9.5	..	..
Industry	..	43.0	..	..
Manufacturing	..	..	..	..
Services	..	47.5	..	..
Private consumption	..	..	..	..
General government consumption	..	..	..	..
Imports of goods and non-factor services	..	..	..	..
	1975-84	1985-95	1994	1995	
(average annual growth)					
Agriculture	..	..	..	..
Industry	..	..	..	..
Manufacturing	..	..	..	..
Services	..	..	..	..
Private consumption	..	..	..	..
General government consumption	..	..	..	..
Gross domestic investment	..	..	..	..
Imports of goods and non-factor services	..	..	..	..
Gross national product	..	..	..	..

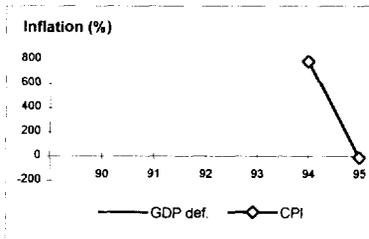


Note: 1995 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

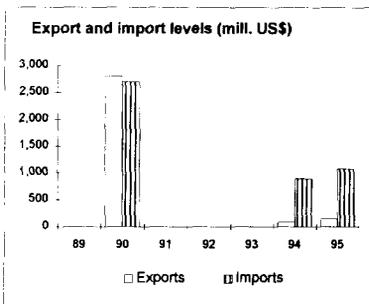
PRICES and GOVERNMENT FINANCE

	1975	1985	1994	1995
Domestic prices				
<i>(% change)</i>				
Consumer prices	780.0	-11.7
Implicit GDP deflator
Government finance				
<i>(% of GDP)</i>				
Current revenue
Current budget balance	17.0	29.0
Overall surplus/deficit	-0.2	0.0



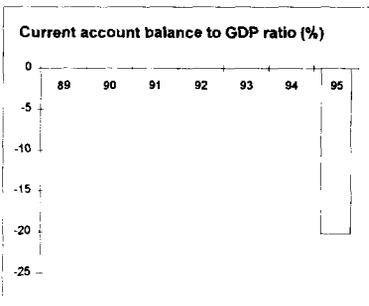
TRADE

	1975	1985	1994	1995
<i>(millions US\$)</i>				
Total exports (fob)	91	152
n.a.
n.a.
Manufactures
Total imports (cif)	894	1,082
Food
Fuel and energy
Capital goods
Export price index (1987=100)
Import price index (1987=100)
Terms of trade (1987=100)



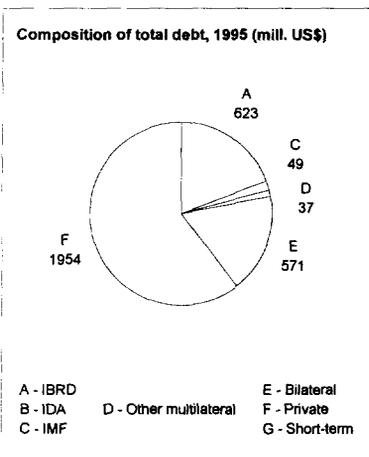
BALANCE of PAYMENTS

	1975	1985	1994	1995
<i>(millions US\$)</i>				
Exports of goods and non-factor services	194	381
Imports of goods and non-factor services	1,085	1,334
Resource balance	-891	-953
Net factor income	-177	-183
Net current transfers	625	630
Current account balance, before official transfers	-443	-506
Financing items (net)	437	649
Changes in net reserves	6	-143
Memo:				
Reserves including gold (mill. US\$)	69
Conversion rate (local/US\$)



EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1994	1995
<i>(millions US\$)</i>				
Total debt outstanding and disbursed	2,960	3,234
IBRD	546	623
IDA
Total debt service	475	508
IBRD	60	73
IDA
Composition of net resource flows				
Official grants
Official creditors
Private creditors
Foreign direct investment
Portfolio equity
World Bank program				
Commitments
Disbursements
Principal repayments
Net flows
Interest payments
Net transfers



Note: A large proportion of data are missing due to scant and partial coverage in this early stage of the post-war period.
a. GNP figures are not available. For 1995, EC2CO estimates GDP to be US\$ 2.5 billion and GDP per capita to be US\$ 595.

MAP SECTION



IMAGING

Report No: P- 7011 BIH
Type: MOMD