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BOSNIA AND HERZEGOVINA

**THE PRIORITY RECONSTRUCTION
AND RECOVERY PROGRAM**

THE CHALLENGE

Discussion Paper

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Prepared by
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for the Second Donors'

CURRENCY EQUIVALENT

100 RBH DINAR = 0.67 US\$ = 1 DM

LIST OF ACRONYMS AND ABBREVIATIONS

EAP	Essential Aid Programme
EC	European Commission
EBRD	European Bank for Reconstruction and Development
ECHO	European Commission Humanitarian Office
EU	European Union
EUAM	European Union Administration of Mostar
FAO	Food and Agriculture Organization
FRY	Federal Republic of Yugoslavia
HR	High Representative
IBRD	International Bank for Reconstruction and Development
ICRC	International Committee of the Red Cross
IDA	International Development Association
IFIs	International Financial Institutions
IFOR	Implementation Force
IMG	International Management Group
IMF	International Monetary Fund
JCC	Joint Civilian Commission
MIGA	Multilateral Investment Guarantee Agency
NGO	Non-Governmental Organization
OSCE	Organization for Security and Cooperation in Europe
PCU	Project Coordination Unit
PIU	Project Implementation Unit
UN	United Nations
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNSCS	United Nations Special Coordinator for Sarajevo
WHO	World Health Organization

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PREFACE

Reconstruction and economic recovery are crucial elements of the international effort to restore peace and stability to Bosnia and Herzegovina. In December 1995, the priority reconstruction and recovery program, prepared by the Government of Bosnia and Herzegovina, with the assistance of the World Bank, the European Commission (EC) and the European Bank for Reconstruction and Development (EBRD), was presented to the donor community. This \$5.1 billion, three- to four-year multi-sectoral program recognized the need for a fully-integrated approach to address the devastation of the recently-ended war in Bosnia and Herzegovina. Within a framework of reforms that support the country's transition to a market economy, the reconstruction and recovery program includes support for: (i) employment generation and the restart of production; (ii) all infrastructure sectors; (iii) institution-building to strengthen implementation capacities of government and its agencies at all levels; and (iv) the social sectors, including recurrent costs, such as salaries. Fundamental to economic recovery and to peace will be the creation of employment opportunities for demobilized soldiers and for those who have been without jobs and without hope these long years of war.

An important first step towards supporting the reconstruction program was made in December 1995, at the First Donors' Conference in Brussels, when the donor community pledged more than \$600 million in new and ongoing commitments to support Bosnia and Herzegovina's critical needs in the first quarter of 1996. The goal of the Second Donors' Conference is to secure firm commitments for the \$1.8 billion in external financing required in 1996 — \$1.2 billion in *new* commitments over and above those already received in December — as well as *indicative* commitments for the \$5.1 billion in external support that will be needed over the next three to four years.

Timing is critical. For the people of Bosnia and Herzegovina to feel the benefits of peace, quick and visible results on the ground are needed. In order for concrete results to be visible on the ground — to sign contracts, begin procurement, and commence construction before the Autumn elections and the end of the construction season — pledges for the entire year need to be firmed up in the near term, preferably by the end of April.

This report is intended to update donors on the status of the priority reconstruction and recovery program, three months into the implementation period. The overall framework of the reconstruction program presented in December, 1995 remains valid. Three months of project preparation work and experience with projects on the ground, however, have allowed for a more detailed appraisal of sub-sector priorities and their external financing requirements, and a better understanding of the challenges of implementing the program. A companion volume, *"Bosnia and Herzegovina: Towards Economic Recovery,"* has also been prepared, focusing on economic and structural policies that support growth and stabilization.

The report has been prepared by the World Bank, the European Commission and the EBRD. Much of the information provided is based on preparatory work organized by these three

agencies. However, other governments and donor agencies have also sent assessment and project preparation teams to Bosnia and Herzegovina to identify opportunities for involvement in the reconstruction program and to prepare projects. Given the wide-ranging nature of donors' efforts, it has been difficult to reflect the results of all of this work in this report. Information on donor activities and programs on the ground have been made available by some, but not all donors. The figures provided and description of donor activities should, therefore, be taken as best estimates of the current situation. To ensure a more accurate reflection of commitments and activities in the future, donors are urged to provide complete information to the EC and World Bank through the pledge and commitment forms provided. In this way, regular reports on the reconstruction program can be provided to the donor community and the authorities of Bosnia and Herzegovina.

In preparing this report, the World Bank, the European Commission and the EBRD received invaluable support from the United Nations agencies, the United Nations Special Coordinator for Sarajevo (UNSCS), the European Union Administration in Mostar (EUAM), the International Management Group (IMG), and numerous governmental agencies and nongovernmental organizations (NGOs).

We join all of those who participated in the preparation of this report in hoping that our joint efforts can contribute to progress towards peace, justice, and economic recovery that improves the lives of the people of Bosnia and Herzegovina.

INTRODUCTION - THE OVERALL CONTEXT

Implementation of the Dayton/Paris Peace Accords Has Proceeded Close to Schedule

1. Much has happened in Bosnia and Herzegovina since the signing of the Dayton Peace Accords in Paris on December 14, 1995 and the First Donors' Conference in Brussels on December 20–21, 1995. Compliance with the military aspects of the accords has been good. Despite initial difficulties, including harsh winter conditions, the Implementation Force (IFOR) was deployed on the ground. The required withdrawal of the three parties' forces behind a zone of separation and the removal of their heavy weapons took place close to schedule. Prisoner exchanges have been initiated and the demobilization of soldiers is slowly under way. Freedom of movement is improving and the daily fear of snipers has subsided.

2. On the civilian side, progress has been slower. This is to be expected given the complexity of the tasks to be achieved — the organization of free and fair elections, the protection of human rights, the establishment of a fair and effective police force, the building of democratic and multi-ethnic institutions, the return of displaced persons and refugees, and the provision of humanitarian and reconstruction assistance.

3. The preparation of free and fair elections is underway under the supervision of the Organization for Security and Cooperation in Europe (OSCE), and the first steps toward the establishment of democratic institutions have been made. On January 30, new governments were formed at the State and Federation. The government structure now consists of a state-level government and two Entity governments, the Federation and the Republika Srpska. The separation of functions between the State and the two Entities also took place at this time according to the Dayton/Paris constitution. The United Nations High Commissioner for Refugees (UNHCR) has drafted a detailed operational plan for the return of displaced persons and refugees, presented to government officials in Oslo on March 8, 1996. Humanitarian assistance continues, and the reconstruction and economic recovery program is underway. To coordinate and facilitate these civilian aspects, as mandated under the Dayton/Paris Accords, the Office of the High Representative has been established. Under the High Representative, a Joint Civilian Commission (JCC), comprising representatives from the State Government and the governments of the Federation and the Republika Srpska, the IFOR commander, and representatives of key agencies working in Bosnia and Herzegovina, has met regularly to ensure progress on civilian implementation.

4. Other important steps on the civilian side include the normalization of relations with the international financial institutions. On December 20, 1995, Bosnia and Herzegovina became a member of the International Monetary Fund (IMF). This was followed, on April 1, 1996, by the announcement of its membership in the World Bank, including the International Development Association (IDA) and the International Finance Corporation (IFC). It is anticipated that membership in the European Bank for Reconstruction and Development (EBRD) will be announced in the coming weeks.

5. More fundamentally, the day to day life of the Bosnian population has been substantially improved by the implementation of the peace agreement. Children who were kept indoors during Sarajevo's long years of siege, who were unable to play or even enjoy sunlight, can now hope for a more normal childhood. Young people who for much of their lives have lived on food aid now know real meals. Water, electricity and heat have been restored in many communities. Markets are functioning again and prices for essential goods in cities formerly under siege are falling. It is this kind of progress that will really cement the peace.

Major Challenges Still Lie Ahead

6. Although conditions have improved in Bosnia and Herzegovina, many challenges lie ahead. The Federation is not fully functioning, and limited trust exists between the two Federation partners. Although every ministry is staffed by both a Bosniak or a Croat minister and deputy minister, little teamwork is apparent, and the ministers and their deputies in effect report to separate constituencies. This lack of cooperation remains a huge barrier to the development of effective governance institutions and capacities. There is even greater lack of trust among the *three* parties — the State and the two Entities within Bosnia and Herzegovina. The *rapprochement* with the Republika Srpska has been slow and remains painful on all sides, and three separate armies continue to exist.

7. Full reintegration of all three parties, as well as closer integration *within* the Federation, will be a lengthy process. The reasons for the slow progress on the civilian side are complex and inter-linked. The ability of refugees to return to their homes is intertwined with the ongoing work of the war crimes tribunal, for example. Establishment of a Federal customs service — the linchpin of a Federation budget — has been stymied by the failure to integrate the Federal police and, more fundamentally, disagreements over power-sharing *within* the Federation and *between* the Federation and the State. The difficulties encountered in reaching agreement on the joint provision of utilities or the reintegration of road and rail networks reflect a similar lack of trust at the local and Entity levels. Given the nature of the war, the lack of trust and failure to achieve greater progress toward integration are not unexpected. To move ahead, however, progress must be made at the practical level, and must move beyond politics.

8. A strong reconstruction effort that rebuilds Bosnia and Herzegovina's economic capacities and creates jobs as quickly as possible is critical for peace. More than anything else, economic progress that visibly improves peoples' lives will demonstrate that peace and reintegration are preferable to war. Reconstruction will require a strong and concerted effort from the international donor community. Reconstruction will also require good domestic policies on the part of the governmental authorities in Bosnia and Herzegovina, who must now turn their energies toward economic growth. But even *with* such external support and good domestic policies, the process of reintegration will not be an easy one. The international community should be aware of the difficulties that lie ahead. As recent experience in the West Bank and Gaza shows, there are ups and downs in any peace process. To expect otherwise in Bosnia and Herzegovina would be unrealistic. Yet there is no alternative to active support for a reconstruction program that helps Bosnia and Herzegovina to recover its capacities as quickly as

possible. Without such a concerted effort, there will be no hope for reconstruction, economic recovery, or reconciliation.

9. Despite the risks, there is no alternative to strong and unified support of reconstruction. The risks of failure go beyond Bosnia and Herzegovina. Without a durable peace, this region will remain unstable, and the prospects for a peaceful future and for economic growth and progress for *all* countries in the Balkan region will be blighted. The international community can help, however, by supporting recovery and reconstruction in Bosnia and Herzegovina.

The Donor Community Must Transform Pledges into Visible Results on the Ground

10. It is within this fraught political and economic context that implementation of the priority reconstruction and recovery program has begun. As planned, the first step was an intense period of detailed preparation of projects within the overall framework of the priority reconstruction program. For the past three months, feasibility studies, engineering designs, and other preparatory activities have been undertaken to design projects that will help rehabilitate basic infrastructure and housing, revitalize agriculture and industry, clear landmines, and improve health and education services. Project preparation is now well advanced in all sectors and, in most, implementation has begun.

11. At the same time, efforts to mobilize resources to finance the reconstruction program have continued. The international community has been responsive to date — pledging more than \$600 million in new and ongoing commitments at the First Donors' Conference in December 1995. Most of these political commitments have now been translated into firm commitments for specific activities. This momentum must be maintained.

12. While an essential start has been made, most of the work in the huge undertaking of reconstruction in Bosnia and Herzegovina lies ahead. For the next six months, the priority is to build on existing momentum and ensure that project preparation and resource mobilization are rapidly transformed into results on the ground. Creating jobs and returning people to a normal productive life will be an essential part of this process, both for economic recovery and for peace.

13. This will be a challenge. Expectations of the reconstruction program are high and pressure for speedy disbursement of funds and achievement of visible results is intense. Ensuring both speed and effectiveness will require dynamic leadership and coordination of the governmental authorities in Bosnia and Herzegovina at *all* levels; reinforcement of government structures and their functions; establishment of public agencies and institutions capable of implementing projects under complex conditions; firm financial commitments from donors; close partnership and coordination among all donor and government agencies; efficient and transparent procedures for disbursement, procurement and effective use of funds; and intensive monitoring and quick learning from experience.

14. Although not all these prerequisites have been fulfilled — government implementation capacities are still weak and coordination among donors needs to be improved — the donor community must still move ahead. For the peace process to have a chance of being more firmly

cemented before the Autumn elections, the people of Bosnia and Herzegovina need to see a peace dividend in their daily lives. With the coming of spring, the reconstruction program must accelerate to achieve the greatest possible results and build confidence that communities will be restored, jobs will be created and living conditions will improve.

The Purpose of this Report

15. This report takes stock of the implementation of the priority reconstruction and recovery program during its first three months. Based on this experience, it sets out priorities and financing needs for 1996, and provides donors with a framework within which to provide support. The report is divided into three sections:

16. Section 1 describes the *objectives and scope of the priority reconstruction program* and identifies its external financing requirements. It summarizes donor pledges as of March 31, 1996, and examines how these pledges have been translated into commitments to specific programs and projects. It also sets out the external financing requirements for the 1996 program, and quantifies the remaining donor resources that need to be mobilized to fully fund the first-year priority program.

17. Section 2 assesses *progress on the ground*. It examines key issues that have arisen during the initial implementation period that need to be resolved to maintain the momentum already achieved. The section describes the mechanisms that have been established both by the government and by donors to coordinate the assistance program, and identifies ways in which donors can channel their support to the program.

18. Section 3 describes the *priority reconstruction program on a sector by sector basis*. It briefly summarizes each sector's program, its financing requirements, donor activities in that sector and provides an update of the remaining funds that still need to be mobilized for the 1996 program. It also describes implementation arrangements in each sector, and structural and policy issues that need to be addressed in the medium term.

1. THE PRIORITY RECONSTRUCTION AND RECOVERY PROGRAM

A. THE FRAMEWORK FOR DONOR SUPPORT REMAINS VALID

1.1 The priority reconstruction and recovery program, prepared by the government of Bosnia and Herzegovina with the support of the World Bank, the European Commission and the EBRD, was presented at the First Donors' Conference, held December 20-21, 1995 in Brussels.¹ This \$5.1 billion program, to be implemented over a period of three to four years, represented the first attempt to establish a common framework for donor support for the reconstruction of Bosnia and Herzegovina.

1.2 Three months into program implementation, the framework elaborated in December remains valid. Its three key objectives are to:

- **Provide sufficient financial resources to initiate a broad-based rehabilitation process that will jump-start economic recovery and growth.** The reconstruction program must focus on creating employment opportunities across the economy. Reintegrating demobilized soldiers and the unemployed into the economy is not only an economic necessity but is essential to the peace process. Support must cover the *full* range of war-damaged sectors — not only traditional infrastructure sectors, such as transport, energy, and water, but also financial intermediation, housing, education, health, and landmine clearing. If any sector lags behind others, bottlenecks may develop and slow down the entire reconstruction process. Reconstruction must also fund recurrent costs, such as salaries and critical inputs — rebuilt schools will not function without teachers, heating systems will not function without fuel.
- **Strengthen and rebuild government institutions.** Without effective capacity in government ministries and agencies to implement the reconstruction program, international support will not translate quickly into results on the ground. Timely establishment of the new institutions mandated by the Dayton/Paris Accords — strengthening of governments and public institutions at the State, Entity, and local levels to make them capable and effective, and donor support for the establishment and strengthening of these institutions — will be critical to the success of the reconstruction effort.
- **Support, in parallel, the transition to a market economy.** Bosnia and Herzegovina must make the transition from a socialist to a market-based economy at the same time that it undertakes reconstruction and strives to maintain macroeconomic stability. Meeting this threefold challenge will be difficult, but is necessary to stimulate investment and employment. Establishment of a market economy will be key to the

¹ World Bank, EC, EBRD. "Bosnia and Herzegovina: Priorities for Recovery and Growth", December 8, 1995.

creation of jobs and to a sustainable economic recovery in the medium term. Donor support for the reconstruction process should facilitate this transition.

1.3 With these key objectives in mind, six basic principles should guide the implementation of the priority reconstruction program:

- Immediately *rehabilitate* facilities essential for economic recovery and social well-being.
- Expand or create *new* facilities only where an exceptionally high economic return has been reliably identified.
- Rely as much as possible on *local capacity* and existing institutions for program implementation, providing technical support where needed.
- Move toward *cost recovery* gradually.
- Make maximum use of *private and local initiative*.
- Maintain sufficient *flexibility* to accommodate unexpected events.

1.4 These principles remain as important as they were at the outset of the reconstruction program. They provide a uniform set of guidelines for the donor community that, if employed in a coordinated and consistent manner, should help to ensure that the reconstruction program allows the people of Bosnia and Herzegovina to help themselves. At the sector level, it will be equally important to have a set of common and consistent policies and operational guidelines on issues, such as procurement, targeting of investments, and cost recovery. These issues are described on a sector by sector basis in Section 3.

B. 1996 EXTERNAL FUNDING REQUIREMENTS ESTIMATED AT \$1.8 BILLION

1.5 The external funding requirements for the priority reconstruction program over the next three to four years remain on the order of \$5.1 billion, as originally estimated in December 1995 (Table 1.1). Of the \$5.1 billion, \$3.7 billion was estimated as being needed in the territories of the Federation, while \$1.4 billion was estimated as needed to help restore basic infrastructure and the social sectors in the Republika Srpska.

1.6 The total external funding required to implement the 1996 program has been revised downward slightly to \$1.8 billion, from the \$2.08 billion estimate made in December 1995. Revised figures take into account a sector by sector appraisal of external financing requirements based on more detailed costing of programs on the ground, a better appreciation of local capacity to pay and cost recovery prospects, and a better understanding of implementation capacities across public institutions and agencies. In addition, a new program focused specifically on employment generation has been added to the priority reconstruction program, including support for small enterprise development, labor intensive public works and retraining. A detailed, updated description of each of the sector programs is provided in Section 3 of the report.

**Table 1.1: External Financing Requirements of the Priority Reconstruction Program
(US\$ million)**

Sector	3-4 Year Program (1996-99)	First Year Program (Mar. 1996 est.)	
		(US\$M)	(as % of Total)
Agriculture	330	97	5
Education ^a	275	72	4
Employment Generation ^b	n/a	75	4
Energy	893	403	22
District Heating ^c	[87]	[83]	[5]
Natural Gas	[192]	[58]	[3]
Electric Power ^d	[614]	[262]	[14]
Health ^a	540	145	8
Housing	600	165	9
Industry/Industrial Finance	400	120	6
Landmine Clearing	200	70	4
Telecommunications	567	160	9
Transport	698	317	17
Water and Waste Management	380	340	8
Social Support/Institution Bldg. ^e	210	75	4
Total	5,093	1,839	100

a - Includes recurrent costs, such as salaries of teachers and health personnel and medical supplies.

b - Employment generation was not included as a separate sector in the three- to four- year program in the December 1995 report. However, given the urgency of reintegrating demobilized soldiers and the unemployed into the economy, specific programs targeted at employment generation and labor redeployment are now being developed.

c - Includes annual fuel costs.

d - Includes electric power generation, associated coal mines, and electric power transmission and distribution systems.

e - Includes emergency social fund, and salaries and other support for government institutions.

C. FIRST QUARTER TARGETS FOR DONOR PLEDGES AND COMMITMENTS ARE MET

Pledges of New Funds Meet First Quarter Targets

1.7 The first tranche of funding for the 1996 program was pledged in December 1995 at the First Donors' Conference in Brussels, where the international community demonstrated its responsiveness to the opportunity for peace by pledging significant *new* support to Bosnia and Herzegovina's immediate, first quarter reconstruction needs. These pledges came from a wide spectrum of international donor countries and organizations, including some of the world's largest and richest countries, as well as many smaller and lower-income ones.

1.8 In total, twenty-eight countries and six institutions pledged new support amounting to \$505 million in December.² In January, an additional major new pledge of \$50 million was

² All amounts are in US dollars equivalent. Information on pledges is based on donor pledge forms, completed at the December 1995 Donors' Conference, after currency and other adjustments.

made, bringing the total in new pledges to \$555 million, thus exceeding the first quarter target of \$518 million (Table 1.2).

1.9 Donors have made pledges with differing degrees of concessionality (Table 1.2).³ Most pledges were provided as *grants* (67 percent of total). These grants were pledged either as financing for specific projects; as "in-kind" support (e.g., equipment, spare parts, seeds and livestock); or in cash, for balance of payments or budgetary support. A total of \$161 million (29 percent of total) was pledged in the form of *loans*, mostly on concessional terms (81 percent).⁴ Non-concessional loans, which amounted to only 5 percent of the overall total, are typically combined with grant funds from other donors to generate a financing package that is concessional in nature. The nature of the remaining \$20 million was not specified by donors.

Table 1.2: Nature and Concessionality of New Funds (January 1996)

	US\$M	%
Grant-based	374	67
Project funding	329	59
Cash	16	3
In-kind	30	5
Loan-based	161	29
Concessional	131	24
Non-concessional	30	5
Not specified	20	4
Total	555	100

Pledges for Ongoing Programs Are Also Confirmed

1.10 In addition to pledges of new funds, some \$125 million in *ongoing support* was also pledged, bringing the total of new and ongoing support for the first quarter needs to about \$680 million. These ongoing pledges represent donor funding of existing programs, ongoing in the field at the time of the First Donors' Conference. Ongoing programs include projects such as winterization of residential housing and rehabilitation of municipal infrastructure, including water, sewerage, and electricity connections.

1.11 Some of the pledges made in December 1995 included donor support for *humanitarian programs*. It is difficult to clearly differentiate between humanitarian and reconstruction assistance (see Section 2A). In some cases, humanitarian activities fall within the scope of the reconstruction effort, as for example in the case of the rehabilitation of municipal infrastructure, which may be classified as both a humanitarian and a reconstruction activity. Some activities, such as the free provision of emergency food, clothing, and other materials to meet basic survival needs, are, by contrast, purely humanitarian in nature.

³ Donors were asked to describe the nature and purpose of their pledges and to indicate whether pledges of new funds were provided on a grant basis or with a repayment obligation, and within these two categories, to identify the type of pledge from among the following:

(a) *cash funds*, which go directly to Bosnia and Herzegovina as cash payments that could be used for the budget or reserve build-up; (b) *project funding*, which are grant funds that donors have allocated either to their own programs or as counterpart funds for multilateral projects; (c) *in-kind contributions*, which are grants of equipment or material supplies; (d) *concessional loans*, which are loans carrying terms that are below market; or (e) *non-concessional loans*, which carry market or near-market terms.

⁴ The majority of these concessional loans are IDA credits, the terms of which are a 40 year repayment period, including 10 years of grace, with no interest and a service charge of 0.75 percent.

1.10 About 10 percent of the new and ongoing pledges made in December are estimated to have been committed for such purely humanitarian activities. This amount has been subtracted from the total of new and ongoing pledges, leaving a total of \$615 million in new and ongoing support mobilized for the external financial requirements of the first quarter 1996 priority reconstruction program. Of this amount, \$321 million (52 percent) was pledged by bilateral donors and other non-multilateral institutions, and \$294 million (48 percent) was pledged by the multilateral donors — the European Commission, the World Bank, and the EBRD (Table 1.3).

Pledges Have Been Translated into about \$600 Million in Commitments

1.12 The new and ongoing pledges made in Brussels have, in large part, been translated into concrete commitments. Field visits and technical meetings, sponsored by the European Commission and the World Bank in Paris (January 1996) and by the Government of Bosnia and Herzegovina in Sarajevo (March 1996), helped familiarize donors with the reconstruction program and its sectoral dimensions, and led to an accelerated commitment of funds.

Table 1.3: First Quarter 1996 New and Ongoing Pledges by Donor

Donor	Amount Pledged (US\$M)
Bilateral Donors and Others	321
Multilaterals	294
European Commission	114
World Bank	150
EBRD	30
Total	615

Table 1.4: First Quarter 1996 Commitments of New and Ongoing Funds

Types of Commitments	US\$M	% of Total
Committed to specific programs	600	98
<i>Firm commitments</i>	350	57
<i>Indicative commitments</i>	250	41
Uncommitted	15	2
Total	615	100

1.13 By the end of this quarter, 98 percent of the \$615 million pledged for reconstruction had been committed to specific programs and projects (Table 1.4).⁵ Of this \$600 million in commitments, \$350 million (60 percent) has been *firmly committed* through an exchange of legal instruments, making funds available for disbursement. An additional \$250 million has been *committed in an indicative* form, meaning that the commitment is in the process of being negotiated and is not yet available for disbursement.⁶ Another \$15 million (or 2 percent of the total) is pledged but not yet concretely committed to a specific program or project.

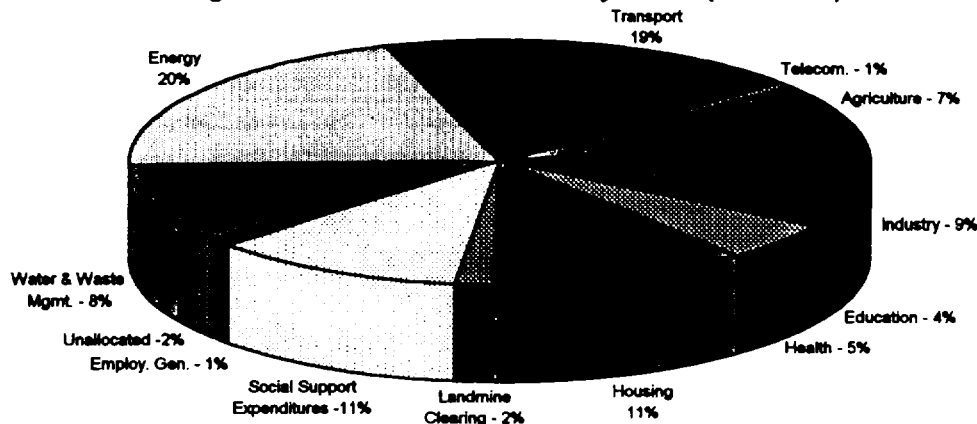
⁵ This information was compiled from formal reports on donor programs, where available. Where formal reports were not available, information was based on informal discussions with donors. In order to provide more concrete estimates in the future, donors are urged to complete the forms provided at the Second Donors' Conference and respond to future requests for information in full. See section 2F, later in this report, for a discussion of reporting requirements.

⁶ A *firm commitment* results from the exchange of legal instruments that apply to a donor's assistance program, effectively making funding available for disbursement. An *indicative commitment* usually takes the form of a framework program that provides preliminary indications of approximate allocations per sector.

Infrastructure Sectors Receive Half of Donor Commitments

1.14 Commitments in the first quarter of 1996 (both firm and indicative) have been made across the full range of infrastructure and social sectors that comprise the priority reconstruction program (Figure 1.1).⁷ Although it is too soon to draw any conclusions, some trends in donor support can be identified. The traditional infrastructure sectors — transport, energy, water and telecommunications — received nearly half of total funding committed. Housing received an additional 11 percent. In contrast, the social sectors — education and health — have together received 9 percent of total funding. Support for industrial finance and small and medium-size enterprises received 9 percent. Landmine clearing — a critical area if any reconstruction is to proceed — has received less than 2 percent of total support.

Figure 1.1: Donor Commitments by Sector (% of Total)



D. GAP OF \$1.2 BILLION IN FUNDING FOR 1996 REMAINS

1.15 The pledges made in December have now been largely translated into commitments. It is essential that this momentum be maintained and accelerated. The donor community must raise about \$1.8 billion in external support for 1996. About \$600 million has already been committed, leaving unmet needs of \$1.2 billion for the year as a whole. Decisive donor support will be required to secure this additional funding, without which the reconstruction program could falter before it has truly begun.

1.16 The need to demonstrate progress on the ground in the form of a “peace dividend” makes full funding for the first year program vital. The commitments required to fund the 1996 program are significant. A summary of the funding gap by sector is shown in Table 1.5. A more detailed discussion of specific financing requirements in each sector is provided in Section 3.

⁷ Figure 1.1 shows sector by sector funding as a percentage of total. The dollar equivalent value is in Table 1.5.

Table 1.5: First Quarter Commitments and Financing Gap by Sector for 1996 Program (US\$ million)

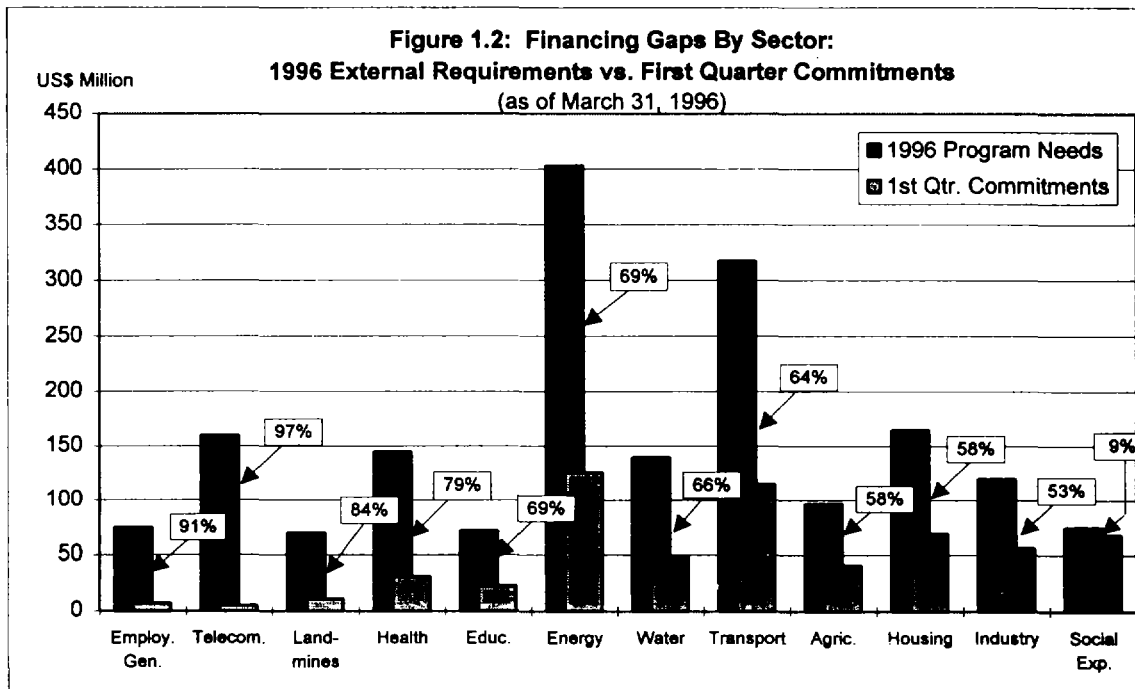
Sector	1996 Program	First Quarter Commitments (Mar 31, 1996)	Funding Gap	
			(US\$M)	(% Funding Gap)
Agriculture	97	41	56	58
Education ^a	72	23	49	69
Employment Generation	75	7	68	91
Energy ^b	403	126	277	69
District Heating	[83]	[30]	[53]	[64]
Natural Gas ^c	[58]	[15]	[43]	[74]
Electric Power ^d	[262]	[81]	[181]	[69]
Health ^a	145	31	114	79
Housing	165	69	96	58
Industry/Industrial Finance	120	56	64	53
Landmine Clearance	70	11	59	84
Telecommunications ^e	160	5	155	97
Transport	317	115	202	64
Water and Waste Management	140	48	92	66
Social Support/Institution Bldg. ^f	75	68	7	9
Unallocated	n/a	15	n/a	n/a
Total	1,839	615	1,224	67

Note: Commitments are based on December 1995 pledges. Resulting financing gap is as of March 31, 1996. All funding gaps are indicative, given the incomplete nature of information on donor commitments.

- a - Includes recurrent costs, such as salaries of teachers and health personnel and medical supplies (which may be financed as cash or in-kind support).
- b - Includes fuel (which may be provided as cash or in-kind support).
- c - The first year program does not include the cost of gas consumption. At present, the Government does not have sufficient budgetary resources to finance this recurrent expenditure. Donors have already committed some funds for this. However, additional external financing is still needed, particularly in the short term.
- d - Includes electric power generation, associated coal mines, and electric power transmission and distribution systems.
- e - Does not include a proposed EBRD loan of about \$20 million; moreover, discussions are ongoing regarding further cofinancing for telecommunications between the EBRD (the lead agency) and various donors. The funding gap may, therefore, soon be substantially reduced.
- f - Includes emergency social fund (\$43 million), and support for government institutions (\$32 million) identified as priority first quarter needs and for which 81 percent of funds were committed from first quarter pledges. However, significant social expenditure support, including salaries for teachers and health personnel, remains within the other sectors, especially health and education, for which the financing gap remains large.

Sectoral Funding Gaps Vary

1.17 The picture that emerges in examining first quarter commitments in relation to 1996 financing needs is that the infrastructure sectors, particularly transport and water, housing, agriculture, and financial intermediation have attracted proportionately more donor resources — and are closer to meeting the 1996 funding objectives — than the social sectors, such as education and health, and landmine clearing, as shown in Figure 1.2.



NOTE: Percentages indicate the financing gap for the 1996 program.

Employment Generation Programs Urgently Require Support

The overall reconstruction program will be the primary engine for economic growth and job creation. However, economic recovery will take time and it is feared that if jobs are not created during this recovery period, there will be widespread social unrest that could jeopardize the peace process. Of particular concern are the job prospects for the 200-400,000 soldiers who are currently being demobilized. Given this situation, a program targetted specifically at creating new job opportunities rapidly and assisting the unemployed find jobs is being prepared. It consists of support for micro and small business development, temporary employment through public works programs, skills training and job placement services. With the current \$70 million budget for the first year program, it is estimated that about 150,000 man-months of employment could be created. With more money, more could be done. This program is currently severely underfunded with a financing gap of 91 percent (\$68 million).

Infrastructure Financing is Relatively Robust

1.18 The funding gaps in the infrastructure sectors, particularly electric power, transport and water, are roughly equivalent to the program's overall funding gap of 67 percent. This is in part because donors often prefer to fund "bricks and mortar" projects that are highly visible, rather than projects involving large recurrent costs. Infrastructure projects are also relatively straightforward, low-risk to implement and generally have high returns. Telecommunications appears to have a large gap (97 percent), but discussions are ongoing regarding significant cofinancing for telecommunications between the EBRD (the lead agency) and various donors. The funding gap may, therefore, soon be substantially reduced.

Housing Programs Relatively Well-Funded but Need Coordination

1.19 The urgency of housing displaced persons and refugees has led many donors to provide financing to this sector, in particular through broader municipal rehabilitation and community development programs. However, despite total commitments of \$69 million, an overall funding gap of 58 percent remains for the first year program. With a large number of donors and NGOs implementing programs in this sector, donor coordination of housing policies and activities will be vital to ensure the most effective use of funds.

Social Sectors Must Not be Neglected

1.20 Education and health are critical sectors in which funding gaps are large, on the order of 70 to 80 percent respectively. The war has taken a terrible toll on education and health services in Bosnia and Herzegovina, which before the war were relatively well-developed. Many children could not attend school at all during the war, and the teaching that was provided was below standard due to widespread shortages of qualified teachers and text books. Health problems have increased dramatically — communicable diseases have increased up to five-fold, infant mortality rates have doubled and about one-third of the population is estimated to suffer from post-trauma stress disorders. A crucial part of the reconstruction effort will be restoring the education and health systems. It will be critical to restore Bosnia and Herzegovina's many war victims to health and help reintegrate them into productive life. A large portion of the funding requirement in these sectors is for recurrent costs, for salaries and medical supplies (see para. 1.23). Financing of these costs will also provide incentives for qualified teachers and doctors, many of whom are now refugees, to return.

Landmine Clearing is a Prerequisite for Many Reconstruction Activities

1.21 Several million mines remain uncleared in Bosnia and Herzegovina. Although removal of these mines is *the* essential first step for most infrastructure projects and for the return of people to frontline areas, only \$7 million have been committed by donors to first year needs, leaving a large financing gap of 84 percent. If mines are not cleared, construction cannot begin on many projects, even where funds are available and equipment is ready to install. Lack of funding for mine clearing is a major problem and could delay the whole reconstruction process. Start-up funds are urgently required from donors to finance mine clearing of high-priority infrastructure sites as well as building of local mine clearing capacity. Funding for landmine clearing can be allocated either to a sector-specific project or to freestanding projects specifically designed to support land mine clearing.

Financing for Financial Intermediation Must Reflect Local Banking Capacities

1.22 Lines of credit to small and medium-sized enterprises have been initiated by many donors, leading to full funding to the revolving credit requirements for the first year program. Given the government's priority of restarting economic production and creating job opportunities as quickly as possible, this is a positive development. However, other components of industry/industrial finance, such as enterprise development and technical assistance, also require funding — the overall sectoral funding gap for the first year program is 53 percent. With many

different donor programs, policies and investments must be coordinated. Moreover, donors must be careful not to overload the implementation capacity of the banking system and must be in a position to monitor the soundness of investments made, and take care not to revitalize inefficient enterprises.

Support for Recurrent Costs is an Integral Part of Reconstruction Support

1.23 With the drop in industrial production by some 90 percent since pre-war days, Bosnia and Herzegovina's tax base is virtually zero. Given this fragile fiscal situation, external assistance will be needed to help meet the recurrent costs of the budget, especially the civil service and the social sectors. As documented in the companion report, many public sector personnel and civil servants in key ministries have not been paid regularly since the war began; external support is needed to provide a core, subsistence salary to social sector personnel.⁸ The economic returns to school and hospital rehabilitation will be limited if there is no one to work in them. Cash resources from donors will also be needed on a temporary and declining basis to fund social assistance programs, until payroll taxes and other revenues (now virtually nonexistent because of high unemployment and low wages) recover. Such cash support is critical to complement infrastructure rehabilitation.

⁸ World Bank, EC, EBRD. "Bosnia and Herzegovina: Towards Economic Recovery", Discussion Paper No. 1, April 2, 1996 prepared for the Second Donors' Conference.

2. PROGRAM IMPLEMENTATION

2.1 More than anything else, economic progress that visibly improves people's lives will help cement the peace process in Bosnia and Herzegovina. Until December 1995, international donor assistance to the region consisted largely of humanitarian aid, provided in response to the emergency needs of a country at war. Free food supplies were distributed, free medical assistance was provided under emergency conditions, and quick-response support networks were set up for traumatized women and children. Emergency, often stop-gap, repairs were carried out to water and heating systems, and most public utilities were provided free of charge — when they were available at all.

2.2 This front-line work was carried out largely by UN agencies, notably the UN Children's Fund (UNICEF), the UN High Commission for Refugees (UNHCR), the World Food Programme (WFP), and the World Health Organization (WHO); the International Committee of the Red Cross (ICRC); the International Federation of Red Cross and Red Crescent Societies (IFRC); and many other local and international NGOs (see Box 2.1). Supporting these activities were many official agencies, including the European Commission Humanitarian Office (ECHO), the European Union Administration of Mostar (EUAM), the UN Special Coordinator for Sarajevo (UNSCS), the European Union-funded International Management Group (IMG), and governmental agencies, such as Cooperazione Italiana, the German Gesellschaft für Technische Zusammenarbeit (GTZ), the German Technisches Hilfswerk (THW), UK Overseas Development Administration (ODA), the Saudi High Commission, the Swedish International Development Agency (SIDA), and the US Agency for International Development (USAID) and many others. Both during the war and during the transition from war to peace, this support of humanitarian activities was essential to the survival of the people of Bosnia and Herzegovina.

A. GRADUAL TRANSITION FROM HUMANITARIAN TO RECONSTRUCTION ASSISTANCE MUST BE MADE

2.3 With the peace agreement in place and the beginning of a return to normal economic life, there is a need to turn from humanitarian assistance to reconstruction support that builds economic capacity and helps the people of Bosnia and Herzegovina help themselves. Humanitarian aid and reconstruction support overlap, and a clear line between the two is not always easily drawn. Reconstruction assistance differs from humanitarian assistance in that it is set within a longer-term framework and focuses on *efficient*, rather than *emergency*, use of resources, on investments that stimulate economic growth, and on the ultimate *sustainability* and *cost effectiveness* or economic return of the investment or outlay.

2.4 The transition from humanitarian to reconstruction support must not be too abrupt — ongoing humanitarian activities remain important and must be phased out gradually given the

fragile state of most households in the region. However, even now, humanitarian programs must begin to change their form, so that free distribution does not become an obstacle to the creation of economic incentives and the recovery of production.⁹ As Bosnia and Herzegovina recovers, donor programs that have previously focused on humanitarian aid will need to support reconstruction activities that the government has identified as priorities under the reconstruction program.

2.5 The new and ongoing donor commitments to the reconstruction program made in December 1995 represent a significant step in this direction. Because local knowledge is so important in facilitating project preparation, many of the already well-established agencies that provide humanitarian assistance have already begun to extend the scope of their activities and reorganize themselves to ensure that their experience is used effectively within the framework of the reconstruction program. Their close relationships with counterparts in the field allowed them to implement some of the first reconstruction projects, building on experience gained over the last few years.

Box 2.1: NGOs Helping the War Afflicted in Bosnia and Herzegovina

In Bosnia and Herzegovina as throughout the world, NGOs were first on the scene to provide assistance in times of conflict and disaster. As soon as the war started, international NGOs quickly mobilized funds and staff to get emergency assistance to the victims of war. In many cases, their assistance has made survival possible. Working in conflict zones, NGO workers — many of them highly qualified engineers and technicians — put themselves at considerable personal risk to carry out emergency repairs to water and heating systems, distribute food, medicine, and clothing

Today more than 100 NGOs work in Bosnia and Herzegovina, including both international NGOs, such as Action Internationale Contre la Faim, Adventist Development and Relief Agency, CARE Canada, Catholic Relief Services, the Danish Refugee Council, Equilibre, Eurocities, the German Red Cross, the International Federation of Red Cross and Red Crescent Societies, the International Rescue Committee, the Islamic Relief Agency, the Komitee Cap Anamur, Marie Stopes International, Medecins du Monde, Medecins Sans Frontières Netherlands, Movimiento para la Paz, el Desarmamiento y la Libertad, Muslim Aid, the Netherlands Red Cross, Norwegian People's Aid, the Norwegian Refugee Council, Scottish European Aid, Solidarités, the Soros Foundation, United Methodist Committee on Relief (UMCOR), and World Vision, and local NGOs, such as Caritas, Dobrotvor, La Benevolencija and Merhamet.

These local NGOs and other civil associations are generally local initiatives — people coming together in the face of adversity to help each other. Particularly noteworthy are the local women's groups, such as Zena 21, that have emerged spontaneously throughout the country to create a support network and some measure of comfort and hope to women trying to survive the war. Though humanitarian in nature, many NGO projects also support local production and employment. NGOs have helped local factories reopen to produce basic foodstuffs, clothing and building materials to support the relief effort, for example creating jobs and some semblance of normal economic life.

With their strong grassroots links, in-depth local knowledge, field expertise and ability to respond quickly, NGOs will be invaluable partners in the reconstruction process. Local NGOs and civil associations will also play a vital role in rebuilding civil society and trust within Bosnia and Herzegovina if encouraged and supported.

⁹ World Bank, EC, EBRD. "Bosnia and Herzegovina: Towards Economic Recovery", Discussion Paper No. 1, April 2, 1996 prepared for the Second Donors' Conference.

B. PROGRESS ON THE GROUND IS PROCEEDING

Good Project Preparation Is Essential

2.6 Humanitarian programs and assistance can be implemented quickly — often within days, if it is a shipment of relief supplies that must be flown in, or a truckload of water or foodstuffs to be transported to a devastated area. The reconstruction timetable is fundamentally different. It cannot be counted in days, nor in a few weeks. The first step in a reconstruction-oriented project is project preparation. Detailed project preparation work is the basis for all project design and is essential for successful implementation. Project preparation varies depending on the sector and nature of the project (see Box 2.2). It includes carrying out local needs assessments, costing studies, detailed engineering studies, and finalizing technical specifications of equipment and materials; social and participatory assessments; and agreeing on policies and implementation arrangements with State, Entity and local government authorities. Project preparation must be carried out in close collaboration with the government or implementing agency to ensure that projects meet local needs and to lay the foundation for timely and effective implementation.

2.7 In Bosnia and Herzegovina, intensive project preparation work has been ongoing since immediately following the cease-fire in October 1995 and has accelerated during the last three months, thanks to newly-available donor resources to support design of projects across all sectors. This preparation and start-up work, which is being financed by several bilateral donors, the EC and the World Bank, is a prerequisite for any reconstruction activity to begin. The need for such preparatory work accounts, in the first instance, for the lag between the commitment of donor funds and the achievement of the first visible works on the ground.

Box 2.2. Project Preparation: A Necessary First Step in Project Implementation

Project preparation varies by sector and by the nature of the project. In sectors in which past experience is limited, learning by doing is critical. A World Bank-supported "Local Initiatives Project" to support micro and small enterprise development for displaced persons, demobilized soldiers, and rural and urban unemployed is being prepared using a learning-by-doing approach. Pilot projects are being financed by the Netherlands Trust Fund to help NGOs set-up micro-credit and small business development schemes. Different ways of assisting people become self-sufficient will be tested and the lessons will be used to design a full-scale project.

Before repair work to Sarajevo's central heating systems could begin, a household inventory needed to be made of the damage to the system, which is extensive due to direct war damage and lack of maintenance. To carry out this inventory, Toplane, the city's district heating company, engaged the services of the Faculty of Mechanical Engineering at the University of Sarajevo. About 100 graduate students are going door-to-door surveying residents and checking the state of household heating systems.

To prepare any transport projects for roads and bridges, design studies are essential. The design studies for the Bijela and the Jasen bridges have already been completed and a comprehensive assessment of the road network has been initiated by the Roads Directorate of the two Entities with the support of IMG.

To ensure that resources for farm reconstruction are allocated where the benefits will be greatest, municipal surveys of farm damage need to be undertaken. About thirty local experts will be hired to visit sixty municipalities to assess the war damage to farm equipment, livestock, horticulture, farm buildings, and storage facilities. Based on the damage reports, a data base will be created and detailed farm damage maps prepared that can guide the allocation of assistance to farmers under the agriculture program.

Project Implementation Has Begun in Almost All Sectors

2.8 With project preparation now well under way across all sectors, the more rapid implementation of the 1996 program is the next challenge. With the snows melting and the construction season starting, large-scale reconstruction activities are now beginning, and some works are underway in almost all sectors (see Box 2.3). Building on the basis of project preparation undertaken thus far, implementation can accelerate rapidly over the next several months, barring the emergence of major implementation problems or delays. As described later (Section 2C), both the government and donors need to address a number of issues immediately if the reconstruction program is to proceed at the desired pace on the ground.

2.9 Overall, there has been a reasonable start to implementation on the ground. It is estimated that a total of about \$100 million worth of projects are under implementation as of the end of March 1996.¹⁰ This includes the tendering of \$27 million in contracts for equipment and spare parts by the EC across a broad range of sectors, and \$12 million of World Bank funds which are being disbursed for critically needed power equipment and repairs to key government buildings, including the Sarajevo High Court, carried out by local contractors. Employment generation activities are also underway, including support for small business development and labor intensive public works projects. Many bilateral and other agencies also have projects under implementation (details of their involvement on a sector by sector basis is presented in Section 3). It is expected that over the next several months the total amount of resources in projects under implementation will increase dramatically.

Box 2.3 Restoring water supply in the city of Sarajevo: The Sokolovici Wellfield Project

The Sokolovici Wellfield Project is now under implementation in Sarajevo. This project was conceived in 1994 when Sarajevo was under siege and the typical resident received, on average, two hours of water every other day, if their piped system was still working, or had to rely on communal water taps.

The project comprises five drilled wells, submersible pumps installed in each well, control equipment, a 3.4 km, 600 mm diameter pipeline to connect the wells to the existing transmission main from the Bacevo Well field, chlorination equipment, and a standby power system. Systems capacity with four wells in operation is 41,000 m³/day. The current construction cost, including pipe, equipment, materials and installation is \$3.8 million.

The project was designed and is being executed by Vodoprivreda BH (Public Water Management Enterprise of BH) with technical assistance provided by IMG and the Amstel & Gooiland Water Pollution Control Authority of the Netherlands. Union Invest and Hidrogradnja from Bosnia and Herzegovina are the contractors. Financing is from the Netherlands. Scheduled completion is May 1996.

2.10 Initial works currently under implementation are proceeding largely in the main cities and towns. In *Sarajevo*, the UN Special Coordinator for Sarajevo (UNSCS) is channeling about \$30 million to reconstruction activities drawn up by the city authorities, including urgent repairs to the water supply network, the power system, and city tram lines, and the rehabilitation of schools

¹⁰ Given the lack of comprehensive information on donor activities in the field, this is a rough estimate. Once the donor reporting system is fully functioning (see Section 2F) more detailed information on disbursements will be provided.

and health facilities. In *Mostar*, under the auspices of EUAM, reconstruction activities valued at tens of millions of dollars are underway in housing, water and electricity. And in *Tuzla*, city authorities have attracted several million dollars in financing for the repair of houses and water and electricity systems. Reconstruction work now needs to spread more rapidly to other towns and to the rural areas, particularly those areas near the former confrontation lines, where damage is extensive and work needs to get underway quickly before the return of displaced persons and refugees.

C. IMPLEMENTATION ISSUES

2.11 With the end of winter and the start of the construction season, *rapid implementation of the priority reconstruction program is now the priority*. However, there are already a number of issues that need to be addressed, both by the *government* on an urgent basis, and by *donors*, if the program is to proceed at the desired pace on the ground. Timing is now as crucial as ever. Problems must be resolved early, if the program is not to suffer setbacks. The next few months could see major progress in each of the sectors included in the reconstruction program *if* the proper measures are taken to address the priority policy issues outlined below. If they are not addressed the program could falter before it has really begun.

2.12 Major issues include ensuring:

- The free and unencumbered movement of goods
- Transparent procurement procedures
- Appropriate and consistent policies for cost recovery
- Aid is channeled through the budget
- Political risk insurance

Movement of Goods Must Be Free and Unencumbered

2.13 A major concern during the hostilities was that goods being transported across Bosnia and Herzegovina and within the Federation were held up at unofficial internal check points and customs barriers against the payment of impromptu “taxes” and duties to local populations. This significantly slowed the movement of goods within the country. Some goods never reached their intended destinations. This was true even of relief supplies to areas in desperate need.

2.14 Unfortunately, this situation still prevails. The effective establishment of the Federation Customs Administration and effective coordination between the Entities’ Customs Administrations should help address this. But reports from the field indicate that efforts by the Federation authorities to unify the customs systems and practices within the Federation, and to eliminate illegal levies in Bosnia and Herzegovina, have not yet been successful. Donors are *not* prepared to pay such illegal taxes and duties to facilitate transportation of goods. Nor will they be prepared to see their donated goods sit idle, be stolen and/or spoil in transit while local interests delay the implementation of important projects that scarce donor resources have

financed. It is critical that the problem be addressed immediately. Donor resources will quickly dry up if the situation is not rectified.

2.15 The authorities of Bosnia and Herzegovina are urged to continue to try to resolve the problem of the lack of freedom of movement of goods within their territory, and the international community is encouraged to assist this effort with technical and political support to the appropriate authorities. The government is already treating the matter seriously and will likely field special monitors to try and solve the problem. A program to integrate all of the Federation customs system is now being implemented, and meetings between the three prime ministers of the State and the two Entities organized by the High Representative, and meetings with neighboring countries, may help resolve the inter- and intra-Entity customs issue. The IMF and the World Customs Organization (WCO) have provided substantial technical and other support, as may the World Bank, under a forthcoming structural adjustment credit. These efforts need to be intensified. **The establishment of an ombudsman unit with enforcement powers, working in close liaison with the High Representative's Office and IFOR, could facilitate the free movement of goods within Bosnia and Herzegovina.** The ombudsman should report regularly to the Steering Committee established at the London Peace Implementation Conference on incidents and progress in this matter.

Transparency in Procurement Will Ensure Resource Flow

2.16 Ensuring that procurement is carried out with speed and transparency is a high priority for all donors. The entire donor effort could be at risk if there are signs of irregularities in procurement or even the least suspicion of corruption. In designing appropriate procedures and procurement mechanisms there is a trade-off between speed and transparency on the one hand, and empowerment and institution-building on the other. In the short term, *speed and transparency must take precedence* so that donors retain confidence that their resources are used effectively. *Additional safeguards and enhanced supervision will almost certainly be required to complement the liberalization of procurement procedures that are needed to allow speed.* Once the momentum of the reconstruction effort is fully underway and the credibility of a government-led procurement process is established, empowerment and institution building can come to the fore, and greater reliance once again can be placed on local policies and institutions as it was in the pre-war days.

2.17 The European Commission and the World Bank have put in place accelerated procurement procedures to respond to the emergency nature of their operations in Bosnia and Herzegovina (Annex A). These procedures include higher limits for the different procurement methods and a faster turn-around time between different stages of the procurement process. To encourage transparency and fair competition, independent procurement agents and advisors are being used to manage and advise on procurement, and additional safeguard measures may also be established. Initial results indicate that procurement is thus far proceeding with a minimum of bureaucratic delays and so far no irregularities have been reported. **Donors are encouraged to use similar procedures and to ensure that the principles of economy, efficiency, and transparency are observed.** Alternatively, joint cofinancing with multilaterals will help ensure that transparency is vouchsafed to the greatest degree possible.

Cost Recovery Must Begin

2.18 Throughout the war, most public utilities provided services to hard hit segments of the population at no cost. During the war, free provision of heat, water, and light helped ensure that basic human needs were met. Now that economic recovery is underway, however, and people are returning to work and receiving incomes, there is a need to make the transition to a more normal situation. Continued provision of free public utilities would not only be inequitable — scarce public and donor resources would be used to provide subsidies to some people who do not need them — but inefficient.

2.19 Bosnia and Herzegovina needs to move *toward* cost recovery in the short run by reintroducing billing for public utilities and setting more appropriate tariff levels. In the longer run, cost recovery needs to be sufficient to guarantee the financial independence of the region's public utilities. Financially, cost recovery generates revenues to allow public infrastructure services to be operated and maintained properly, and decreases the need for budgetary resources — currently mostly provided by donors — for recurrent expenditures. Economically, cost recovery policies encourage more rational, efficient use of resources.

2.20 The government recognizes the need for increased cost recovery, but remains concerned about the population's limited ability to pay for services. To move toward cost recovery without depriving some residents of needed services, the government is developing cost recovery plans accompanied by "social pricing tariffs" and other safety net arrangements in the relevant sectors. In the telecommunications sector full cost recovery is expected to be achieved more quickly, given that this service has such a high income elasticity. In more basic needs-oriented sectors, such as water and heat, full cost recovery will take several years to achieve, with commercial consumers paying higher tariffs than domestic consumers for some time to come. Donors should support these efforts, within a consistent policy framework, which will allow domestic resources to complement donor resources in rebuilding these sectors. The larger the fraction of total costs paid by consumers for public utilities, the less will be the burden on the budget and/or donors, and the more donor resources can be used for other important priorities.

2.21 **The government stands ready to coordinate recurrent cost and cost recovery policies with donors. It is important that donors support the government in the design and implementation of such policies as well as coordinate their own policies.** Discussions of such common policies could be facilitated through the economic and sector task forces in Sarajevo held under the auspices of the World Bank and European Commission (see Section 2D).

Budgetary Transparency Is Essential in the Flow of Donor Funds

2.22 During the war, humanitarian assistance was distributed using whatever means were available to deliver resources where they were needed. Much aid was distributed to or through local charities and agencies, municipalities, NGOs, and other extrabudgetary agencies, all of which sought valiantly to ensure that aid reached its destination. These arrangements were not always transparent, or efficient, but they usually succeeded, often against the odds, in delivering resources under the difficult conditions of war.

2.23 Under the reconstruction program, huge amounts of foreign assistance will flow into Bosnia and Herzegovina for reconstruction and development. It will be important to regularize this flow of donor funds and ensure that it supports institution-building and other longer run macro-economic objectives. **Wherever the public sector is involved, funds should flow through the State, Federal, Republika Srpska or local budgets. Donors should not establish extrabudgetary funds earmarked for special purposes, nor adopt *ad hoc* procedures that bypass the regular budget process, for several reasons.**

2.24 First, the creation of parallel budgets outside the conventional strictures of budgetary policy complicates macroeconomic management by reducing budgetary transparency and control. Multiple “extra-budgets” imply a loss of information and control and provide loopholes for public sector operations not approved through proper budgetary channels, impinging on the ability of the legislative and executive powers at all levels to make spending decisions. The existence of such funds also reduces the government’s flexibility to react to changing circumstances. If the extrabudgetary funds are large, they may also create distortions in resource allocation within the public sector. Finally, these funds also impose additional administrative costs on the government such as parallel and separate donor accounting, reporting, and auditing procedures. **Donors could support institution building, efficiency, and macroeconomic stabilization by insisting on appropriate program definition, operational arrangements and procedures, accounting structures, and reporting of their programs *within* government budgets at each level.**

Political Risk Insurance/Bank Guarantees Are Urgently Needed

2.25 The reconstruction effort for Bosnia and Herzegovina will involve massive imports of commodities and capital goods, as well as construction and other services provided by international firms. These international manufacturers and contractors are assured of payment if the contracts are financed by bilateral donors and multilateral agencies. However, given the country’s high risk classification, international firms generally require export credit and risk insurance when goods or works are financed by domestic sources from Bosnia and Herzegovina. Export guarantee/credit agencies, such as the Export/Import Bank in the US, Hermes in Germany and others, are not yet providing such coverage. Political and commercial risks also deter foreign investors from placing private equity in Bosnian companies, a critical prerequisite for the reconstruction program to be sustainable in the medium term.

2.26 The absence of equity and debt insurance for foreign investors and their credit institutions — covering such risks as the resumption of hostilities (*force majeure*), or the non-compliance by authorities in Bosnia and Herzegovina with the terms of contracts concluded with foreign investors (sovereign risk) — confirms the need for a joint effort among donors to address issues of risk insurance for foreign suppliers and investors in Bosnia and Herzegovina. **It is recommended that interested parties, including bilateral export credit agencies, join together in a working group to address these issues quickly so that the private sector can begin to play its needed role in the economic recovery of Bosnia and Herzegovina.** The World Bank is ready to participate in such a working group through its Multilateral Investment Guarantee Agency (MIGA) subsidiary.

D. IMPLEMENTATION MUST BE COORDINATED EFFECTIVELY

2.27 Effective coordination is absolutely vital for the success of the reconstruction program. Without good coordination by donors, the administrative capacity of ministries and agencies in Bosnia and Herzegovina is likely to be overwhelmed by an array of differing donor requirements and procedures. Given the scarcity of donor resources and the region's vast needs, overlaps or inconsistencies between donor programs and projects must be avoided. Equally critical, or perhaps more so, is to avoid *gaps* between donor programs. Effective donor coordination is also crucial to avoid *slippage* between elements of a program or components of a project that need to move together, and to ensure *compatibility* and *policy consistency* within programs where multiple donors are involved.

2.28 Since December 1995, considerable progress has been made in setting up viable coordination mechanisms for implementation of the priority reconstruction program (Table 2.1). Only with the active participation and cooperation of all concerned can these mechanisms help ensure that donor programs are well integrated into the overall framework of the reconstruction program, and that implementation is well coordinated, streamlined, and rapid.

Government Arrangements for Coordination

2.29 **State-Level Coordinating Body.** In mid-February 1996, Bosnia and Herzegovina created a "*Reconstruction Cabinet*" to help manage the priority reconstruction program. This cabinet, consists of some 15 members and is chaired by the State Prime Minister. It includes seats for both the Federation and the Republika Srpska at the Prime Minister and senior minister level, although, as of the end of March participation by the Republika Srpska had not yet taken place. The role of the Cabinet is to define needs and priorities for reconstruction in Bosnia and Herzegovina; establish and implement a strategy to mobilize resources for the reconstruction program from donors and financial institutions; and establish an enabling environment for implementation of the reconstruction program. Contacts with the Reconstruction Cabinet are maintained by the European Commission and the World Bank in Sarajevo through joint meetings to discuss reconstruction priorities and issues.

2.30 **Federation Coordination Board.** A Coordination Board has been established at the level of the Federation. This has the role of defining the needs and priorities in the Federation, the mode of operation with international donors, and the implementation framework for projects within the Federation territory.

2.31 **Republika Srpska Agency for Reconstruction.** A similar body has also been established by the Government of the Republika Srpska. This is at an earlier stage of development than the Federation Coordination Board, but is expected to fulfill the same duties and will be a key counterpart and coordination mechanism for donor agencies.

2.32 **Sectoral Level Responsibilities for Implementation and Coordination.** At the sectoral level, overall coordination and management of programs and projects within the reconstruction program is the responsibility of the respective ministry or agency. These are

mainly at the Entity level given the division of responsibilities mandated by the constitution. Most Federal ministries and agencies are establishing Project Implementation Units (PIUs) — also sometimes referred to as Project Coordination Units (PCUs) — staffed by experienced professionals, often supported by foreign technical advisors. These PIUs are designed to ensure efficient project implementation — their responsibilities include procurement and disbursement, contracting, accounting, managing supervision of works on the ground, reporting to donors and government on project progress — and can also provide a practical vehicle through which to build institutional capacity.

2.33 It is also expected that PIUs will provide a useful institutional arrangement for project implementation in the Republika Srpska. Donors are encouraged to make full use of PIUs to manage reconstruction projects and to enhance coordination and the streamlining of donor implementation procedures.

Table 2.1: Mechanisms for Coordinating Donor Activities in Bosnia and Herzegovina

Mechanism	Purpose	Chair	Participants
Government Coordination Mechanisms			
State Reconstruction Cabinet	Define reconstruction program framework, priorities and fundraising strategy for Bosnia and Herzegovina	Prime Minister of Bosnia and Herzegovina	State and Entity prime ministers and senior ministers.
Federation Coordination Board	Define needs and priorities of the reconstruction program funding and operational arrangements at Federation level	Federation Prime Minister	Federation ministers and agency staff.
Republika Srpska Agency for Reconstruction	Define needs and priorities of the reconstruction program funding and operational arrangements at Republika Srpska level	Republika Srpska Prime Minister	Republika Srpska ministers and agency staff.
Donor Mechanisms			
Donor pledging conferences (Brussels)	Inform donors of reconstruction program framework and raises financing	European Commission/ World Bank	Bosnia and Herzegovina, donor governments, and agency representatives
Country economic task force	Assess economic and sectoral situation to guide orientation and policies of reconstruction program	World Bank /European Commission	Office of the High Representative, donors, key implementing agencies, sector task force leaders
Donor sectoral task forces	Exchange information and ensure technical and financing coordination within sectors; provide monthly updates on implementation progress	Sectoral lead agencies (e.g., IMG, WHO, UNICEF)	World Bank, EC, relevant donors, NGOs, and government implementing agencies

Table 2.1: Mechanisms for Coordinating Donor Activities in Bosnia and Herzegovina
(continued)

Mechanism	Purpose	Chair	Participants
Dayton/Paris Accord Mechanisms			
Joint Civilian Commission (JCC)	Coordinate and monitor progress of implementation of civilian side of Dayton/Paris Accords	Office of the High Representative	State and Entity representatives, IFOR, UN Coordinator, OSCE, ICRC, UNHCR, UNSCS, World Bank, European Commission, IMG
JCC technical working groups	Coordinate and reach agreement between entity agencies on political aspects of implementation of reconstruction program	Office of the High Representative	Concerned Entity agencies plus relevant donor/technical agencies

Donor Arrangements for Coordination

2.34 Progress in setting up arrangements for the coordination of aid from donors has been good although all the necessary mechanisms are not yet in place. The main mechanisms for coordinating efforts among donors are:

- *Country economic task force meetings* which are chaired by the World Bank Resident Mission Director in Sarajevo and convened jointly by the World Bank and the EC about every four to six weeks. These comprise donors that reside in Sarajevo, key implementing agencies, the sector task force leaders (see below) and the High Representative's Office. The task force's role is to take stock of the current economic situation and the situation assessed by the sector task force leaders, review donor participation in the priority reconstruction program, and draw lessons for future orientation of the program.
- *Sector tasks forces*, jointly set-up by the European Commission and the World Bank, meet every few weeks in Sarajevo, and comprise key donors and implementing agencies. These task forces are, at present, mainly a forum for exchange of information among donors and agencies, and to help coordinate the programming and implementation of the priority reconstruction program in each sector. In the future, task forces could also be used as a forum in which donors discuss the adoption of compatible policies on cost recovery, levels of recurrent cost funding, streamlining of procurement procedures, and related issues. Experience with implementation and problems encountered can also be discussed within this setting. Task force leaders are drawn from agencies represented in the field recognized by the donor community as having a broad understanding and grasp of the sectoral issues involved. In the infrastructure sectors, IMG plays an important task force leadership role. In the social sectors, the specialized agencies of the UN (UNICEF, UNESCO, WHO) are prominent. (Annex B lists the sectoral task forces and main participants).

- *Donor conferences and information meetings* are an important vehicle for resource mobilization and donor coordination:
 - The *First Donors' Conference*, held in Brussels December 20-21, 1995, represented the official launching of the government's priority reconstruction and recovery program. This program provided a framework for donor support of the reconstruction of Bosnia and Herzegovina and defined and prioritized needs and the financing requirements for a three to four year period. More than \$600 million in new and ongoing commitments was pledged for the immediate needs of the critical first three months of the reconstruction program, allowing contracts to be signed and procurement to get under way before the construction season and in time for spring planting.
 - The *Paris Sectoral Technical Meetings*, co-sponsored by the World Bank and the European Union and held in Paris January 25-26, 1996, provided an opportunity to inform donors about specific projects under preparation under the priority reconstruction and recovery program, and a chance to hold technical discussions to help donors decide on the nature of their involvement.
 - The *Sarajevo Donors' Information Meeting*, sponsored by the Government of Bosnia and Herzegovina, with the support of the World Bank and European Union, and held March 16-17, 1996, represented an important preparatory step for the Second Donors' Conference in Brussels. It provided donors with the opportunity to gain detailed information on the reconstruction program and discuss specific projects and implementation issues.
 - The *Second Donors' Conference*, to be held in Brussels, April 1996, aims to mobilize renewed political commitments to the 1997-99 Priority Reconstruction and Recovery Program and secure firm commitments for the remaining \$1.2 billion needed to finance the \$1.8 billion 1996 program. It also represents an opportunity for donors to discuss implementation issues, coordination, and issues on the ground, including political conditionality.
 - The *Third Donors' Conference*, which is yet to be scheduled, will provide an opportunity to take stock of implementation progress during 1996 and mobilize resources for 1997.

Dayton/Paris Accord Coordination Mechanisms

2.35 As a part of the overall civilian peace implementation process, the Office of the High Representative chairs twice monthly Joint Coordination Commission (JCC) meetings to bring together the State and Entity-level governments and the key Dayton/Paris agencies (ICRC, OSCE, UN, UNHCR) to discuss progress on implementation of the civilian aspects of the Dayton/Paris Accords. Recent meetings have focused on freedom of movement, elections, re-integration of road networks and water systems, right of return of refugees, and related issues. Whenever necessary the World Bank, European Commission, the IMF, the IMG and others are invited to these meetings to make presentations on economic and reconstruction issues.

2.36 At the working level, the Office of the High Representative has formed several special coordinating groups to deal with specific problems. For example, technical working groups have been established to follow up on problems identified by the JCC, associated with the link between aspects of the Dayton/Paris Accords and the reconstruction program. These include an infrastructure group to monitor the situation during the transition to a unified Sarajevo and ensure the protection of infrastructure; and a group, led by IFOR, to handle mine clearing issues. The High Representative also organizes special meetings in Brussels to discuss specific topics, notably political conditionality.

E. DONORS CAN PROVIDE SUPPORT IN DIFFERENT WAYS

2.37 Financial support to the reconstruction program can be provided in three principal ways: (a) support to Bosnia and Herzegovina through owned-managed programs; (b) support to the ongoing programs of local or international NGOs; and (c) cofinancing of multilateral agency projects. Financial support can be in the form of a grant or it can involve some repayment obligation. Donors may also provide in-kind assistance, in the form of supply of actual materials and equipment.

2.38 **Direct Support.** A significant number of donors, particularly the larger ones, support the reconstruction effort by establishing their own sectoral programs on the ground, run by national aid or other agencies. The advantage to donors of this approach is that they can provide visible support in those sectors in which they have a comparative advantage. These programs should ideally fit within the overall framework of the government's priority reconstruction program and use transparent procurement arrangements. Moreover, an explicit effort should be made by donors through sectoral task forces to ensure coordination with others involved in the sector.

2.39 **Support to NGO Programs.** Another possible modality of support is to fund the many ongoing programs run by both international and local NGOs. As with donor programs, it will be important to ensure that these investments fall under the umbrella of the government's priority reconstruction program.

2.40 **Cofinancing.** An alternative method of supporting the priority reconstruction program is to cofinance a project under the auspices of a multilateral institution, such as the World Bank or EBRD. The advantages of cofinancing a multilateral-supported project are several. *First*, cofinancing reduces the administrative burden on the government by channeling resources to well-defined projects with streamlined implementation arrangements and procedures. *Second*, cofinancing can increase the development impact of donor resources by making it possible to finance larger national programs, including both financing for investment and cash of recurrent costs, that are too large for an individual donor to support. *Third*, cofinancing can increase transparency in procurement and in the use of funds for those donors that do not have representation on the ground.

Box 2.4: World Bank Trust Funds - A Mechanism for Cofinancing the Bosnia and Herzegovina Reconstruction Program

For donors who wish to provide grants to the reconstruction program but for whom management of these funds on the ground is burdensome or not possible, the World Bank can establish a trust fund that it administers on behalf of the donor. Several donor countries, including Canada, Italy, Japan, Luxembourg, the Netherlands, Sweden and Switzerland have already chosen this alternative.

In administering a trust fund, the Bank is responsible for ensuring that trust fund resources are used only for the purposes stipulated in the agreement between the donor and the World Bank.

In most cases, trust fund-financed activities are implemented by the Government (or a governmental implementing agency). As an exception, the World Bank, itself, may also implement such activities, such as the engagement of consultants for project preparation, if the Government's implementation capacity in the given area is limited and urgency requires Bank implementation.

To be made effective, trust funds must have a signed agreement between the Bank and the donor, and a grant agreement between the Government of Bosnia and Herzegovina and the Bank.

2.41 Cofinancing of multilateral projects may be channeled as either "joint" or "parallel" cofinancing. In *joint cofinancing*, the *same* project components are funded by more than one donor. Procurement is carried out in accordance with the multilateral's procurement and consultant guidelines. Such an arrangement minimizes the bureaucracy associated with different donor procedures and can institute an environment of transparency for procurement. In *parallel cofinancing*, cofinanciers support the same project objectives but finance *different components* of the same project according to their own procurement and other operational rules — *or* choose to adopt the multilateral agency's procurement and implementation arrangements. Such an arrangement enables donors to take responsibility for funding a particular geographic area or sub-sector. Trust funds can be a useful mechanism for establishing cofinancing arrangements (see Box 2.4).¹¹

**F. INFORMATION EXCHANGE IS CRITICAL FOR
EFFECTIVE AID COORDINATION**

2.42 Exchange of information between the governmental authorities of Bosnia and Herzegovina and the donor community is an essential element of effective aid coordination. Donors will need to keep the government and the broader donor community informed of their reconstruction activities; the government will need to ensure that donors receive regular reports on reconstruction progress on the ground.

2.43 The World Bank and the EC have jointly developed a database system that monitors donor pledges, commitments, and programs. This system is being enhanced to enable detailed monitoring of donor commitments at the sectoral level, as well as to track actual contracting and disbursement of funds. Through reports generated by this system, the government and the donor community will receive regular updated information on activities and progress of the

¹¹ Many donor countries have existing umbrella "Framework Cofinancing Agreements" with the World Bank.

reconstruction effort. The monitoring system will be an important tool both in coordinating donor programs and projects and in monitoring the pace and direction of the overall program. (Much of the information in this report, for example, was based on the monitoring system).

2.44 In order to be more reliable, however, more complete information will be required on pledges, commitments and ongoing activities. Although information on donor pledges has been provided — most donors filled out pledge forms at the December Donors' Conference — *information on commitments and actual donor activities and programs on the ground has been made publicly available by only a limited number of donors.* In most cases, data on commitments maintained in the monitoring system (and reflected in this report) are based on informal exchanges of information with individual donors. *Completion of commitment forms sent to donors immediately following this and future donor conferences is essential if this monitoring system is to function and provide useful information to both the government of Bosnia and Herzegovina and the wider donor community.*

2.45 Pledge forms both for 1996 financial pledges, and for political pledges for 1997-1999 have been provided for the April conference. Donors have also been provided with forms on which to record the status of their ongoing activities financed by their December pledges. In order to ensure that the monitoring system for the reconstruction program is as reliable and useful as possible, donors are encouraged to complete these forms at the April Donors' Conference and provide them to the Conference Secretariat.

2.46 Once the reporting system is fine-tuned and reliable information from donors on both pledges and commitments is readily available, more regular and more fully accurate reports on pledges, commitments, donor programs and activities, and disbursements will be provided to the donor community.

3. RECONSTRUCTION PROGRAM: SECTORAL PROGRAMS AND PRIORITIES

A. EMPLOYMENT GENERATION AND DEMOBILIZATION SUPPORT

Background and Current Situation

3.1 Reestablishing income-generating activity for disadvantaged groups and demobilized soldiers is not only an economic necessity, but essential for the peace process. In the Federation alone, an estimated 75 percent of the labor force is unemployed, while many others receive only symbolic wages or are underemployed because enterprises are working at a fraction of capacity. The situation in Republika Srpska is similar. A large number of people will not be able to return to their previous jobs; many large state-owned industrial and commercial conglomerates are likely to be scaled down, and nonviable industrial plants that closed during the war may not reopen. Privatization and transition to a market-based economy will take time, yet around 300,000 soldiers are to be demobilized within the next six months and will need employment. There is widespread concern that a large injection of former soldiers into the economy could threaten peace and recovery unless ways are found to absorb them into productive activities. While the overall reconstruction program will substantially boost the economy and create jobs, special efforts are needed to target both disadvantaged groups and demobilized soldiers, and to facilitate "bottom-up" private initiatives.

Reconstruction Program Update

3.2 The overall reconstruction program will be the primary engine for growth and job creation in the economy of Bosnia and Herzegovina. However, in recognition of the need to urgently and proactively address employment for disadvantaged groups and demobilized soldiers, employment generation and demobilization support has been added as a separate program area under the reconstruction program. There are three main categories of support:

- (a) Microbusiness creation and support for local initiatives;
- (b) Public works employment; and
- (c) Support for demobilized soldiers, including out-placement counseling and education and training.

3.3 **Microbusiness creation/support for local initiatives.** The overall objective is to assist the most vulnerable groups to make the transition from reliance on humanitarian aid to active employment by promoting income-generating activities based on self-employment and microenterprises. The target population is comprised of three main groups: urban unemployed, with a special focus on demobilized soldiers; small farmers and rural unemployed; and displaced persons and war victims. Support — in the form of microcredit revolving funds and business advice and training — is best provided to microentrepreneurs through NGOs and local institutions that have grassroots approaches and existing working relationships with these vulnerable groups. A "bottom-up", grassroots approach supporting private sector development would complement other aspects of the reconstruction program, especially large, "top-down"

reconstruction projects; lines of credit through banks; and social welfare cash payments.

3.4 Public works employment. The four main objectives are: (a) to create rapid employment for demobilized soldiers and disadvantaged groups; (b) to generate income and reinject cash into the economy; (c) to contribute to the reconstruction process by improving public services and repairing and rehabilitating small-scale infrastructure; and (d) to reinforce the role and capacity of local governments. Labor-intensive public works financed at the municipality level could include repairing of war damage, street cleaning, rural road and urban street repair, cleaning of surface drainage systems, rehabilitation of parks, irrigation rehabilitation, reconstruction of public buildings, repair of local water supply systems, reforestation projects, and the transfer of graves from provisional burial grounds to official cemeteries. Such a program will not provide a long-term solution to employment problems in Bosnia and Herzegovina, but it would help provide job opportunities for people during the transition period, allowing time for the economy to recover and more permanent, skilled jobs to become available.

3.5 Support for demobilized soldiers. Specific support activities for demobilized soldiers are currently under discussion with both Entities. Proposed program elements include:

- (a) **Out-placement counseling.** The overall reconstruction effort will create substantial employment opportunities for demobilized military, provided that they have the information to take advantage of such opportunities. A proposed counseling service would be set up to provide soldiers with information on jobs available, and to provide related employment information and assistance.
- (b) **Education and training.** The war interrupted schooling for large numbers of soldiers. Support would be provided to help demobilized soldiers complete their education and training, targeting former servicemen who: (i) have not completed secondary schooling or its equivalent; and (ii) were drafted from university studies.

Table 3.1: 1996 Employment Generation and Demobilization Support Priorities
(US\$ millions)

	3-4 Year Program 1996-99 ¹	Revised First Year Program (March 1996)	Financing Committed ² (March 1996)	Financing Gap	
				US\$ million	% of total
Microbusiness /Local Initiatives Program	n/a	25	3	22	88
Public Works Program	n/a	45	4	41	91
Demobilization Support	n/a	5	0	5	100
Total	n/a	75	7	68	91

1 - No estimates were made in December 1995 for employment generation, since it had not been identified as a separate area under the reconstruction program; not available (n/a) is therefore shown in this column. Employment generation requirements for the three- to four- year program are currently under review.

2 - The amounts shown represent firm or indicative donor commitments from first quarter pledges only, which for employment generation include Austria, the EC, the Netherlands, Norway and the US. Funding under consideration but not announced as part of first quarter pledges is not included.

Implementation Arrangements

3.6 Program implementation will be substantially decentralized to foster the local "ownership" necessary for success of these types of activities. Microenterprise support is best implemented through grassroots organizations that adopt participatory approaches, supported by regional-level advisory services. A countrywide public works program could be identified, prepared, and implemented by municipalities (opstinas) in collaboration with the locally-elected community councils.

Donor Activities to Date¹²

3.7 The EC's program of support for the reconstruction of Sarajevo includes some financing for labor-intensive public works. Austria, Norway and the US have similar ongoing programs, or are in the process of preparing municipal infrastructure and housing projects. Although these primarily finance housing and infrastructure connected to housing, some subprojects could likely be classified as employment-generating public works. USAID is also expected to support microenterprise and small business development. The Open Society Institute, supported by the Soros Foundation, is financing micro and small businesses via a revolving credit line (this is included under the industry sector program).

3.8 With the financial support of a Dutch trust fund, the World Bank is supporting a pilot local initiatives project to test approaches to self-employment and microenterprise development in Bosnia and Herzegovina, with the aim of preparing a larger proposed "Local Initiatives Project" if the pilot project is successful (see Box 3.1). The World Bank is also preparing a proposed "Public Works Project", and is considering options to support demobilization.

Box 3.1: Helping Refugees Gain Self-Sufficiency in Tuzla

In Gracanica—just outside Tuzla—there are over 10,000 refugees, most of them women and children who have lost many or all of their male relatives. They are completely dependent on humanitarian assistance for survival. BOSPO, a local NGO, helped displaced women during the war by organizing community centers for work-therapy, social activities, and psychological support.

Now, BOSPO is initiating a test program in Tuzla and Gracanica to help some of these women set up sustainable small businesses, such as handicrafts, garment making, and small trade. The potential microentrepreneurs will have access to small loans, typically up to \$350, and BOSPO advisers will provide business support and training.

Using an experimental approach, BOSPO aims to learn how to best help women refugees move from dependency to self-sufficiency. The BOSPO subproject is supported by the World Bank, using funds made available by the Dutch government in a special trust fund for Bosnia and Herzegovina. Other test programs are being initiated to similarly assist demobilized soldiers, small farmers, and the urban unemployed.

These pilot actions are being used to address immediate needs in Tuzla and, at the same time, use a learning-by-doing approach to prepare a proposed "Local Initiatives Project" to support self-employment and microenterprise development for displaced persons, demobilized soldiers, and rural and urban unemployed.

¹²

The information in these sections and in Table 3.1 has been compiled from official reports on donor programs where available. Where formal reports were unavailable, information has been based on informal discussions with donors.

Financing Gap and Current Priorities

3.9 Given the social unrest that large-scale unemployment can cause, quick financing for these and other similar programs is necessary. Total funding still required in the first year for this important, newly-defined sector is about \$68 million. This leaves a large funding gap, reaching 91 percent of the year's total requirements (see Table 3.1). Donor funding to date has focused on public works programs in the major cities and some small-scale financing for microenterprise development. Further resources are required for public works projects throughout the country, to support more local microenterprise development programs, and for the demobilization program. Such programs will not only generate employment but can have a quick impact on locally-identified priority needs.

Structural and Policy Issues for the Medium Term

3.10 Several issues need to be addressed to maximize the impact of the employment generation program. Support of small-scale private sector development will require:

- a) **Enabling Environment for Self Employment and Microenterprises.** There is increasing worldwide recognition of, and appreciation for, the importance of self-employment and microenterprises for economic development. To gain the full benefit of the dynamism of this sector, Bosnia and Herzegovina's legal and regulatory environment needs to be reviewed and revised to assure an appropriate enabling environment for self-employment and microenterprises
- b) **Encouraging sustainable microfinance intermediaries.** Establishing grassroots financial intermediaries can have an important impact on the development of self-employment and microenterprises, because microentrepreneurs do not normally have access to banks. However, it is important to emphasize that microfinance can only succeed as a private-sector activity between borrowers and a financial intermediary. Government and local governments can assist in the promotion of microfinance, but they should not have a direct role in lending.

B. ENERGY

3.11 The energy sector in Bosnia and Herzegovina consists of four sub-sectors: electric power (including associated coal mining), natural gas, district heating, and oil refining and distribution.

While oil refining and distribution is an industrial activity that can be taken over by the private sector, the other three sub-sectors, although operating on commercial principles, are expected to remain in public hands for some time. These three sub-sectors are, therefore, the focus of the energy update. War-related damage to these subsectors has been severe, not only because of destruction as a result of direct impacts but also because of the lack of maintenance due to a shortage of materials and manpower, and such insidious factors as corrosion, freezing and cracking of pipes, and utilization of materials for other purposes during the war. Reconstruction

and rehabilitation of the energy sector is a matter of high priority in order to enable the country to resume economic activity and growth, and for the well-being of its citizens.

B.1 ELECTRIC POWER¹³

Background and Current Situation

3.12 Before the war, the Bosnia and Herzegovina electric power system consisted of:

- (a) Thirteen hydropower plants with a total capacity of 2,034 megawatts (MW) and an average output of 6,922 gigawatt hours (GWh) per year;
- (b) Twelve brown coal and lignite fired thermal power plants with an installed capacity of 1,957 MW and an output of 10,675 GWh per year; and
- (c) Transmission and distribution facilities interconnected and operated at 400, 220, 110, 35, 20, 10 and 0.4 kilovolts (kV) levels, with about 5,400 kilometers (km) of transmission lines and 92,000 km of distribution lines. Distribution losses amounted to 11 percent of gross consumption due to poor network quality and illegal consumption.

3.13 In addition, more than thirty individual coal mines were producing brown coal or lignite for both heating and power generation. Production was about 18 million tons of coal a year, of which 10 million tons were brown coal and 8 million tons lignite. Within the Federation areas, production was concentrated in the Tuzla and Zenica areas in both open-pit and underground mines. In the Republika Srpska, the two main mines were Ugljevik (brown coal) and Gacko (lignite), each producing about 2 million tons per year.

3.14 The whole system suffered significant damage as a direct result of war activities or due to war-related lack of maintenance (see Box 3.2).

3.15 Before the war, the Bosnia and Herzegovina power system was operated by Elektroprivreda Bosne i Hercegovine (EPBiH). The status of the coal mines varied from one area to another: the Gacko and Ugljevik coal mines were the only significant mines belonging to the electric power company; the mines of the Tuzla region were grouped into one state-owned holding company; others were operated as independent state-owned enterprises.

¹³ The electric power system includes power generation plants and associated coal mines, as well as power transmission and distribution systems.

3.16 The power system is now *de facto* operated by three regional companies, EPBiH, in the Bosniac majority part of the Federation, Elektroprivreda Herceg Bosne (EPHB) in the Croat majority part of the Federation and Elektroprivreda Republike Srpske (EPRS) in Republika Srpska. In the coal sector, to facilitate the coordination of emergency aid and tightly control the application of scarce resources, the mines located in the Federation area have been grouped into two principal companies (Tuzla Coal Mines and Central Bosnia Coal Mines), which supply the important Tuzla and Kakanj thermal power plants (a third group, the Mostar Coal Mines, is of lesser economic importance, both in terms of output and product end-use). No regrouping of coal mines took place in Republika Srpska.

Reconstruction Program Update

3.17 Over the last several months, there have been positive developments in the electric power sector following the signature of the Dayton/Paris Peace Agreements. Under the auspices of the High Representative, contacts between the electricity companies of the Federation and Republika Srpska have been initiated, leading to increased sectoral cooperation. Although much remains to be done, the general managers of the Federation and Republika Srpska electric power companies have met to define priorities and establish coordination and liaison mechanisms. The electric power installations in the former Serb parts of Sarajevo have been transferred to Federation technicians without significant problems.

Box 3.2: An Overview of the Damage

- More than 50 percent of the generating capacity is currently out of operation, including:
 - The hydropower plants on the Neretva River — Jablanica (6x25 MW); Grabovica (2x57 MW); Salakovac (3x70 MW); Mostar (3x25 MW); Capljina (2x215 MW) and the Rama plant on the Rama river (2x80 MW).
 - The thermal power plants in Tuzla (779 MW) and Kakanj (578 MW), which have suffered extensive damage.
 - Parts of the hydropower plants on the Trebismica River (2x54 MW, 1x60 MW, and 1x8MW) and on the Drina River (3x105 MW); and portions of the Ugljevik (1x300 MW) and Gacko (1x300 MW) thermal power plants, which have seriously deteriorated due to lack of maintenance as a result of the war.
- 60 percent of the transmission network and control system is seriously damaged, including many transformer stations, all eight 400 kV transformer substations, civil works, telecommunications and maintenance equipment. The interconnections with SUDEL, the main electric power grid for the Balkan region, and UCPTE, the main grid for western Europe, have been interrupted, as well as the connection of Greece to SUDEL through the 400 kV line through Mostar.
- The distribution network is largely destroyed.
- Much of the mobile mining equipment was damaged beyond repair, while newer mobile equipment was either turned over to the army or disappeared from mine premises. There was an acute lack of critical materials, such as fuel, tires, and spare parts, and therefore a severe lack of maintenance.
- Coal production dropped to from 18 to 1.5 million tons, less than 10 percent of the pre-war level.

3.18 The reconstruction program designed in December 1995 remains valid as an overall framework and will take advantage of the above mentioned progress. It includes:

- (a) **Restoration of service to acceptable levels**, mostly through reconstruction and rehabilitation of the principal power plants, major transmission lines and distribution networks in the most populated areas.
- (b) **Restoration of output of the lowest-cost mines to minimum levels**, sufficient to restart the operation of the thermal power plants at the desired capacity levels.
- (c) **Reconfiguration of the electric power network**, taking into account Bosnia and Herzegovina's new situation, with the aim of eventually reintegrating it with UCPTE, the main electric power grid of western Europe.

Box 3.3: Priority Coal Mines

Restoration of production of coal mines should closely correspond to decisions on investments in the thermal power plants. Production capacities in the more viable mines should be rapidly increased to the minimum level required to provide sufficient fuel for these power plants, in line with their repair and rehabilitation and their expected lifetimes and load.

Within the Federation, two thermal combined heat and power plants, in Kakanj and Tuzla, are using coal and approximately 1.7 million tons yearly are necessary (Kakanj: 1.0 million tons, Tuzla: 0.7 million tons). For Kakanj, 90 percent of the brown coal can be provided by the Vrtliste surface mine, supplemented by 10 percent from the Breza underground mine to improve quality. For Tuzla, 70 percent of the fuel (lignite) would be supplied by the Dubrave and Sikulije surface mines and 30 percent (brown coal) by the Banovici surface mine. To achieve the above mentioned production levels and meet powerplant requirements, urgent rehabilitation of these coal mines is needed.

In Republika Srpska, the two major thermal power plants own coal mines, in Gacko and Ugljevik. Restoring production in these mines at the level necessary to operate the power plants is a priority.

- (d) **Restructuring of the electric power sector**, to improve coordination between the three *de facto* regional companies, to settle issues regarding liabilities and assets, and to introduce a sector structure that would facilitate attracting potential private investors.
- (e) **Restructuring of the coal mining industry**, both by determining each mine's economic viability and by increasing productivity, in order to render local coal competitive with imported coal and alternative fuels.
- (f) **Improvement of sector finances** and a gradual phasing out of price distortions.

Box 3.4: Emergency Electric Power Rehabilitation Projects

The EBRD and the World Bank have supported the power sector in the design of two complementary projects constituting one coherent program, aimed at meeting the first-year priorities.

The EBRD's proposed "Emergency Electric Power Rehabilitation Project" focuses on:

- (a) Reconstruction of the Mostar hydropower station, which has been severely damaged by direct shelling.
- (b) Repairs on transmission lines and substations.
- (c) Repairs of distribution systems in the areas where needs are the most urgent, including Sarajevo, Tuzla, Zenica, Mostar, Doboj, Bihac, Kupres, Drvar, Mrkonj Grad and their environs.
- (d) Communications and system control.

This project will be implemented by the three public electricity companies as soon as sufficient resources have been mobilized. Implementation is expected to last around 18 months.

The World Bank's proposed "Emergency Electric Power Rehabilitation Project" focuses on:

- (a) Reconstruction of the co-generation units of the two main thermal combined heat and power stations in the Federation — Tuzla (2 x 32 MW and 1 x 100 MW) and Kakanj (4 x 32 MW and 2 x 110 MW), to provide reliable continuous service for another 7 to 8 years.
- (b) Restoration of production in the coal mines critically needed for the operation of the thermal power plants, by: supplying consumable materials, such as tires, conveyer belts, cable, and spare parts for existing equipment; replacing key smaller equipment, crucial to operation and maintenance; overhauling major production equipment; contracting mining services to the private sector, such as coal transport or overburden removal.
- (c) Reconstruction of two hydropower stations in the Federation — Jablanica (4 x 25 MW) and Grabovica (2 x 57 MW) — to restore them to normal operating conditions.
- (d) Reconstruction of about 320 km of 220 kV and 110 kV transmission lines and thirty-one 220/110/35 kV and 110/35/10 kV substations needed for restoring power supply to cut-off areas, and improving the reliability of supply for Sarajevo, Tuzla, Zenica, Mostar and Bihac.
- (e) Purchase of maintenance vehicles and spare parts.
- (f) Technical assistance for project engineering services and power and coal mining sector restructuring as well as tariff studies.

This project will be implemented by the public electricity company, EPBiH. It will start early in the Summer of 1996, with completion expected by Summer 1998.

3.19 Within this program, the first year needs have been adjusted in order to take into account the additional information on costs and cost recovery potential obtained in the course of the first three months' work on project preparation and implementation (see Table 3.2).

Table 3.2: 1996 Electric Power Priorities
(US\$ million)

	3-4 Year Program 1996-99	Revised First Year Program (March 1996)	Financing Committed ¹ (March 1996)	Financing Gap	
				US\$ million	% of total
Electric Power					
Generation: Hydro	60	30	tbd	tbd	tbd
Generation: Thermal	50	41	tbd	tbd	tbd
Transmission: Lines	65	26	tbd	tbd	tbd
Transmission: Substations/Dispatch	80	38	tbd	tbd	tbd
Distribution	215	59	tbd	tbd	tbd
Communications	6	1	tbd	tbd	tbd
Transportation	23	8	tbd	tbd	tbd
Spare Parts	15	15	tbd	tbd	tbd
Engineering/Supervision	0	11	tbd	tbd	tbd
Technical Assistance	16	3	tbd	tbd	tbd
Sub-total	530	232	80	152	66
Coal Mining					
Spare Parts and Materials	55	7	0	7	100
Supply/Install Contracts	14	4	0	4	100
Equipment	12	18	1	17	95
Technical Assistance	3	1	0	1	100
Sub-total	84	30	1	29	97
Total	614	262	81	181	69

Note: tbd indicates amounts to be determined. Funds will be allocated to specific components once total financing is confirmed.

- 1 - The amounts shown represent donor firm or indicative commitments from first quarter pledges only, which, in the electric power sector, include the Czech Republic, the EC, Finland, France, Germany, Japan, the Netherlands, UK, US, and the World Bank (through purchase of critical imports under the recently-approved "Emergency Recovery Project"). Funding currently under consideration but not announced as part of first quarter pledges is not included. Thus the proposed EBRD loan and proposed World Bank power rehabilitation credit are not included. Once approved by their respective Boards, these funds would reduce the first year program financing gap.

Implementation Arrangements

3.20 Implementation of the above program requires a high degree of cooperation between the three electricity companies (EPBiH, EPHB, and EPRS) which is to be ensured, *inter alia*, by the establishment of a Joint Public Corporation, as foreseen in the Dayton/Paris Agreement.

3.21 Management of the rehabilitation program will be a complex undertaking. Program management for electric power generation, transmission and distribution could be carried out, within their respective areas of responsibilities, by the three electric power enterprises, which

have the organization and staff to do so. To ensure implementation on an emergency timetable, these enterprises should establish Project Implementation Units (PIUs), which would be responsible for program implementation including design, scheduling, procurement and disbursement of funds. Local consulting firms, which are able to carry out most of the engineering and construction supervision required for the generation and transmission works, are assisting the electric power enterprises in carrying out engineering and preparing bid documents.

The PIUs would also be assisted by international power experts in procurement, coordination and supervision of this reconstruction effort, harmonization of designs and standards, and efficient use of resources.

3.22 While the PIUs would exercise control over all project-related activities, they would receive cross support from other units of the power enterprises, such as for procurement, technical support, legal matters, budgeting, accounting, disbursing and cost control, scheduling, manpower allocation and operational support. The implementation of the sub-projects would be the responsibility of the local generation, transmission and distribution entities. Replacement of transmission equipment would be performed by the transmission entities' own maintenance staff on force account, who have satisfactorily handled similar works in the past few months. Installation of major equipment would be done in most instances by suppliers on a turn-key basis, using local construction companies as much as possible.

3.23 In the case of projects which benefit the coal sector, the mining companies would be responsible for project implementation. A project manager would be appointed for each company. Physical implementation is to be assisted by skilled technicians from the manufacturers of existing equipment. Within the Federation, the Ministry of Energy and Industry is to be responsible for a sector restructuring study and for ensuring close cooperation between the mining and the electric power companies. International coal experts are providing procurement assistance and logistical support and could also be responsible for facilitating coordination between the mining and power companies and the donors.

Donor Activities to Date ¹⁴

3.24 In the electric power sector, several large projects undertaken a few months ago have been completed, notably the connection of Sarajevo to Jablanica through an underground line, funded by the German Government and the Government of the Netherlands; and repairs on the distribution network in Sarajevo financed by the French Government. The EC has also funded several small emergency projects through the IMG.

¹⁴ The information in these sections and in Table 3.2. has been compiled from official programs on donor reports where available. Where formal reports were unavailable, information has been based on informal discussions with donors.

3.25 Through its PHARE Essential Aid Program, the EC has approved the allocation of some \$9.9 million for the power sector largely to cover spare parts and equipment needed for the distribution and transmission systems (a second contribution on the order of \$7 million is being considered). Detailed lists for equipment needs are being prepared. The EC is also financing works on the Salakovac Hydro Power Plant, where turbines were flooded during the war.

Box 3.5: Jump-starting the Reconstruction Process in the Dubrave Coal Mine

The repair of the overburdened transport system at the Dubrave mine, funded by the UK, is an example of those projects prepared and carried out by emergency organizations, but which fit in the overall reconstruction strategy and represent a good way to jump-start these activities. The project (approximately \$220,000) started late in 1995 and is to be completed during spring 1996.

3.26 The EBRD is preparing a \$20 million loan, which is expected to be complemented by co-financing resources, to support the project designed with its assistance (see Box 3.4). With the financial assistance of the Swiss Government, the EBRD is overseeing a study to: (a) provide support to the Ministries and utilities for the completion of a long term development strategy for the period 1997-2010; and (b) design and execute a training program for selected staff of the Ministries and utilities of Bosnia and Herzegovina. The study is expected to start in May and be completed by early 1997.

3.27 In support of a proposed program designed with the governmental authorities and EPBiH (see Box 3.4), the World Bank is preparing a project to be financed by a credit on IDA terms. This project already has some donor co-financing committed, although additional funding is needed. Through a project start-up advance, the World Bank has made funds available for engineering, mine clearing and repairs on the Jablanica and Grabovica power plants.

3.28 Several other countries and international organizations have indicated willingness to provide contributions to the restoration of the electrical power system, particularly for the two mentioned proposed emergency projects. These donors include the Governments of the Czech Republic, Finland, the Netherlands (which is already financing engineering through a World Bank-managed trust fund), Switzerland, the United Kingdom (which has supported the sector with throughout the war); and the US (which has indicated it will provide equipment supplies in-kind and other financial support).

Financing Gap and Current Priorities

3.29 Restoration of the electric power supply is a precondition for economic recovery. As shown in Table 3.2, the financing gap for the electric power sector first year program is currently 69 percent, about average for the first year program. The overall magnitude of resources required, however — the shortfall totals \$181 million — is much larger than in most sectors. The financing gap is particularly large for the coal mining sub-sector where it is 97 percent of the requirements. A delay in the availability of financial support would have significant implications; it would slow down the pace of sector rehabilitation and thus endanger the whole economic recovery. Cofinancing resources are thus urgently needed for the two proposed emergency electric power rehabilitation projects, particularly to restart production in the most

efficient coal mines and to restore the main transmission lines necessary to supply power to the whole country as well as the distribution systems in those parts of the country where they have suffered the most damage.

3.30 It should also be emphasized that electric power is one of the sectors where the system has to be handled at the national level. Cooperation between the Entities is therefore essential to ensure adequate provisions of service. By making resources available for this sector, the donor community would be helping to create an environment where inter-Entity cooperation could be promoted, thus encouraging peace and reintegration in a concrete way on the ground.

Structural and Policy Issues for the Medium Term

3.31 The three major policy issues to be addressed over the medium term relate to:

- (a) **Settlement of assets and liabilities between the three existing electricity companies.** As mentioned, there are now three *de facto* electricity companies in Bosnia and Herzegovina. The legal status of EPHB (Croat majority areas of the Federation) and EPRS (Republika Srpska) is not clear: they took over EPBiH's assets in their respective areas but did not assume the corresponding part of the liabilities.
- (b) **Electric power sector restructuring.** While the power system may be too small to enable effective competition, measures can and should be taken to introduce a sector structure that would facilitate attracting potential investors. One potential scenario is as follows:
 - First, generation would be separated from transmission and distribution and responsibility divided among several generating companies, each operating on a commercial basis. The transmission system would be unified under a single authority to ensure the optimization of power transmission and permit effective power trading and system stabilization. Distribution enterprises would be organized on a local basis. An energy law would be passed, under which a Regulatory Authority would be set up to regulate power prices and to ensure third-party access to the transmission system.
 - Second, once a Regulatory Authority has been established and is operating with reasonable autonomy, the generation and distribution companies could be partially or totally privatized. The transmission entity could eventually be considered for privatization after the new ownership arrangements in the generation and distribution segments have stabilized. Regardless of whether or not the transmission entity is privatized, the energy law should allow for third-party access.
- (c) **Electric power sector financial viability.** In 1994 and 1995, EPBiH (the only company for which financial information was available) incurred substantial

losses. Furthermore, due to the financial difficulties faced by households and corporate consumers during the war, bill collection rates were very low (although collection performance improved significantly in 1995, reaching around 50 percent). Collection rates should be gradually increased to reach 100 percent by 1999. In addition, over the medium term, tariff levels should be raised progressively, first to permit adequate internal generation of funds to cover the power companies' expenditures and provide modest cash balances, and later to provide full cost recovery as the power companies undertake further necessary efficiency-improving investments.

- (d) **Coal mining sector restructuring.** Some activity, although not necessarily production, is currently being maintained in all twenty-eight mines in the Federation area, although about 70 percent of the production originates from four surface mines (as of the end of March, comparable data for the mines in Republika Srpska were not available). An assessment is needed to determine which mines are the lowest-cost and most competitive producers and then concentrating reconstruction efforts on those mines that are clearly economically viable. This is expected to result in concentration of production in a few large mines.
- (e) **Staffing levels.** Before the war, the coal mines employed about 26,000 workers and had a low average productivity per worker. The staffing level should be adjusted so that productivity be increased well above past and current levels.
- (f) **Coal mining cost recovery.** Present production costs appear to be at or above the world market level of coal prices, adjusted for quality. Hence, production costs per ton should be reduced.
- (g) **Coal mines privatization.** While privatization of even the most efficient brown coal and lignite mines in Bosnia and Herzegovina is probably not an option in the near term due to lack of investor interest, the regulatory framework for private ownership should nevertheless be established. Furthermore, consideration should be given to merging the most efficient mines with the thermal power plants, since their output is virtually dedicated to these plants.

B.2 DISTRICT HEATING

Background and Current Situation

3.32 In 1991, Bosnia and Herzegovina had district heating systems in most major towns and cities with a population in excess of 25,000 inhabitants. Throughout Bosnia and Herzegovina, district heating systems served a total of 120,000 customers, equivalent to 450,000 inhabitants, or 10 percent of the total population. The systems were generally run by municipally-owned district heating enterprises which ensured the supply and distribution of heat. Cogeneration was

provided by the combined heat and power plants in Tuzla and Kakanj, as well as by local industries such as the steel industry in Zenica; in all other cases heat was generated by local heat-only boilers.

3.33 All district heating enterprises, except in Zenica, were created and controlled by municipalities. Heat prices differed from one municipality to another based on the cost of the inputs (primarily fuel) and on whether or not the municipality helped finance investments, debt service and other costs. Hence, in many cases district heating prices were well below economic levels, as were the prices of most other fuels. The average subsidy was \$100 per annum per consumer compared to an average annual heat bill of about \$370 per consumer.

Box 3.6: Damaged District Heating Systems in Sarajevo and Banja Luka

In Sarajevo: During the war, the district heating system in Sarajevo was badly damaged both by direct shelling and more indirect damage due to corrosion and cracking of boilers, substations and pipes in the network. Lack of maintenance due to war shortages has also been significant and has further compounded the above problems. With (i) the destruction of part of the district heating system early on in the war, (ii) inadequate pressure in the gas pipeline to enable district heating boilers to continue to supply heat to all but a fraction of consumers, and (iii) a sharp reduction of electricity generation, individual gas connections assumed major importance for the inhabitants of Sarajevo as a mean to stay warm and to cook. Many improvised connections were made, the majority of which were unsafe. This has led to frequent explosions and related injuries. As of the end of 1995, the number of flats served by the district heating system had gone down from 50,000 to 16,000, while the number of household gas connections had gone up from 15,000 to an estimated 79,000 (of which about 54,000 are self-made connections). Gas consumption currently constitutes about 75 percent of all energy consumption in Sarajevo. The dangerous nature of the self-made gas connections, combined with uncertainties about continuation of the gas supply, make reconstruction of the district heating system and its gas or fuel oil-firing capability a very high priority.

In Banja Luka: Gas as a heating fuel was never an option due to the city's distance from the gas transmission pipeline. All boilers were designed for oil-firing. Due to the economic embargo, supplies of fuel oil were effectively interrupted during the war. Before the war, Toplane, the city's district heating company, provided heat to about 19,000 flats as well as industrial and commercial consumers. Only 5-6 percent of installed capacity is currently working, which is used to heat some schools and hospitals, while households use wood for individual space heating. With non-usage of most of the system, damage has been caused by corrosion, freezing and cracking. This has been compounded by lack of maintenance and repair. About 50 percent of the underground network reportedly needs replacement. The electricity supply system was damaged due to voltage drops and surges. Building internals in residential dwellings (pipes, radiators and valves) may have incurred substantial damage due to the rusting associated with non-usage of the system.

Reconstruction Program Update

3.34 Currently, the district heating systems in most cities are only partly operational as a result of damage by military activities or by lack of maintenance (see Box 3.6). Damage assessment is a lengthy process, as it involves surveying tens of thousands of individual apartments. These surveys are now underway. The cost estimate for the district heating sub-sector three- to four-year program provided in December 1995 (\$87 million) is likely to increase once detailed

technical surveys have been carried out in Sarajevo, Banja Luka and other cities. For the time being, however, the cost estimate has not been changed.

3.35 The objectives of the program remain valid. They are to:

- (a) Restore urban heating and hot water services to adequate levels, particularly in the most populated areas, such as Sarajevo and Banja Luka. This includes physical repairs and also partial funding of fuel costs.
- (b) Mitigate the energy security risk associated with a single source of gas supply, by ensuring that the oil-firing capacity of the Sarajevo district heating system is operational, which would enable Bosnia and Herzegovina to potentially reduce its gas consumption.
- (c) Rehabilitate building internals.
- (d) Strengthen sector institutions and introduce a program to gradually increase cost recovery during the period 1996-98.
- (e) Undertake master plan studies for the optimal configuration of each city's future heating system.

3.36 Within this program the first-year priority requirements have been increased as a result of a more precise estimate of the needs in the two main cities where rehabilitation should start as soon as possible (Sarajevo and Banja Luka). The first-year program also includes an allocation for fuel consumption for the Sarajevo district heating system.

**Table 3.3: 1996 District Heating Priorities
(US\$ million)**

	3-4 Year Program 1996-99	Revised First Year Program (March 1996)	Financing Committed ¹ (March 1996)	Financing Gap	
				US\$ million	% of total
Buildings	2.0	1.2	tbd	tbd	tbd
Heat Sources	18.0	17.3	tbd	tbd	tbd
Heat Distribution	22.0	21.4	tbd	tbd	tbd
Heat Substations/Building internals	16.0	15.1	tbd	tbd	tbd
Vehicles and Workshops	4.0	3.0	tbd	tbd	tbd
Recurrent Costs	18.0	18.0	tbd	tbd	tbd
Technical Assistance	7.3	7.0	tbd	tbd	tbd
Total	87.3	83.0	30.0	53.0	64

Note: tbd indicates amount to be determined. Funds will be allocated to specific components once total financing is confirmed.

- 1 - The amounts shown represent firm or indicative donor commitments from first quarter pledges only, which in the district heat sector include Germany, Japan, Luxembourg, Switzerland, the UK, the US and the World Bank (through an IDA credit in support of the "Emergency District Heating Rehabilitation Project", which could be presented to the World Bank's Board of Directors shortly). Funding currently under consideration but not announced as part of the first quarter pledged amount is not included.

Implementation Arrangements

3.37 In each of the cities where rehabilitation work is to be undertaken, implementation would be ensured by the municipal district heating companies through Project Implementation Units (PIUs) which are likely to be established in the coming weeks. In view of the scope of the task and its exceptional character, experts from major consulting firms with extensive reconstruction experience will be recruited to assist the district heating companies wherever necessary and appropriate. The PIUs would be responsible for overall project scheduling, coordination, monitoring and progress reporting; procurement of goods and services; and management of funds.

Donor Activities to Date¹⁵

3.38 During the war, because of the urgency of providing heat to Sarajevo residents, as well as to the inhabitants of other urban areas, many donors including the Governments of the US, UK and the Netherlands funded emergency district heating projects. Since December 1995, several more donors have expressed interest in supporting the rehabilitation of this sector, including Germany, Japan, Luxembourg and Switzerland.

3.39 As a contribution to an "Emergency District Heating Reconstruction Project" which has been designed to encompass the bulk of the first year program (Box 3.7), the World Bank is preparing a project, to carry out repairs on the district heating systems of Sarajevo and other major cities. Substantial co-financing for this project is still necessary. Restoring the key elements of the systems in Sarajevo and in Banja Luka as soon as possible would be the first priority. As a follow-up, district heating projects covering smaller cities in both the Federation and Republika Srpska should be implemented. An update of the financial requirements for the sector is shown in Table 3.3.

Box 3.7: Emergency District Heating Rehabilitation Project

The Government of Bosnia and Herzegovina and the relevant technical authorities have designed, with the support of the World Bank, an "Emergency District Heating Rehabilitation Project", which includes:

- (a) Repairs to the district heating system in major cities.
- (b) Partial funding of fuel costs during the 1996-98 period.

These works are particularly important for Sarajevo where the gas supply is uncertain. District heating offers an option to switch to fuel oil.

If sufficient resources are made available by mid-Spring 1996 (the World Bank will be a major supporter), the project could be completed by the end of 1997.

¹⁵ The information in these sections and in Table 3.3 has been compiled from official programs on donor reports where available. Where formal reports were unavailable, information has been based on informal discussions with donors.

Financing Gap and Current Priorities

3.40 Providing sufficient and safe heating to the inhabitants of the major cities of Bosnia and Herzegovina is a priority. Available resources, however, are still very limited for both investments (repairs) and recurrent costs (fuel) as shown in Table 3.3. The sector's first year program lacks about \$53 million, corresponding to a funding gap of 64 percent, across all required activities. In view of the need to carry out repairs to the district heating systems before the winter, funds should be committed as soon as possible so that implementation of works can get underway immediately.

Structural and Policy Issues for the Medium Term

3.41 Several policy issues must be addressed in the district heating sector in the medium term, particularly:

- (a) **Cost recovery.** Because of the financial difficulties faced by consumers, billing and collection of both district heat and gas was suspended for household consumers by order of the Sarajevo city government (a similar situation exists in other cities). The billing system must now be restored, upgraded and reintroduced, while billing and collection must be gradually increased to ensure full cost recovery in the sector at the end of the transition period.
- (b) **Sector institution building.** The district heating enterprises may have to recruit significant numbers of new and untrained staff. Given this, a portion of the technical assistance effort should be concentrated on training management and staff of these entities in modern district heating management and operating techniques.
- (c) **Network reconfiguration.** A network planning study should be launched to prepare the optimal configuration of each city's future heating system. Such plans are needed to guide rehabilitation beyond the priority repairs and to achieve an optimal configuration of each district heating system.

B.3 NATURAL GAS

Background and Current Situation

3.42 Development of the gas system in Bosnia and Herzegovina began in 1975. As of the beginning of 1992, gas was used primarily for heating in Sarajevo and Zenica and for industrial needs along the Zvornik-Sarajevo-Zenica pipeline. The gas supply network consisted of:

- (a) Some 190 km of transmission mains (16 inch/50 bar) and offtake pipes, running from Zvornik to the Sarajevo area via Semizovac, and from Sarajevo to Zenica.
- (b) Eight large regulation stations in Sarajevo, Ilijas, Visoko, Kakanj, Zenica, and Zvornik.
- (c) A distribution network of 450 km with about 40 smaller regulation stations.

3.43 Gas consumption peaked in 1990 at 610 million cubic meters, constituting 8 percent of the total energy consumption in Bosnia and Herzegovina. In Sarajevo there were 15,000 household connections, and all major boiler houses of the city's district heating network had been converted from coal to gas-firing.

3.44 Gas has been imported under a contract between Energopetrol (a Bosnian oil and gas company) and Gazexport (the export branch of Russia's Gazprom). Gas imports are metered at the border of the Ukraine (Beregov, the contractual point of delivery of the gas) and Hungary. From there, gas is transported through the Hungarian and Yugoslavian transmission systems to Zvornik, in Republika Srpska at the border with FRY (where it is also metered). The transport cost of the gas from Russia to Bosnia and Herzegovina through Hungary and FRY is paid in kind (in gas) and averages about 35 percent of the contracted gas volume, much higher than standard for such transit. Transmission, distribution, and maintenance of the gas networks throughout the country was the responsibility of Sarajevogas, a utility company owned by the city of Sarajevo. During the war, Sarajevogas became two companies, with identical names, one which is active in the Federation and the other in Republika Srpska.

Box 3.8: An Overview of the Situation

- Major weaknesses in the gas transmission pipeline due to war damage and lack of maintenance.
- An estimated 54,000 unsafe and uneconomical household connections in Sarajevo.
- About \$105 million debt to the Russian gas supply company Gazexport.

3.45 During the war (see Box 3.8), the gas system was affected mostly by:

- (a) Supply interruptions due to war-related activities.
- (b) Lack of financial resources to pay Gazexport for delivered gas.
- (c) An increase in improvised household gas connections in Sarajevo (estimated at about 54,000). These connections are both unsafe and uneconomical: a substantial proportion of the available gas is wasted, due to connections to high-pressure pipes, absence of regulators, and use of inefficient self-made appliances.
- (d) Lack of maintenance, particularly on the transmission mains.

Reconstruction Program Update

3.46 The reconstruction program submitted in December 1995, remains valid. It aims to:

- (a) Ensure partial donor funding of the next three years' gas consumption.
- (b) Reconfigure the gas network and restore safe service to an acceptable level.
- (c) Ensure demand management through disconnection of consumers that can be reconnected to the district heating system, introduction of energy efficient appliances, and cost recovery.
- (d) Strengthen sector institutions.
- (e) Assist in settling past debts to Gazexport.

3.47 Within this program the first-year priorities have been revised on the basis of newly available data so as to best prepare for the 1996-97 winter. Priorities include engineering analysis and design; reconstruction and rehabilitation works on both the transmission pipeline

and the distribution network; and procurement of spare parts and service vehicles. In addition, there is a need to provide financing for gas consumption for the 1996-1997 heating season (see Table 3.4, footnote 2).

3.48 Works on the transmission pipeline include repairs of: (a) the most heavily damaged parts of the pipeline; and (b) the valve, measurement, regulating and metering stations in Butila, Hum and Kladanj. Works on the distribution network include: (a) converting improvised connections to standard connections for those consumers that can not be connected to the district heating system, and introducing energy efficient appliances; (b) construction of distribution piping to safely expand the network; (c) measurement and regulation installation; and (d) measurement calibration and reinstallation of meters for large consumers.

3.49 This first-year priority program would take care of most of the needs related to the eastern spur of the transmission pipeline in the Federation and Republika Srpska, and of the distribution system in Sarajevo. Work on local gas distribution systems in Republika Srpska (e.g., in Zvornik) and on the western spur of the transmission pipeline to Zenica would have to be done as part of the three year program under a second natural gas system project.

3.50 In addition, securing the gas supply for the next heating season by reaching a firm agreement on payment modalities with Gazexport is a very high priority. This will also require agreement with Hungary and FRY on transport fees. The issue of Bosnia and Herzegovina's past debt to Gazexport also must be settled, although the timing of this resolution will depend on discussion between the parties concerned.

3.51 Financial requirements for the first year have been revised to take into account these adjustments, as shown in Table 3.4.

Table 3.4: 1996 Natural Gas Priorities
(US\$ million)

	3-4 Year Program 1996-99	Revised First Year Program (March 1996)	Financing Committed ¹ (March 1996)	Financing Gap	
				US\$ million	% of total
Safety Enhancement	27.4	21.0	tbd	tbd	tbd
Rehabilitation and Modernization	28.8	36.0	tbd	tbd	tbd
Sarajevo Network Expansion	23.9	-	-	-	-
Technical Assistance (natural gas)	2.4	1.0	tbd	tbd	tbd
Technical Assistance (other gas & oil)	4.8	-	-	-	-
Gas Consumption (1996-98)	105.0	tbd ²	tbd	tbd	tbd
Total	192.0	58.0	15.0	43.0	74

1 - The amounts shown represent firm or indicative donor commitments from first quarter pledges only, which in the natural gas sector include the Czech Republic, the EC, the Netherlands, Turkey and the UK. Funding currently under consideration but not announced as part of the first quarter pledged amount is not included.

2 - First year gas consumption originally estimated at \$35 million is currently under review. Consumption is expected to go down because (a) a large number of irregular connections will be disconnected because they will receive district heating service again; (b) remaining gas consumers will get regular and non-leaking connections and energy efficient appliances will be introduced; (c) billing and collection will be resumed; and (d) part of the 1996 gas bill has already been paid to Gazexport. Donors have already committed some funds for gas consumption. However, additional external financing is still needed, particularly in the short term.

Implementation Arrangements

3.52 With some assistance in project engineering, management, and supervision, Sarajevogas should be able to implement the priority program. Most of the needs are in the Federation area. Implementation of the works to be carried out within the Federation would be the responsibility of the Federation Sarajevogas, under the overall authority of the Federation Ministry for Energy and Industry. Cooperation with the Sarajevogas company in Republika Srpska will be necessary, particularly for those works to be carried out on the transmission system between Zvornik and Kladanj. Cooperation between the two organizations has started and appears to be proceeding in a satisfactory manner.

Donor Activities to Date¹⁶

3.53 In the framework of its PHARE Emergency Aid Program, the European Commission has allocated US\$ 2.6 million for the import of materials needed for 2,500 building internals as well as for regulator sets and domestic meters.

3.54 Some bilateral donors, particularly the UK, have been funding significant efforts to assist the rehabilitation of the gas network in Sarajevo throughout the war. Others, such as the Netherlands, have provided funding for natural gas supply. Several additional governments, including the Czech Republic and Turkey, have indicated their interest in contributing to the restoration of this sector, but have not yet made firm commitments.

Financing Gap and Current Priorities

3.55 In the gas sector, works have to be undertaken as soon as possible so that system safety and the overall heating situation will be substantially improved in Sarajevo by Winter 1996-97. The current financing requirement for the first year program is \$58 million, as shown in Table 3.3; the financing gap is still fairly high, at 74 percent. Funds for both investment and the provision of gas supply are needed. The success of the reconstruction program in the gas sector is conditional on developing an appropriate financial arrangement for meeting future gas consumption costs. Donor resources to finance these costs are urgently needed. Funding of system repair costs is extremely urgent to ensure safe and adequate heating in Sarajevo during the next winter, and to prevent further explosions and injuries.

Structural and Policy Issues for the Medium Term

3.56 Several issues need to be addressed over the medium term to ensure effective rehabilitation of the sector:

- (a) **Demand management through cost recovery.** By order of the Sarajevo city government during the war, gas is currently a free good for all household

¹⁶

The information in these sections and in Table 3.4 has been compiled from official reports on donor programs where available. Where formal reports were unavailable, information has been based on informal discussions with donors.

consumers. (At the same time, inefficient home-made appliances and leaking pipes have driven up per capita gas consumption to a level that is perhaps twice as high as it would be under normal circumstances). Sarajevogas should gradually increase billing and collection rates during 1996-98 to cover all operating costs (in tandem with the regularization of safe connections). This would both generate critically needed cash flow for Sarajevogas and suppress uneconomic demand.

- (b) **Settlement of past debts.** Normalization of financial arrangements in the sector and determination of the share of the debt to be repaid by Republika Srpska and FRY for their gas consumption over the last few years will be essential.
- (c) **Institutional support for Sarajevogas.** Technical assistance is required to set up sound billing, collection and management information systems. Special attention should also be paid to the corporatization of Sarajevogas, as well as sector restructuring options such as breaking up Sarajevogas into a transmission company and several independent local distribution companies, in the near term, and possibly its privatization in the long run.

C. LANDMINE CLEARING

Background and Current Situation

3.57 An estimated 2 to 4 million mines are lying uncleared in Bosnia and Herzegovina, along with a large amount of unexploded munitions. Landmines have been placed, in general, along the full length of the confrontation lines. Mine clearance is needed in all contaminated, populated areas of Bosnia and Herzegovina. However, it will take years — possibly decades — to clear the landmines, and it is necessary to “learn to live with landmines”. Mine awareness programs therefore have a very high priority — particularly in view of the reintegration of returning refugees and displaced persons (envisaged to take place during Spring and Summer 1996). Mine clearance is a pre-condition for the implementation of a substantial number of reconstruction projects, particularly in the transport and energy sectors. It is one of the most serious bottlenecks to an effective start up of a number of sectoral programs.

Reconstruction Program Update

3.58 The structure for launching and implementing a national mine-clearing program includes the Mine-Clearance Policy Group (MCPG — under the auspices of the Office of the High Representative and the Joint Civil Commission), and a Mine Action Center (MAC). The MAC, now under UN auspices, will be the center for mine information. It will also coordinate mine clearance, develop mine awareness, and provide training in mineclearing to meet international humanitarian standards. The MCPG includes representatives of both entities and the State Government, and is expected to be the main vehicle for transforming the Mine Action Center (MAC) into a national government agency at the earliest feasible time.

3.59 It is widely agreed that the program for landmine removal must be an integral part of the coordinated overall reconstruction and recovery effort, and carried out according to agreed procedures for establishing priorities. The program's objectives (efficient protection against mines and restoration of normal living and working conditions), its civilian control, its territorial coverage (the whole of Bosnia and Herzegovina), and the use of competitive contracts for mine-clearing have all been discussed and agreed with officials in both the Federation and Republika Srpska.

3.60 The components of the overall program remain as in the December 1995 framework. The first year objectives within that program include establishing the MAC and its regional centers, start-up of its main activities, establishing a training program, and carrying out the most urgent mine-clearing. To meet these objectives, support is needed in particular for:

- (a) Staffing, equipment and operational costs of the MAC and its regional centers;
- (b) Enhancement of the local landmine clearing capacity through provision of specialist training, equipment, and support services;
- (c) Mine awareness programs designated for people in affected areas. These programs will be coordinated through the MAC, taking into account all ongoing and planned government and international activities;
- (d) Mine information and survey activities, together with the marking of known minefields;
- (e) Targeted mine clearance, required for rehabilitation or reconstruction of high priority infrastructure; and
- (f) Clearance within populated areas according to economic or shelter priorities. Clearance of less-frequented areas or in support of activities with lower economic justification can be delayed, although it should be ensured that known minefields are clearly marked.

3.61 Although the costs of such a program cannot be estimated with certainty, the needs over the first year or so have been roughly projected to be in the order of \$70 million, and are as shown in Table 3.5:

Box 3.9: The Scope of the Problem

- There are an estimated 2-4 million mines in Bosnia and Herzegovina.
- Although there is considerable expertise in Bosnia and Herzegovina, additional training in clearing mines, as well as additional equipment, is needed.
- Clearing in all populated areas cannot be completed prior to the reintegration of returning refugees and displaced people, which is anticipated to begin this Spring. Mine awareness programs are therefore a high priority.
- Surveys are needed to establish or confirm the location of mines in all unmapped areas, or where maps are inaccurate.
- The reconstruction programs in many sectors, particularly transport and energy, cannot fully proceed until the landmine problem is addressed.

**Table 3.5: 1996 Landmine Clearance Priorities
(US\$ million)**

	3-4 Year Program 1996-99	Revised First Year Program (March 1996)	Financing Committed ¹ (March 1996)	Financing Gap	
				US\$ million	% of total
MAC Operations, including Regional Centers and Mine Information System	25	21	4	17	81
Mine Awareness and Capacity Building	15	10	0	10	100
Mine Clearing and Quality Assurance	160	39	7	32	82
Total	200	70	11	59	84

1 - The amounts shown represent firm or indicative donor commitments from first quarter pledges only, which in the landmine clearing sector include the EC, the ICRC, Italy, the Netherlands, Sweden, the US and the World Bank (through a project start-up advance for mineclearing in the transport and energy sectors). Funding currently under consideration but not announced as part of first quarter pledges is not included. A proposed "Landmine Clearing Project" which could be supported by an IDA credit would fall into this category. Pending its approval, the sector's first year funding gap would be reduced. UN funds are also not included, as they were not part of the first quarter pledges.

Implementation Arrangements

3.62 Local priorities for mine clearing would be determined by local authorities, and entity-authorities would carry out any prioritization necessary at the entity level. The MCPG is likely to concentrate on coordination between international agencies and governmental authorities and on inter-entity determination of priorities, coordination, and arbitration. Because of the large needs and limited resources, initial mine-clearing would need to be in support of other activities with a clear economic justification, for example clearing of priority infrastructure, productive agricultural land, or of community areas which are needed for shelter, local infrastructure, or employment.

3.63 **Mine awareness programs.** The International Committee of the Red Cross (ICRC) will take a leading role in the donor community, taking into account all ongoing and planned activities of the various government ministries and other involved agencies. These programs will be coordinated through the MAC.

3.64 **Mine information and survey.** Some information on mine location is available through the mine database originally set up under UNPROFOR in Zagreb, which is now being augmented with data from the ex-combatants under IFOR. This database is to be transferred to the MAC as soon as possible. The data will be available to all users, and will be continuously upgraded as new information becomes available. Because the available data are neither fully accurate nor comprehensive, a survey is needed to confirm the extent of certain mined areas, and to find any additional areas of contamination. This survey should be combined with an operation to mark known mined areas to protect the local population until the mines can be removed.

3.65 **Training.** The long-term landmine problem will require a large number of mine-clearers. Bosnian experts have been responding to emergency calls throughout the war, and many soldiers have military mine-clearing experience. However, there are relatively few companies or teams of mine clearers which have all the elements (technical skill, management and implementing capacity, capital) to allow them to respond to the demand for civilian mine-clearing. Therefore a

major training component is required. A program is being designated to enhance local mine-clearing capacity. The program is likely to be based on central schools so that safety and operating standards can be set and monitored by the governmental authorities. It will make maximum use of existing Bosnian training capacity, augmented by additional equipment and by technical assistance in the form of instructors specialized in clearing landmines to humanitarian standards. Part of the instructional capability could be on site in both Entities, and would seek to ensure common training and safety standards throughout the mine-clearing program in Bosnia and Herzegovina.

3.66 Mine clearing. Mine clearing will primarily be carried out under contract. The initial contracts for mine clearing that must precede rehabilitation works in the roads, railways, power and gas reconstruction programs will be limited in scope to cover the minimum necessary clearing that will allow the early preparation work for reconstruction to take place. These will be carried out primarily by international contractors, but will require substantial participation of local staff. Bid documents, suitable for local bidding for mine-clearing contracts in support of several sectors (electric power, priority bridge sites, etc.), are under preparation. Later contracts, including those in support of major infrastructure rehabilitation, will be open to wider bidding, and it is anticipated that local contractors would be able to participate fully.

Donor Activities to Date¹⁷

3.67 Several international donor agencies are represented in the MCPG: the UN, which through its support of the MAC is playing a pivotal role in coordinating the various activities in the overall mine-clearing program; the ICRC, which is contributing to the mine awareness program; the EC, which has already assisted in supplying specialist equipment and will provide further substantial assistance to the overall program, and the World Bank, which may support the program with a proposed IDA credit. IFOR has been supporting demining through its monitoring of de-mining under the Dayton/Paris Peace Agreement. Its efforts are coordinated as much as possible in accord with civilian de-mining priorities.

3.68 Bilateral donors have expressed interest in various parts of the program. For example, the US is already providing some support for the MAC, Italy and the Netherlands will support some community mine-clearing operations, and Sweden has indicated an interest in supporting landmine clearing activities. On the order of \$7 million has been made available from a World Bank project preparation and start-up advance for mineclearing activities in the transport and energy sectors.

Financing Gap and Current Priorities

3.69 Aside from its importance for the local population exposed at risk, landmine clearance is a pre-condition for implementing a large number of projects. Resources for this activity are therefore critical as a delay in making them available would result not only in keeping the

¹⁷ The information in these sections and in Table 3.5 has been compiled from official reports on donor programs where available. Where formal reports were unavailable, information has been based on informal discussions with donors.

population exposed to the risk longer than necessary, but also in slowing down the reconstruction process as a whole.

3.70 Despite the urgent priority of mine clearing activities, the financing gap is still very large, reaching 84 percent of total first year needs (as shown in Table 3.5). Total remaining external financing needs for the first year program are \$59 million. Donor resources to date have focused on MAC operations. Financial support is most urgently required to finance actual landmine clearing contracts. It is also needed to develop local landmine clearing capacities. In view of the scope of the problem and of the time required to achieve sufficient landmine clearing, strengthening local authorities to enable them to cope with this problem and to create mine awareness within the population is a priority. However, no commitments have been made yet for this relatively small (\$10 million) but essential component.

D. TELECOMMUNICATIONS

Background and Current Situation

3.71 Considered a strategic sector during the war the telecommunications network suffered significant damage, to transmission and switching equipment, buildings, microwave towers, and overhead cables. In addition, while the sector was experiencing a substantial "brain drain", the public enterprise PTT was de facto divided into three public enterprises, with headquarters in Sarajevo, Mostar, and Pale.

Reconstruction Program Update

3.72 Over the past months under the auspices of the High Representative and with assistance from the IMG, the EBRD has established two working groups in which all relevant authorities, including the two Federation enterprises and the Republika Srpska enterprise, are represented. The working groups are to assess the damage in the telecommunications sector, and define a common framework plan for the reconstruction effort (planning working group), and identify and address policy issues (policy working group). The creation of the working groups marks the beginning of cooperation between the Entities' telecommunications authorities, a precondition for any substantial reconstruction activity.

Box 3.10: Overview of the Damage to the Telecommunications Sector

- Thirty percent of telephone connections destroyed or damaged.
- Ninety percent of international telephone lines destroyed.
- Telex and data networks no longer operative.
- Drop in daytime call completion rates from 35 percent to one percent in some areas.
- Destruction of considerable transmission and switching equipment, buildings, microwave towers, and overhead cables.
- Many telecommunications towers destroyed.
- Almost all equipment documentation destroyed.

3.73 The priorities defined last December remain valid. The three-year program includes:

- a) Emergency telecommunications projects to restore and modernize vital services in the existing network.
- b) Quick roll-out of mobile telecommunications.
- c) Assistance in development of sector policy, legislation and plans for separation and restructuring of posts and telecommunications.
- d) Assistance in privatization of the telecommunications operators.

3.74 Within that framework, however, the immediate priorities have been re-examined, on the basis of both improved damage assessment reports, including those from the Republika Srpska, and the initial results of the working group for planning (final results will be available by the end of May 1996). Financial requirements have been adjusted accordingly, taking into account both needs and implementation capacities (Table 3.6).

Table 3.6: 1996 Telecommunications Priorities
(US\$ million)

	3-4 Year Program 1996-99	Revised First Year Program (March 1996)	Financing Committed (March 1996) ¹	Financing Gap	
				US\$ million	% of total
Telecommunications			tbd	tbd	tbd
Infrastructure	110	18	tbd	tbd	tbd
Transmission network	103	38	tbd	tbd	tbd
Switching and local networks	182	40	tbd	tbd	tbd
Public phone network	13	6	tbd	tbd	tbd
Mobile phone network	50	40	tbd	tbd	tbd
Data networks	26	0	tbd	tbd	tbd
Spares	13	3	tbd	tbd	tbd
Technical assistance	10	5	tbd	tbd	tbd
Subtotal Telecommunications	507	150	5	145	97
Radio-TV					
Satellite equipment	7	4	tbd	tbd	tbd
Infrastructure	14	2	tbd	tbd	tbd
Studio system	14	2	tbd	tbd	tbd
Transmission system	25	2	tbd	tbd	tbd
Subtotal Radio-TV	60	10	0	10	100
Total	567	160	5	155	97

Note: tbd indicates amounts to be determined. Allocation of funds to specific components would be done on the basis of available funding.

- 1 - The amounts shown represent firm or indicative donor commitments from first quarter pledges, which in the telecommunication sector include Germany, Sweden and the US. Funding under consideration but not announced as part of the first quarter pledged amount is not included. Thus a proposed EBRD-supported project, with a loan on the order of \$20 million and additional donor cofinancing, has not been included in the total. Once approved, these funds, and others under consideration such as from the EC, would reduce the overall sectoral funding gap for the first year program.

Implementation Arrangements

3.75 Telecommunications are handled by two Ministries at the Entity level and one at the State level (for inter-Entity matters). In addition, there are currently three Post and Telecommunications (PTT) companies in Bosnia and Herzegovina: PTT BiH in the Bosniak-majority part of the Federation; PTT Herzeg Bosne in the Croat-majority part of the Federation; and PTT Republike Srpske in Republika Srpska. Although some initial progress has been made in reintegrating the PTTs within the Federation, many fundamental issues are still outstanding as to how all the various enterprises will be reintegrated into a unified association.

3.76 To cope with these exceptional circumstances, the first-year telecommunications projects are to be executed primarily through turn-key contracts, which would be supervised by consulting firms contracted by the relevant authorities through a Project Management Services contract.

Donor Activities to Date¹⁸

3.77 The EBRD has established a working group to further detail priorities for the overall reconstruction effort and to design, with the support of international consultants, a proposed "First Emergency Telecommunications Project."

The EBRD is also preparing, on the order of \$20 million, a loan (on its standard commercial terms) to meet part of the costs of the project and is actively seeking cofinancing to complete the balance of the project requirements (on the order of \$110 million). Several countries, including Sweden, Germany and US, have announced their intention to contribute to the telecommunications sector reconstruction, and are already carrying out small-scale projects.

3.78 In addition, the EBRD is considering a proposed Mobile Telecommunications Project potentially on the basis of private finance (the policy working group is finalizing recommendations on the necessary licensing procedures).

3.79 The European Commission is considering a future contribution for procurement of spare parts and equipment, for the re-establishment of telecommunications in priority areas.

Box 3.11: International and Local Efforts for the Re-establishment of Telecommunications in Sarajevo

The re-establishment of telecommunications in Sarajevo has been declared a high priority by the Joint Civilian Commission. Multiple actions have therefore been undertaken, among which:

- A Swedish grant for an additional 30 international satellite lines (completed at the beginning of 1996).
- German financing for an international switching center (Siemens). The project started at the beginning of March 1996 and is to be completed by June 1996.
- Restoration of switching capacity in Sarajevo (2048 lines) carried out by the telecommunications company itself, using its own resources. This effort was completed in January 1996.

¹⁸ The information in these sections and in Table 3.6 has been compiled from official reports on donor programs where available. Where formal reports were unavailable, information has been based on informal discussions with donors.

Financing Gap and Current Priorities

3.80 Restoration of the telecommunications sector will make it possible to restart communication between the populations of both entities. A functioning telecommunications sector will both be a precondition for effective economic recovery and facilitate the return of displaced persons and family reunification.

3.81 Significant resources are vital for the implementation of the telecommunications reconstruction program. Although a number of donors are considering contributions of varying magnitudes and terms, only about \$5 million has so far been committed, as shown in Table 3.6, leaving a funding gap of 97 percent.

Discussions are underway regarding cofinancing for the EBRD's proposed project, however, which could substantially reduce the funding gap. In view of the cost recovery potential in this sector, most support could be expected to be provided on a commercial basis. However, in the near term, there is a need for soft loans or grants, and provision of official guarantees to offset current political risks and attract potential private investors.

Structural and Policy Issues for the Medium Term

3.82 Sectoral policy issues are being addressed by the policy working group, which was established in February 1996. This group is identifying critical issues and will propose alternative options to address them. It includes representatives of all relevant authorities in Bosnia and Herzegovina and consultants from the EBRD. An agreement is expected shortly on a comprehensive sector policy statement encompassing issues of competition, licensing, tariffs, and sector restructuring, including privatization.

Box 3.12: Telecommunications Priorities

The EBRD-sponsored working groups have identified priority projects to be carried out as a first part of the reconstruction program in this sector. Works and supplies for a total of \$340 million are included, as shown below:

	Cost (US\$M)
Local Exchanges and Power Supply	53.5
Access Network	133.5
Transport Network, Short Distance	33.2
Transport Network, Long Distance	7.6
Public pay phones and booths	12.2
Tools and instruments	7.1
Mobile Telephone Networks (1st phase)	50.
Data Networks	26.0
Technical Vehicles	16.7
Total Cost	339.8

If cofinancing resources become available, the entire program could be contracted during 1996.

E. TRANSPORT

Background and Current Situation

3.83 Prior to the war, the transport system of Bosnia and Herzegovina was organized to meet the needs of the former Yugoslavia. Inland transport was provided by a road system (including 8,600 km of main and regional roads) and a rail network (1,030 km, 75 percent electrified) that

was generally adequate in extent and condition. The primary port for what is now a land-locked country, is in Ploce, in southern Croatia. Civil aviation airports were located in Sarajevo and Mostar, and military airports in Tuzla, Bihac, and Banja Luka.

3.84 As with other sectors, the ability of the transport sector to function has been seriously affected by the war. Regional and local roads used as bypasses have suffered. Forestry roads and earth tracks have been pressed into service (such as the Mount Igman road) and remained open only with massive UNPROFOR maintenance. Many bridges were damaged or destroyed, and temporary bridges have had to be constructed to enable traffic to flow. Although a section of the railway east and west of Banja Luka is open, the main line between Sarajevo and Ploce (Croatia) has been cut, and most rolling stock is sitting in isolated pockets or has been purloined. Sarajevo Airport is badly damaged and is being operated by IFOR under military conditions. Due to severely damaged stock, only a handful of trams and buses are operating in Sarajevo, and few buses are operating in other cities.

Box 3.13: Overview of the Damage to the Transport Sector

- Twenty-eight percent of the main and regional roads are in need of immediate repair.
- All ten bridges connecting Bosnia and Herzegovina to Croatia are impassable.
- Seventy high-priority bridges are in need of repair.
- Railways cannot be operated, except for a section east and west of Banja Luka and part of the main line south of Mostar.
- Sarajevo Airport is not operational for civilian purpose; its runway is damaged and the terminals and control tower partly destroyed.
- The primary port, Ploce, in southern Croatia, has suffered war damage and has limited capacity to handle container traffic.
- The public transport companies in the main cities have lost most vehicles and equipment and are barely functioning.

Reconstruction Program Update

3.85 Over the last few months, under the auspices of the High Representative, there has been significant progress in restoring freedom of movement by reopening previously inaccessible roads, particularly on the east-west corridors and in both the Doboje and Brcko areas.

3.86 The priorities for reconstruction identified in December 1995 have not been significantly modified, and the three- to four-year program remains valid as an overall framework. Within the overall program the first year program has been adjusted. After revision, it includes:

- (a) Rehabilitation of about 375 km of main and regional roads, particularly along the north-south corridor (Ploce-Mostar-Sarajevo-Zenica-Tuzla), preliminary studies and design for the road from Sarajevo to Gorazde, repairs to tunnels and slips, reconstruction of about 30 national and 10 international (on the Sava and Una Rivers) road and rail bridges.
- (b) Provision of construction and maintenance equipment, asphalt plants and rock quarries.
- (c) Provision of equipment for railways, including telecommunications equipment and spares for rolling stock.
- (d) Rehabilitation of Sarajevo Airport.

- (e) Repairs to the port of Ploce.
- (f) Support to urban transport systems, including the supply of buses and parts, as well as urgent repairs to urban streets and traffic systems.
- (g) Supply of fuel and bitumen.
- (h) Technical assistance for project preparation, implementation and support to transport institutions.
- (i) Mine clearing on all work sites included in the program.

3.87 The corresponding financial requirements for both the overall and the first year programs have been revised, mostly to introduce mine clearing and to take into account results of the preliminary surveys (Table 3.7).

**Table 3.7: 1996 Transport Priorities
(US\$ million)**

	3-4 Year Program 1996-99	Revised First-year Program (March 1996)	Financing Committed (March 1996) ¹	Financing Gap	
				US\$ million	% of total
Roads ²	310 ²	70	24	46	66
Bridges	64	39	21	18	46
Tunnels and slips	9	2	0	2	100
Road equipment and spares ³	36	39	19	20	49
Asphalt plants and rock quarries	49	36	5	31	86
Railways	40	23	8	15	65
Sarajevo Airport	45	24	13	11	46
Port at Ploce ⁴	13	--	--	--	--
Sava river ports	2	--	--	--	--
Urban transport	74	53	12	41	77
Mine clearing	0	2	2	0	0
Recurrent costs	30	10	1	9	90
Technical assistance	26	19	10	9	47
Total	698	317	115	202	64

1 - The amounts shown represent firm or indicative donor commitments from first quarter pledges, which in the case of transport include the Czech Republic, the EC, the EBRD, France, Germany, Italy, the Netherlands, the Republic of Korea and the World Bank (under the "Emergency Recovery Project", see footnote 3, and the recently-approved "Emergency Transport Reconstruction Project"). Funding under consideration but not announced as part of the first quarter pledged amount is not included.

2 - Includes provisionally the construction of the Sarajevo-Gorazde road.

3 - Includes transport construction equipment (\$11 million) funded through the World Bank Emergency Recovery project (critical imports).

4 - To be funded through a proposed loan from the World Bank to the Government of Croatia.

Implementation Arrangements

3.88 According to the Dayton/Paris Peace Agreement, transport infrastructure is to be handled at the level of the Entities, with coordination at the State level. There are therefore two Ministries of Transport and Communications (Federation, Republika Srpska) and, at the State level, a Ministry of Foreign Trade and Communications (MFTC). Most of the public transport

companies and technical authorities have also been sub-divided. Cooperation between the relevant organizations is developing.

3.89 A project implementation unit will be set up in the MFTC to coordinate the program. A Program Management Adviser, recently appointed from IMG, is to advise the director of this unit and assist in donor coordination. Further technical assistance will be provided, as required.

3.90 Existing transport organizations would be used whenever possible to implement the program, assisted by consulting firms for planning, design, and construction supervision. Road works could be implemented by the Federation's Joint Board for Roads and by the Republika Srpska Road Directorate. Railways projects would fall under the Federation's Joint Board for Railways and the Republika Srpska Railway company (STO) or the proposed Transportation Corporation. Airport restoration would be implemented by the Civil Aviation Authority. Port works would be implemented by the Port of Ploce (Croatia). Buses and related spare parts and fuel could be centrally procured by the Ministries of Transport of each Entity, while other urban transport activities would be carried out by the respective public transport companies.

Donor Activities to Date¹⁹

3.91 Through its PHARE Essential Aid Program, the EC is making a \$13 million contribution to the "Emergency Transport Reconstruction Project" and is considering a second contribution of approximately \$15.6 million. The first grant will be used to finance critical imports in the transport sector, such as maintenance equipment, bitumen, buses, supplies for urban streets (e.g., traffic lights and road signs). Bidding is ongoing for deliveries starting late April 1996. As a joint effort of its members, the European Union is also funding the rehabilitation of the Sarajevo-Ploce railways line (\$8.6 million). The works are ongoing, and the line should be operating by early summer 1996.

Box 3.14: Emergency Transport Rehabilitation Project

Within the first year program, an "Emergency Transport Reconstruction Project", including works for which up to 50 or 60 percent of the funding can be effectively disbursed in 1996, has been defined. A "Second Transport Project," to be finalized by early Summer 1996, is under preparation. The "Emergency Transport Reconstruction Project" amounts to \$152 million. Its implementation is to be the responsibility of the Ministries for Transport of each Entity and of the State Government, with the assistance of a Program Management Adviser. A World Bank credit of \$35 million on IDA terms was recently approved by the World Bank's Board of Directors. Implementation is scheduled to start immediately; some of the works are expected to be completed during 1996, while the whole project is to be completed by Fall 1997. Funding has been secured for 60 percent of the needs. Cofinancing or parallel financing for a total amount of \$59 million is still sought.

3.92 The EBRD has committed \$29.1 million to the Emergency Transport Reconstruction Project through a loan aimed at supporting mostly road and bridge repairs (\$16.4 million) and initial works on Sarajevo Airport (\$10 million) as well as providing technical assistance (\$2.7 million).

¹⁹

The information in these sections and in Table 3.7 has been compiled from official reports on donor programs where available. Where formal reports were unavailable, information has been based on informal discussions with donors.

3.93 Several countries have announced their intention to contribute to the World Bank-sponsored Emergency Transport Reconstruction Project: Italy (\$3 million) for restoration of the Sarajevo Airport; the Czech Republic (\$1.7 million) through supply of equipment and spare parts for urban transport; and the Netherlands (\$1 million) by providing technical assistance through a World Bank administered trust fund. The Republic of Korea and others have also indicated interest in support to the transport sector.

Box 3.15: Progress on the Ground

With the improved weather conditions in the southern part of the country, several projects have already started to restore or prevent further degradation of key transport infrastructure, including:

- Repair of the Zitomislici Tunnel, located on the M 17 between Metkovic (Croatia) and Mostar, which had been badly damaged by shelling and was threatening to collapse. The works, funded by ECHO, through IMG, are being carried out by Mostar Construction Engineering (March-May 1996).
- The reinforcement of the Aleksin Han bridge, also located on the M 17, between Mostar and Sarajevo by IFOR engineering units (March 1996).

3.94 In support of the project designed with its support, the World Bank is providing a \$35 million credit from the Trust Fund for Bosnia and Herzegovina, which would finance the reconstruction of roads and bridges, technical assistance, as well as project-associated landmine clearing (see Box 3.14). The World Bank would also contribute to the restoration of the port of Ploce through a proposed loan to the Government of Croatia, once an agreement on the use of the facilities is signed by the Governments of Croatia and Bosnia and Herzegovina.

3.95 IFOR is also carrying out works on the transport network mainly to meet its own needs and requirements. This would also, however, benefit the overall network used for civilian traffic.

Financing Gap and Current Priorities

3.96 The restoration of an effective transport network is a precondition for economic recovery. In view of the priority works to be carried out and of the commitments of the donor community to date, significant resources are still necessary. As shown in Table 3.8, \$202 million in funding is required to complete the needed investments for the first year program. This leaves a financing gap of 64 percent. Adequate financing is particularly needed for civil engineering works (priority railways sections, and Sarajevo airport), equipment (railways rolling stock, buses), technical assistance, and engineering design, as well as for bitumen and fuel.

Structural and Policy Issues for the Medium Term

3.97 Several policy issues must be addressed in the medium term:

- (a) **Sector reorganization.** A comprehensive approach for the sector should be adopted and investments should be made in view of the cost-effectiveness of each transport mode (roads, railways, air).

- (b) **Cost recovery.** In the medium term, public transport tariffs and taxes should be increased to ensure cost recovery.
- (c) **Use of the private sector.** Governmental authorities should revert to the private sector for most transportation services, as well as for reconstruction and rehabilitation works and civil engineering services.
- (d) **Service integration.** Governmental authorities should continue their efforts to unify duplicate public transport providers and governmental organizations within the country.

F. EDUCATION

Background and Current Situation

3.98 Prior to the start of hostilities, Bosnia and Herzegovina had a well-developed education system, financed by public expenditures accounting for about 6 percent of GDP. Virtually all children completed the eight-year primary cycle, and most also completed a four-year secondary cycle. As elsewhere in the region, most secondary education was offered in the form of narrowly specialized vocational education programs, oriented to the needs of industry. Higher education was offered through four universities, comprising 46 institutes and faculties. Higher education enrollments emphasized science and engineering.

Box 3.16: Overview of Damage to the Education System

- Over 50 percent of school buildings have been seriously damaged, destroyed, or seized by the army for housing.
- No regular budget for education has been provided since the 1991-92 academic year; teachers in most of the country have not been paid throughout the war, except for occasional and small *ad hoc* payments.
- Primary and secondary enrollments have declined by 50 percent.
- Many teaching staff have either been drafted into the army, killed or injured in the war, or have fled the country.
- Schools lack basic furniture, reading materials and libraries.

3.99 All aspects of education have been severely disrupted by the war (see Box 3.16). Where there was heavy fighting, instruction was halted for almost a year. Well over 50 percent of school buildings in Bosnia and Herzegovina have been seriously damaged or destroyed, or taken over for use by the army or to house people displaced by the war. Wherever schools were unavailable, school administrators tried to find alternative space in the neighborhood for classes, often in apartments, basements, shelters, garages, or abandoned offices. These "war schools" still exist in most former front-line areas, and wherever schools were destroyed. To accommodate students displaced from destroyed schools and the influx of displaced persons in some areas, most schools function in two or three shifts of three and one-half hours. With the public transport system no longer running, children in rural areas and even in city suburbs have difficulty reaching school.

3.100 Since the 1991-92 academic year, there has been no regular budget for education, including teacher salaries. This budget deprivation has crippled education programs. All basic educational materials and school supplies are in critically short supply. There are no funds for basic school maintenance, electricity, water or heat. An undetermined number of qualified teachers have been lost through migration, mobilization into the military, and war casualties. Many teachers currently in the classroom are wartime volunteers and lack pedagogical training.

3.101 Some indication of the extent of disruption is available in the figures on school enrollments. Between 1990 and 1995, primary and secondary enrollments declined by almost 50 percent. This figure understates the true disruption for many schools, which have suffered frequent changes of teachers and students, changes of premises, deprivation of the most basic learning materials, and the recurring trauma of violence and its personal consequences.

Reconstruction Program Update

3.102 The broad goals of a reconstruction program for the education sector as identified in December 1995 remain valid. They include:

- (a) **Recurrent Budget Support:** adequate budgets for teacher salaries, textbooks, educational materials, utilities, and basic maintenance need to be restored.
- (b) **Education Material,** including the initial restocking of existing and refurbished schools with educational materials, subsequent provision of which would be met through school operating budgets.
- (c) **Rebuilding Teacher Force,** by upgrading the skills of unqualified teachers and by attracting and reintegrating teachers who are abroad or in military service.
- (d) **Institution Building,** to provide major strengthening of institutional capacity in terms of both management capacity among the many organizations which will need to be involved in the program.
- (e) **Student Recovery:** tutoring programs are needed for students who have missed significant amounts of schooling during the war.
- (f) **Rehabilitation and Reconstruction of Education Facilities.**
- (g) **Stabilization and Protection of Cultural Facilities,** to prevent further degradation.

Box 3.17: Emergency Education Reconstruction Project

An "Emergency Education Reconstruction Project" has been designed by the World Bank which includes:

- Rehabilitation of lightly damaged primary schools to make them weathertight;
- Provision of basic textbooks, supplementary readers, and other educational materials to most of the primary schools in the Federation;
- Actions to strengthen capacity for education administration at all levels; and

A second "Education Reconstruction Project" is currently under preparation.

Financing needs for the education sector are indicated in Table 3.8 below.

**Table 3.8: 1996 Education Priorities
(US\$ million)**

	3-4 Year Program 1996-99	Revised First Year Program (March 1996)	Financing Committed (March 1996) ¹	Financing Gap	
				US\$ million	% of total
Budget Support for Teacher Salaries	60	20	0	20	100
Budget Support for School Operation	9	3	0	3	100
Educational Materials	20	7	7	0	0
Rebuilding Teacher Force	7	4	0	4	100
Institution Building	7	3	0	3	100
Student Recovery	5	2	0	2	100
School Reconstruction	142	30	16	14	47
Stabilization of Cultural Facilities	15	3	0	3	100
Total	265	72	23	49	68

1 - The amounts shown represent firm or indicative donor commitments from first quarter pledges only which in the case of education include Austria, the EC, Greece, Luxembourg, the Netherlands, the US and the World Bank (through an IDA credit in support of the proposed "Emergency Education Rehabilitation Project" to be presented to the World Bank's Board of Directors shortly). Funding under consideration but not announced as part of the first quarter pledged amount is not included.

3.103 Within these needs, the highest priority objectives are: to make fully functional those classrooms which were damaged by the war; to restore effective teaching capacity by providing minimal supplies of textbooks, supplementary readers, and educational materials; and to support the resumption of payment of at least minimal salaries for teachers. The first priority within the school reconstruction program would focus upon efforts to restore effective primary school capacity as quickly as possible and at least cost, involving repairs to lightly damaged schools to make them secure and weatherproof, and to construct classroom capacity in areas without alternative classroom capacity.

Implementation Arrangements

3.104 Physical repairs of damaged schools are to be carried out under existing procedures. Municipalities (and cantons within the Federation) are to play a key role in school rehabilitation and reconstruction, with support from project coordination units (PCUs) to be established within the Ministries of Education of each Entity. Contracts for civil works and related procurement for school rehabilitation and reconstruction would be awarded by municipalities or groups of municipalities (and cantons within the Federation). Implementation support would be provided by the PCU in consultation with IMG, UNICEF and relevant NGOs.

3.105 Consultants are to assist the reconstruction program implementation by: developing a program for reform of secondary education; clarifying the roles of the various levels of

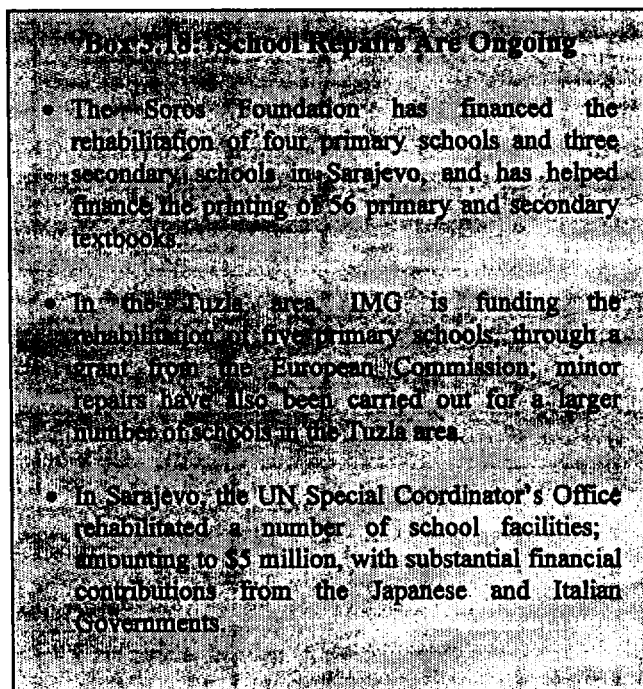
government in education finance and governance; and developing a process for efficient textbook production.

Donor Activities to Date²⁰

3.106 As part of its Emergency Aid Program, the EC has allocated \$4.7 million to the education sector. Among materials purchased are about 9,000 desks and 18,000 chairs for primary schools, and other education materials.

3.107 Several organizations which have been active throughout the war in the education sector are likely to continue providing support (see Box 3.18). Many international NGOs have provided assistance to "war-time schools" and are continuing their efforts. The Governments of Austria, Greece, Luxembourg, and the US have ongoing programs or have expressed interest in this sector.

3.108 Of the \$33 million cost of the proposed "Emergency Education Reconstruction Project," about \$4.7 million would be provided by the EC, \$1 million from the Dutch Government, and concessional financing from the World Bank is proposed. Additional co-financing is currently being sought to cover the financing gap.



Financing Gap and Current Priorities

3.109 A significant financing gap of on the order of 69 percent of total needs remains for the first year. To date, donors have provided resources largely for educational materials (where the full first year program requirements have been met) and for school reconstruction (where more than half of the first year requirements have already been committed). On the other hand, resources for current budget support for teacher's salaries (with a 100 percent financing gap, and absolute needs estimated at \$20 million for minimal salaries for the current year) and for school operations and maintenance including such vital requirements as electricity and heat (also with a 100 percent funding gap, and an estimated cost of a minimum of \$3 million for the current year).

²⁰ The information in these sections and in Table 3.8 has been compiled from official reports on donor programs where available. Where formal reports were unavailable, information has been based on informal discussions with donors.

Structural and Policy Issues for the Medium Term

- (a) **Education Financing and Governance.** Education governance in Bosnia and Herzegovina is currently in a state of flux, making decisions and coordination between levels — the State, the two Entities, cantons within the Federation, municipalities, and schools — difficult. There is considerable uncertainty about the educational responsibilities of the various levels of government, as well as about the scope for technical cooperation between the two Entities. Careful thought should be given to the educational responsibilities which are appropriate to the various levels of government, and the financial resources which need to go with them.
- (b) **Teachers.** A key policy issue in both entities is how to retain qualified teachers in the system and attract those who have left to return to the profession. Essential to managing and supporting this process of rebuilding a strong, qualified teaching force will be specific decisions on: how to reinstate teacher salaries; and what programs will be provided to unqualified teachers to upgrade their qualifications.
- (c) **Structure and Priorities in Secondary Education.** It is in secondary education, especially in vocational and technical programs, that the deepest structural reforms of the sector are needed to reorient education in Bosnia and Herzegovina to the requirements of a modern market economy and post-communist society. Adult education and in-service training need to be developed to provide job-specific skills after the completion of formal schooling.

J. HEALTH

Background and Current Situation

3.110 By the end of the 1980s, like most other formerly socialist economies in Central and Eastern Europe, Bosnia and Herzegovina had a well developed health system. The whole population enjoyed reasonable access to a large network of clinics, hospitals and public health facilities, financed largely through payroll taxes and general revenues. There were about 5.8 beds and 2.6 doctors per 1,000 population. Although these figures were average for Central and Eastern Europe, they are higher than those of most other developing countries at similar income levels. Total health expenditure was around 6.5 percent of GDP in 1990, which was on the high side of the range encountered in the region.

3.111 Despite these accomplishments, the pre-war health system suffered from a number of problems. A supply-dominated approach to centralized planning led to the proliferation of large hospitals and heavy reliance on specialized poly-clinics, with relatively little attention paid to primary health care or family practice. The centralized decision-making process did not encourage strategic planning to achieve the most efficient use of resources. Clinical decisions were not based on considerations of the effectiveness or costs of the desired interventions.

Responsibility for the administration of health facilities was usually left to the most senior doctors, who seldom had specific professional training in health care management.

3.112 The status of health care in Bosnia and Herzegovina has been severely affected by the war (see Box 3.19). The direct toll of the war has been enormous, with youths bearing a large part of the burden. Infant mortality is estimated to have doubled, reaching 30 to 40 per 1,000 live births; morbidity data show a two-to-five-fold increase in the number of people affected by epidemics and communicable diseases; war-related injuries are placing an additional heavy burden on the already devastated health delivery system. Health care infrastructure has been heavily damaged, and serious shortages of equipment and drugs have appeared.

Reconstruction Program Update

3.113 The Reconstruction Program submitted in December 1995 remains valid as an overall framework. It aims to:

- (a) Support recurrent expenditures, including both provision of salaries for medical staff and purchase of essential generic drugs and basic supplies; this support would be phased out over a three-year period.
- (b) Prevent and control epidemics and communicable diseases through priority public health interventions.
- (c) Rehabilitate war victims, to address physical disability and psychological trauma.
- (d) Reconstruct or rehabilitate health infrastructure, including civil works and equipment to restore key out-patient and hospital facilities.
- (e) Prepare sector reforms, to render the sector more cost-effective and fiscally sustainable in the future.

3.114 Within this program, priorities have been identified for which implementation should start in the first year. The initial reconstruction projects (see Box 3.20) are aimed at meeting the

Box 3.19: An Overview of the Damage

Human War Damage

- More than 200,000 persons were wounded during the war — 100,000 of them seriously.
- More than 50,000 children were wounded — 25,000 of them seriously.
- More than 13,000 persons are left with permanent physical disabilities.
- 5,000 people suffered loss of a limb and require a prosthesis.
- There has been a two-to-five-fold increase in the number of people with communicable diseases.
- Infant mortality and premature deaths have doubled.
- Birth weights are down 20 percent.

Material War Damage

- Damage to health infrastructure and equipment is estimated at \$2 billion.
- 35 to 50 percent of health infrastructure has been damaged or destroyed, depending on the area.
- Essential drugs and supplies are in critically short supply.
- 35 percent of hospital bed capacity has been lost.
- The number of health personnel is down by 50 percent.

sector's most urgent needs by introducing a new approach in the health sector which relies less on specialized institutions and staff which provide curative services, and more on primary-care facilities and staff which support health promotion.

3.115 Taking into account both the needs and the limited implementation capacity of the relevant authorities in the two Entities, the financial requirements for the first-year priorities have been reviewed, as shown in Table 3.9.

Table 3.9: 1996 Health Priorities
(US\$ million)

	3-4 Year Program 1996-99	Revised First year Program (March 1996)	Financing Committed ¹ (March 1996)	Financing Gap	
				US\$ million	% of total
Budget Support for Recurrent Expenditures	200	20	0	20	100
Public Health Interventions	17	8	2	6	75
Rehabilitation for War Victims	20	40	8	32	80
Reconstruction and Rehabilitation	275	65	20	45	69
Sector Reforms	8	4	0	4	100
Program Management	20	8	1	7	88
Total	540	145	31	114	79

1 - The amounts shown represent firm or indicative donor commitments from first quarter pledges only, which in the case of health include Canada, the EC, Hungary, Italy, the Netherlands, the Republic of Korea, Sweden, the US, WHO and the World Bank (through support of the "Emergency War Victims Project" to be presented to the World Bank's Board of Directors shortly). Funding under consideration but not announced as part of the first quarter pledged amount is not included.

Implementation Arrangements

3.116 According to the Dayton/Paris Peace Agreement, health care management is the responsibility of each of the Entities. The Ministries of Health of the two Entities, however, remain weak. A significant effort from the international community is needed to strengthen them and to contribute to the necessary institution building.

3.117 In view of this situation, most of the large contracts for reconstruction activities during the first year would be implemented through turn-key arrangements under close supervision of an implementation team established in each of the Ministries of Health, as a first step towards reinforcing implementation capacities. A Project Implementation Unit (PIU) is being established in the Federation Ministry of Health to manage implementation of a "War Victims Rehabilitation Project," supported by the World Bank and other donors. Medium-to-long-term health sector reforms to improve efficiency and sustainability of health services will be introduced under the health masterplan which is being developed with the assistance of WHO, the World Bank, the EC, UNICEF, and other organizations.

Donor Activities to Date²¹

3.118 Through its PHARE Essential Aid Program, the European Commission is providing \$5.4 million for basic equipment (including vehicles) for hospitals and health centers. An additional allocation of \$7.8 million is being considered.

3.119 Several governments and international organizations including Canada, Hungary, Italy, the Netherlands, Sweden the US and WHO, have expressed interest in providing support — particularly, for hospital reconstruction and rehabilitation. A number of NGOs have also contributed to reconstruction of specific health facilities and support services, and are expected to continue their support within the framework of the Government's program and priorities.

Box 3.20: Emergency Health Rehabilitation Projects

A proposed "War Victims Rehabilitation Project" has been designed with the support of the World Bank to help reintegrate people with war-related disabilities into economic and social life through rehabilitation undertaken at the community level, with hospitalization kept to a minimum. It includes support to:

- (a) Develop community-based rehabilitation centers.
- (b) Develop prosthesis and orthosis production in 3 production, repair and maintenance units.
- (c) Improve orthopedic and reconstructive surgery in 3 clinical centers and 4 cantonal hospitals.
- (d) Strengthen project implementation.

Implementation is to start during the Spring of 1996, and is to last two years — the bulk of it by the end of 1996.

A proposed "Essential Hospital Services Project" is being designed with the support of WHO and the World Bank to contribute to the reconstruction of a modern, cost-effective and environmentally sustainable hospital sector. It aims both to strengthen essential hospital services (focusing on the most vulnerable segments of the population) and to establish and support the initial steps in health financing reform and management.

- (a) Physical repair/renovation/remodeling of essential hospital facilities in view of restoring adequate operational conditions to a network of 8 to 10 hospitals throughout the country.
- (b) Provision of medical equipment, pharmaceuticals and supplies.
- (c) Upgrading of clinical skills and practices through technical assistance training and equipment.
- (d) Health financing reform and support for its implementation.
- (e) Project implementation support.

The Project is to be implemented over a two-year period starting in the Spring of 1996 by the Ministries of Health of the Entities.

A "Basic Health Services Development Project," focusing on reconstruction of facilities at the sub-hospital level, is to be developed by Autumn, 1996.

²¹ The information in these sections and in Table 3.9 has been compiled from official reports on donor programs where available. Where formal reports were not available, information has been based on informal discussions with donors.

3.120 World Bank financing is proposed for the “War Victims Rehabilitation Projects.” A subsequent project, jointly-financed with other donors, is the “Essential Hospital Services Project” to be followed by a “Basic Health Services Development Project” (see Box 3.20).

Financing Gap and Current Priorities

3.121 Despite these commitments, there is a major unfilled gap in financing for the first-year program of health sector reconstruction. As shown in Table 3.9, there are unfunded needs of \$114 million, a funding gap of 79 percent.

3.122 Donor activities, to date, have funded largely rehabilitation of health care facilities. However, the funding gap of 69 percent indicates that there is still substantial need in this area. A special emphasis should be put on financing recurrent costs, particularly medical staff salaries (currently earning only a few DM a month as salary in some areas), as well as drugs and medical supplies; physical rehabilitation and policy reform efforts are not likely to yield positive results if physicians and nurses cannot be paid and basic pharmaceuticals can not be provided. The proposed “War Victims Rehabilitation Project” includes some temporary and limited support for essential drugs and medical supplies, but does not cover all needs. It also does not include provision for salaries. External financial support is urgently needed for these vital inputs until they can be met through a combination of health fund contributions and government revenues.

Structural and Policy Issues for the Medium Term

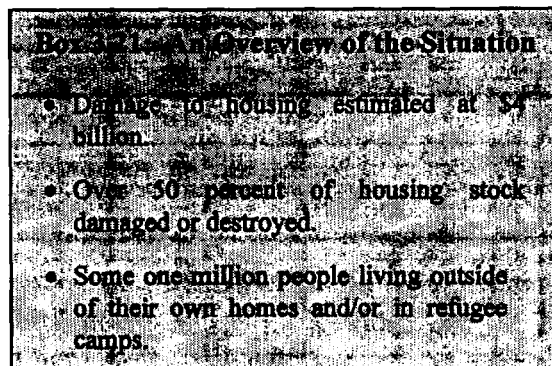
3.9 The Government’s medium term strategy aims to reform the health sector to make it more cost-effective and fiscally sustainable, by focusing on affordable and effective primary health care and a streamlined referral hospital system. This would entail:

- (a) Correcting historical imbalances between public health, primary care, institutional care, and community services, as well as in the mix of services provided through the public and private sectors.
- (b) Introducing new efficiency incentives by changing payment methods for doctors and nurses, reimbursing hospitals for costs and patient services, charging patients for health care, and certifying doctors and nurses.
- (c) Developing effective cost containment and quality assurance mechanisms.
- (d) Strengthening national capacity to train doctors, nurses, laboratory technicians and health-system managers.
- (e) Creating a national or government-mandated contributory health insurance scheme.

H. HOUSING

Background and Current Situation

3.123 Bosnia and Herzegovina's pre-war population of 4.4 million was predominantly rural, with a relatively small part of the population living in urban areas. This population was housed in an estimated 1,295,000 units or approximately the same as the total number of households. As in many former socialist countries, traditionally constructed single-family homes built by the owners were typical rural dwellings, while in urban areas the bulk of "social housing" was in the form of prefabricated panel housing. About 80 percent of the stock was privately owned, with the majority of that being in rural areas, where almost all housing was private. In urban areas, particularly in the largest cities, private housing accounted for less than 50 percent of the housing stock.



3.124 The war engendered an exodus to other countries and massive movements within the territory of Bosnia and Herzegovina: approximately one million people have emigrated, and about another one million have been displaced and are housed temporarily in vacated units, with host families or in refugee camps. In the coming months, the UNHCR is expecting large population movements of hundreds of thousands, mostly returnees or resettled people.

3.125 Estimates indicate that a little over half of the housing units were damaged during the war (see Box 3.21) and about six percent have been completely destroyed. While the pattern of destruction is uneven throughout the country, the overall amount of damage to housing — estimated at \$4 billion — is substantial and significantly greater than can be addressed in the three- to four-year commitment period of the reconstruction program. In addition, war damage has been exacerbated by deterioration of the stock due to weather and lack of maintenance.

Reconstruction Program Update

3.126 The reconstruction program submitted in December 1995 had as its two major objectives to: (a) rapidly increase the stock of usable housing for the entire population; and (b) address the needs of displaced persons and returning refugees. The program is at a stage where humanitarian relief efforts that were undertaken by UNHCR and numerous bilateral donors are being transformed into a medium-term reconstruction effort to rebuild the country's housing stock and generate functioning housing markets. This reconstruction effort will be implemented in phases, starting with the most cost-effective repairs and reconstruction of housing in order to increase the supply of usable units as fast as possible.

3.127 The program, which remains valid as an overall framework, includes five components responding to the following established priority programs:

- (a) **An Emergency Repair Program**, focusing on rapidly increasing the stock of usable housing, starting with units which are less than 30 percent damaged. The program would be targeted to areas which have suffered extensive damage and where housing needs are highest. The program would finance materials and labor to rebuild usable structures (doors, windows, roofs, outside walls) and provide essential sanitary, electrical and heating facilities.
- (b) **An Emergency Reconstruction and Major Damage Repair Program**, focusing on reconstruction of private and social housing units that have suffered more than 30 percent damage.
- (c) **A Public Buildings Program** to facilitate a return to functioning national and local administrative structures. Repair and reconstruction of such buildings are to be through a straightforward tendering process for labor, materials, and works.
- (d) A special **Program for Sarajevo**, where half of the stock (over 50,000 units) is damaged.
- (e) A **Technical Assistance Initiative**, providing management and implementation support for the emergency repair and reconstruction programs and assisting the authorities to prepare the policy, legal and regulatory framework to integrate housing into the emerging market economy.

3.128 The preparation of specific projects needs to take into account the rapidly changing environment in which the emergency program will be implemented, in particular: (a) actual or expected population movements; (b) implementation capacities of the authorities in Bosnia and Herzegovina both at central and local levels; (c) increasing supply of locally produced building materials through regular market channels; and (d) availability of local contracting capacities.

3.129 The first-year financial requirements are estimated as follows:

Table 3.10: 1996 Housing Priorities
(US\$ million)

	3-4 Year Program 1996-99	Revised First Year Program (March 1996)	Financing Committed (March 1996) ¹	Financing Gap	
				US\$ million	% of total
Emergency Repairs	185	120	45	75	63
Reconstruction	170	--	--	--	--
Tech. Assistance - management	9	4	1	3	75
Technical Assistance - Policy Advice	1	--	--	--	--
Public Buildings	125	25	23	2	8
Equipment	10	--	--	--	--
Sarajevo Program	100	16	0	15	100
Total	600	165	69	96	58

¹ - The amounts shown represent firm and indicative donor commitments from first quarter pledges only, which in the case of housing include Austria, the EC, Denmark, Finland, Germany, Italy, the Netherlands, Norway, Sweden and the US. Funding under consideration but not announced as part of the first quarter pledged amount is not included. Funding from the proposed World Bank credit in support of an "Emergency Housing Rehabilitation Project" is not included. Once approved, this funding would reduce the sector's first year funding gap. In addition, UNHCR support to the housing sector has not been included, as it was not part of the first quarter reconstruction program pledges.

Implementation Arrangements

3.130 According to the constitution of Bosnia and Herzegovina, responsibility for housing rests with the Ministries of Physical Planning and Environment of the Federation and the Republika Srpska. Overall program coordination would be the responsibility of the respective Ministries. The Federation Ministry of Physical Planning and Environment has begun to formulate a phased housing emergency program, focusing initially on repair of lightly damaged units in areas with large damage concentrations. A central Project Implementation Unit (PIU) has been created, and staff are being hired. A similar PIU would be established in Republika Srpska.

3.131 The PIUs would lay out the principal objectives and rules of the emergency housing repair and reconstruction program, and guide and assist the numerous international efforts that support these objectives. It would: (a) establish priority areas for immediate works; (b) set eligibility criteria for programs; (c) decide on the rules for program implementation by regional and municipal authorities; (d) set the standards of works eligible for financing under the program and for prequalifying construction contractors; and (e) supervise program implementation, including the handling of procurement and disbursement matters. The PIU would be supported by specialized foreign expertise.

3.132 Local PIU branches would support municipal authorities and other agencies in carrying out the framework guidelines on a daily basis. Tasks would include: (a) detailed damage assessments; (b) selection of qualifying beneficiaries; (c) prequalification of local construction companies; (d) construction supervision; and (e) procurement assistance.

3.133 A substantial part of the Housing Emergency Program is likely to be implemented with the assistance of international NGOs. It will be a challenge for the PIU and its local representatives to ensure complementarity between the Governments' program objectives and procedures and the NGOs' activities on the ground. The recently appointed housing task force, chaired by IMG in Sarajevo, is exploring mechanisms to facilitate cooperation between numerous NGOs in the field, the PIU and its regional subsidiaries, and local authorities. Multilateral and bilateral agencies that are funding the international NGOs are urged to support a framework in which governmental agencies, local authorities and NGOs can effectively work together in achieving the objectives of the Housing Emergency Program.

3.134 Despite the constitutional right of all displaced persons to return to their homes and properties and to repossess them, it is conceivable that a portion of the population may not be able to access their former properties and homes or do not want to return. The resolution of ownership issues is likely to be cumbersome and lengthy, possibly affecting the speed with which the housing emergency program can be implemented in a cost effective and efficient way.

3.135 The right to reclaim property would also extend to legal tenants who have a right to return to occupy their unit, and would be given priority to purchase under the draft privatization laws. In establishing as soon as possible a legal framework to address these issues in a coherent manner, the Governments of the Entities would be encouraged to draw on the Technical Assistance component of the program for relevant expertise and advice.

Donor Activities to Date²²

3.136 The EC is preparing a \$15.8 million program to fund materials and labor to be provided by local contractors for the repair of lightly damaged units for which ownership can be clearly established. This program is to be implemented at the local level using NGOs to help municipalities. (Additional funding may be available from the EC for this program.)

3.137 Several countries and international organizations are also preparing or implementing emergency repairs. In particular, UNHCR has established a Trust Fund of about \$30 million for housing repairs linked to the return of refugees and displaced persons. The program provides materials only, to be distributed through an NGO network. Beneficiaries are to do their own repairs, or finance them. The US Government is considering a major program to be implemented by NGOs in the Tuzla region. Several other donors, such as the Austrian, Danish, German, Finnish, Italian, Norwegian and Swedish Governments are also preparing new programs or extending the ongoing programs they have been implementing before the end of the war. Most donors have contributed to emergency shelter programs which include basic household infrastructure such as water and power connections, as well as housing.

Box 3.22: Progress on the Ground:

- EU program for repair works by local contractors administered by NGOs at the local level.
- UNHCR program to provide building materials to be distributed through NGOs to returnees.
- USAID program for housing repairs (materials and labor) to be implemented by NGOs in Tuzla region.
- Dutch Trust Fund-World Bank Pilot program and IDA-financing Emergency Housing Project.
- German government program for housing repairs and social infrastructure in several locations (materials & labor).
- Similar initiatives by other donors, particularly the Scandinavian countries.

3.138 The World Bank, with financing from a trust fund from the Government of the Netherlands, is about to start a \$1.5 million pilot project. This will form the basis of a larger housing project that could be financed by a credit on IDA terms. Similar to the proposed EC program, the project would carry out emergency repairs of lightly damaged units in high priority municipalities using local contractors. The project would be implemented by a PIU and would build up municipal capacity in selecting beneficiary households, undertaking damage assessments to determine eligible funding for specified repairs, and inspecting progress of works.

Financing Gap and Current Priorities

3.139 As shown in Table 3.10, despite many donors' active involvement there remain unfunded requirements of about \$96 million for the first year program and a funding gap of about 58 percent. This gap is particularly apparent in emergency repair, technical assistance, and in the

²² The information in these sections and in Table 3.10 has been compiled from official reports on donor programs where available. Where formal reports were not available, information has been based on informal discussions with donors.

program for Sarajevo, which is currently unfunded. The rehabilitation of the housing stock is essential to achieving political stability in Bosnia and Herzegovina and to facilitating the return of refugees and displaced persons. Priority will be given to projects that can be implemented quickly and that contribute to the enforcement of the constitutional rights of the citizens of Bosnia and Herzegovina.

Structural and Policy Issues for the Medium Term

3.140 Beyond addressing the immediate and pressing war-related housing issues, the performance of the sector will, in the medium term, also be influenced by the success with which socialist-based housing policies, particularly in urban areas, are being replaced with market-oriented policies. Outstanding issues include the need to:

- (a) Ensure an adequate supply of developable land for housing and related infrastructure.
- (b) Develop a sustainable source of long-term housing finance through the banking sector.
- (c) Reduce the substantial subsidies provided by enterprises and municipalities to maintain the social housing stock.
- (d) Establish a legal and regulatory framework for housing commensurate with the requirements of a market economy and encourage private investment in, and trading of, housing as an asset.

I. WATER AND WASTE MANAGEMENT

Background and Current Situation

3.141 The massive movement of people and their concentration in parts of the country considered the safest, as well as direct war damage, have resulted in major problems in the delivery of basic water and sanitation services to the inhabitants of Bosnia and Herzegovina. Water supplies in many urban centers are grossly insufficient, and many people are suffering serious deprivation. Waterborne diseases are becoming more and more common. In addition, solid waste disposal systems have broken down, bringing new health hazards to citizens. Sewage collection systems have become clogged, and many pumping stations and treatment plants do not operate. War damage is only a part of the reason for this state of affairs. A major contributing factor is the complete lack of maintenance over the last few years and the resulting crumbling of the existing infrastructure.

Reconstruction Program Update

3.142 In view of the substantial damage to the water infrastructure as well as to the waste management systems in Bosnia and Herzegovina, the reconstruction program has as its goal the restoration of services in these sectors to an acceptable level. The objectives set out in December 1995 remain valid. They include:

- a) Meeting the immediate needs of the affected populations.
- b) Rehabilitating water management facilities to pre-war standards.
- c) Making selected high-priority improvements.
- d) Helping establish the institutions needed to sustain the sector over the long term.

Box 3.23: Overview of the Situation

A large portion of the population is suffering from serious deprivation, since the water supply is grossly inadequate:

- The supply capacity has been reduced by war damage and lack of maintenance.
- Large influxes of refugees in some areas are putting increasing strain on existing supplies.
- Up to 60 percent of the transmission and distribution networks are suffering leakages due to lack of maintenance.
- Water contamination is a constant threat due to insufficiently treated waste water.
- The lack of maintenance of sewer systems is contributing to pipe blockages, pipe breakages, pumping station failures, and treatment plant shutdowns.
- Solid waste collection services have almost completely collapsed, posing a severe public health hazard.

Box 3.24: Rehabilitation Project for Water and Waste Management

As a follow-up to the "Urgent Water and Waste Management Works Project," a proposed "Water and Waste Management Rehabilitation Project" is being prepared by the governmental authorities, with the support of the World Bank. It includes:

- (a) Water Supply: repairs to pumping stations, replacement of water mains, installation of valves and control structures, and stocks of spare parts.
- (b) Sanitation: restoration of the sewerage network (more than 60 percent of the required works would be for Sarajevo, where there is major damage).
- (c) Solid Waste: improvement of the main landfills and distribution of garbage trucks to the larger municipalities.
- (d) Irrigation: repairs of damaged systems.
- (e) Flood Control and Drainage: repairs of systems where human life is most at risk.
- (f) Technical Assistance, Institution Building, Engineering, and Project Management.

3.143 To best address these needs, works to be carried out have been broken down into three categories, based on priorities: urgent works, rehabilitation works, and system upgrading works. The *urgent works* will address the most serious and urgent needs, which can be met quickly, i.e., replacement of tools, equipment, and repair material lost since 1991 by local operating

companies, and works that do not require a significant lead time for final design or equipment supply. The *rehabilitation works* include projects requiring a longer lead time and more careful project preparation. The *system upgrading works* would be introduced in areas where systems are operational but in serious need of upgrading, either because their economic life is coming to an end or because outdated technology is causing unacceptably high operating costs or inadequate performance.

3.144 The program also includes *institution building* components. Institutional development is to be achieved through the strengthening of the Water Resources Management Institute (Vodoprivreda), which has been substantially supported by the IMG over the last years, to ensure its ability to provide effective supervision of overall project implementation in the sector.

Box 3.25: Urgent Works Project for Water and Waste Management

An "Urgent Water and Waste Management Works Project" (\$70 million) has been prepared, including the highest priorities and particularly:

- (a) Water Supply: maintenance equipment for local water works, critical on-site repair of water distribution pipes, and temporary repairs to water treatment plants and pumping stations.
- (b) Sanitation: provision of equipment for unblocking sewer pipes and replacement of critical sections of collectors where the most serious health hazards have been identified.
- (c) Solid Waste: supply of trucks and equipment and development of landfills where needs are identified as critical and major health risks have been identified.
- (d) Technical Assistance, Institution Building, Engineering and Project Management.

The largest part of the project is to be implemented between early summer 1996 and autumn 1997 by the Institute for Water Resources (Vodoprivreda) with the assistance of the IMG.

3.145 The first-year financial requirements defined in the reconstruction program submitted to the international donor community in December 1995 have not been substantially revised, as shown in Table 3.11 below.

**Table 3.11: 1996 Water and Waste Management Priorities
(US\$ million)**

	3-4 Year Program 1996-99	Revised First Year Program (March 1996)	Financing Committed (March 1996) ¹	Financing Gap	
				US\$ million	% of total
Water supply	190	71	43	28	39
Sanitation	67	26	3	23	88
Solid waste	34	11	0	11	100
Irrigation	11	6	0	6	100
Flood control	25	7	0	7	100
Sector development	30	9	1	8	89
Project mgmt. & technical assistance	23	10	1	9	90
Total	380	140	48	92	66

¹ - The amounts shown represent firm or indicative donor commitments from first quarter pledges, which in the case of water and waste management include Austria, the EC, France, Italy, the Netherlands, the US and the World Bank (through a recently-approved IDA credit (\$20 million) in support of the "Urgent Water and Waste Management Works Project"). Funding under consideration but not announced as part of the first quarter pledged amount is not included.

Implementation Arrangements

3.146 Program management will be the responsibility of the regional Vodoprivredas. The capacity of the regional Vodoprivredas, municipalities, and water and sewerage works to carry out reconstruction programs will initially be limited. Local and international consultants will therefore be used extensively. The use of international consultants would be limited to a few key full-time adviser positions and short-term experts. The Vodoprivredas would set investment priorities, prepare designs, carry out procurement, and disburse the funds from the various donors for both investment expenditures and recurrent expenditures. Local water authorities (Komunalcos) will implement small repair works. For these works, a regional Vodoprivreda would procure necessary materials, pipes and equipment and then turn these items over to the municipality for its use. For large works, contractors would be selected by the Vodoprivredas and would implement projects under the supervision of the Komunalcos.

3.147 Over the last months there has been substantial although not yet sufficient strengthening of the Vodoprivredas, and the organization of the sector seems to be improving in a way that should facilitate project implementation.

Donor Activities to Date²³

3.148 The European Commission is providing, as part of the Urgent Works Project, equipment and materials totaling \$10.5 million, consisting mostly of spare parts, repair material, small tools, trucks, excavators and vehicles.

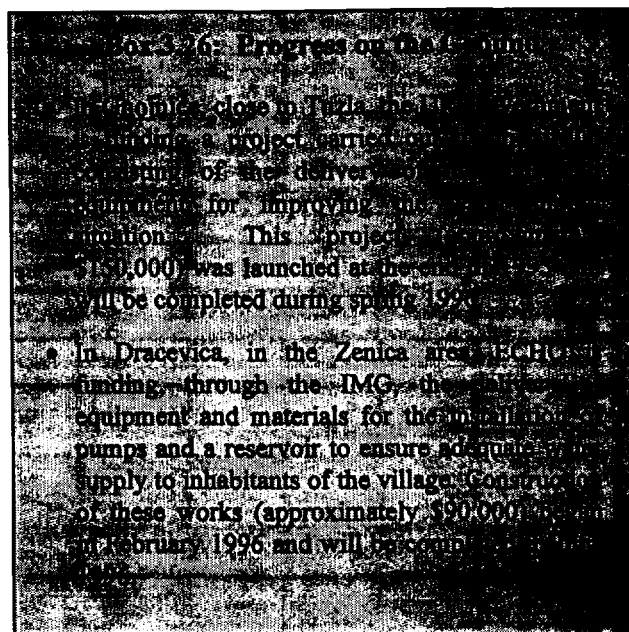
3.149 Several other countries and international organizations are contributing to the Urgent Water and Waste Management Works Project: the Government of the Netherlands is contributing \$1.6 million; the Government of Austria, \$3 million; the Government of Italy, \$5.1 million. The French Government has also committed \$1.2 million for urgent repairs in Sarajevo. The US Government has also supported investments in water connections for households as part of its housing rehabilitation program.

3.150 In support of the "Urgent Water and Waste Management Works Project", the World Bank will provide a \$20 million credit on IDA terms from the Trust Fund for Bosnia and Herzegovina, aimed at covering urgent works on municipal water supply systems in major cities where the situation is most critical.

²³ The information in these sections and in Table 3.11 has been compiled from official reports on donor programs where available. Where formal reports were not available, information has been based on informal discussions with donors.

Financing Gap and Current Priorities

3.151 The restoration of an adequate water supply to the inhabitants of Bosnia and Herzegovina and the improvement of public health through rehabilitation of the sewage and waste collection systems are clearly high priorities. The water supply sub-component of the first year program is partly funded, with total commitments of \$48 million and a funding gap of 66 percent. Resources are still needed to carry out urgent works to sanitation systems, solid waste services, irrigation and flood control, as well as for project management and technical assistance.



Structural and Policy Issues for the Medium Term

3.152 The reconstruction program is to be governed by the following medium-term policies:

- (a) To avoid duplication of effort, one comprehensive water and waste management program should be established for the country, with implementation at the local level.
- (b) Where it makes sense to expand the capacity of existing facilities to be reconstructed, the planning horizon should not exceed fifteen years.
- (c) No new source development should be funded if losses are greater than 25 percent, unless a municipality has in place a demand management program.
- (d) Construction of wastewater treatment plants should be phased according to priorities based on water quality improvement benefits, beginning with primary treatment only.
- (e) To the extent that funding is available and needs can be demonstrated, recurrent costs and salaries would be eligible for donor financing.
- (f) Donor support should be conditional on a credible plan to phase in a suitable cost recovery program, without which the repaired infrastructure will deteriorate quickly. Action Plans should be submitted by the municipalities prior to project selection, to permit recovery of operating costs in two years and all costs including depreciation in seven years.

J. AGRICULTURE

Background and Current Situation

3.153 Agriculture has always been central to the Bosnian way of life, with nearly 20 percent of the labor force working full-time in the sector and another 20 percent working part-time. Because of the mountainous topography, productive agricultural land is scarce, and livestock production predominates. Even prior to the war, yields and productivity in private agriculture were low due to inadequate inputs and poor technology, and Bosnia and Herzegovina imported half of its basic foods requirement. Some 540,000 small private farms, which make up most (94 percent) of the sector, remained relatively primitive, in part due to lack of Government support for private farms.

3.154 The war has devastated the agriculture sector (see Box 3.27). The normal food distribution system has been shattered. There has been a major disruption in farm production due to damage and destruction of farm equipment, livestock, crops, and input supplies, exacerbated by the very large population movements that have occurred since 1992.

Reconstruction Program Update

3.155 The reconstruction and rehabilitation program for agriculture and rural areas submitted in December 1995, which remains valid as an overall framework, has the following objectives:

- (a) Ensure availability of key seasonal agricultural inputs needed to revitalize agricultural and food production in 1996.
- (b) Replace destroyed farm equipment and lost livestock, and provide minimum required veterinary services.
- (c) Start rehabilitation and development of the forestry sector and the wood industry.
- (d) Help rehabilitate high-value orchards and vineyards.
- (e) Reestablish financial and other support services for both farmers and rural industries.
- (f) Assist in formulating agricultural sector policies, addressing, *inter alia*, land ownership issues and privatization of state farms and agroindustries.
- (g) Provide technical assistance in the preparation and implementation of the program.

Box 3.27: An Overview of the Damage

- An estimated \$4.5 billion in direct war damage to primary agricultural production.
- As much as 80 percent of farm equipment destroyed.
- Up to 70 percent of livestock slaughtered.
- Destruction of farm buildings, storage bins, and irrigation systems.
- Damage and destruction of animal husbandry facilities and loss of qualified staff.
- Heavy mining of many fields and orchards along confrontation lines.
- Loss of high-value orchards and vineyards.

3.156 The first year program, which reflects the most urgent priorities within the three- to four-year program, has been slightly adjusted since December, 1995. The revised program places more emphasis on primary production through increased assistance to the forestry sector. It also includes support for the development of extension and other farmer support services. Imports for war-damaged farms have been reduced, to take into account the currently limited implementation capacity. Support for rural development and employment generation, which was included in the original agricultural support program, has been regrouped into a separate employment generation program.

3.157 The corresponding financial requirements for the program have therefore been revised, as shown in Table 3.12.

**Table 3.12: 1996 Agriculture Priorities
(US\$ million)**

	3-4 Year Program 1996-99	Revised First Year Program (March 1996)	Financing Committed ¹ (March 1996)	Financing Gap	
				US\$ million	% of total
Imports for War-Damaged Farms	140	50	41	9	18
Technical Assistance for Policy Support	5	--	--	--	--
Rural Rehabilitation Fund ²	35	--	--	--	--
Fruit Trees and Vineyards Rehabilitation.	30	10	0	10	100
Seed Multiplication and Distribution	15	7	0 ³	7	100
Forestry and Pasture Development	40	25	0	25	100
Rural Finance Technical Assistance	5	--	--	--	--
Farmer Support Services Development	30	5	0	5	100
Rural Industries and Services Development ²	30	--	--	--	--
Total	330	97	41	56	58

1 - The amounts shown represent firm or indicative donor commitments from first quarter pledges, which in the case of agriculture include the EC, Germany, the Netherlands, Slovenia, the UK, the US and the World Bank (through a recently-approved credit of \$20 million in support of the "Emergency Farm Rehabilitation Project"). Funding under consideration but not announced as part of the first quarter pledged amount is not included.

2 - Support for Rural Development is now regrouped as part of Employment Generation and Demobilization Support (see Section 3B).

3 - Support of \$7.3 million from IFAD, which was not part of the first quarter pledged amount, has not been included in total financing committed.

Implementation Arrangements

3.158 Program implementation, apart from large-scale procurement, will be fully decentralized under the overall supervision of the Entity-level Ministries of Agriculture. Project Implementation Units (PIUs) will be set up at the regional level throughout the country, initially in Tuzla, Zenica, Mostar, Bihac, and Banja Luka. Whenever feasible and appropriate, procurement will be organized at the central level to ensure efficient and economic purchases. Most aspects of project implementation, however, including distribution, pricing, cost recovery, supervision, and auditing, will be dealt with at the regional level. In the Federation, the PIUs for the first project supported by the World Bank are being established by the Federation Ministry of Agriculture, Water Management and Forestry.

Donor Activities to Date²⁴

3.159 Through its PHARE Essential Aid Program, the EC is providing farm equipment amounting to \$10.5 million, under the framework of the "Emergency Farm Reconstruction Project", designed in cooperation with the World Bank (Box 3.28). The EC is also considering support for selected agroindustrial activities.

3.160 Several countries and international organizations have announced their intention to contribute to the World Bank-sponsored "Emergency Farm Reconstruction Project", including the International Fund for Agricultural Development (IFAD) (\$7.3 million), the German Government (\$2.9 million, primarily for veterinary products), and the Dutch Government (\$0.9 million, for technical assistance and equipment).

3.161 Some governments have committed bilateral funds for the import of seeds and other seasonal farm inputs, including the UK Government (\$0.9 million). The Austrian, Canadian, Slovenian and UK Governments have expressed interest in supporting this sector. (In addition, UNDP is considering support to a program for domestic seed multiplication, and the Government of the US is also considering a three-year program in support of agribusiness privatization and development.)

3.162 As a part of its recently-approved "Emergency Farm Reconstruction Project", the World Bank will provide a \$20 million credit on IDA terms from the Trust Fund for Bosnia and Herzegovina, to finance imports of agricultural machinery as well as to provide technical assistance and equipment for program implementation (see Box 3.28). An additional \$20 million credit on concessional terms for a World Bank-supported "Agriculture and Forestry Support Project" is also being considered.

Box 3.28: Emergency Farm Reconstruction Project

Within the first-year program, an "Emergency Farm Reconstruction Project" has been prepared with the support of the World Bank. Project elements include the import of small tractors, tractor implements, livestock, and veterinary supplies and equipment. Beneficiaries are to be identified on the basis of a number of agreed principles and criteria. Following bulk procurement (centralized in Sarajevo), imports will be ceded to farmers as in-kind loans, to be repaid in cash following an initial grace period. Most aspects of distribution, pricing and cost recovery, supervision, and auditing will be dealt with at the regional level through regional project implementation units. Implementation is scheduled to start in late Spring 1996, to be completed within one year, if resources are available. The current project financing gap is \$15 million, or 30 percent of the \$50 million financing requirement.

An "Agriculture and Forestry Support Project" also defined with the World Bank's support and aimed at rehabilitating high-value orchards and vineyards, developing forestry activities, and establishing vital support services for private farmers, will follow the "Emergency Farm Reconstruction Project". The design of this project is expected to be completed by early Summer 1996, with implementation scheduled to begin in the Fall.

²⁴ The information in these sections and in Table 3.12 has been compiled from official reports on donor programs, where available. Where formal reports were not available, information has been based on informal discussions with donors.

Financing Gap and Current Priorities

3.163 By generating employment in rural areas, where unemployment rates are likely to be particularly high because of the return of displaced persons and the demobilization of soldiers underway, and by reducing the dependency on food imports, the recovery of the agriculture sector could significantly contribute to the stabilization of Bosnia and Herzegovina and therefore to the successful implementation of the peace process. However, additional commitments from the international community are still needed to finance the first year program.

3.164 As shown in Table 3.12, the funding required for the first year program is about \$57 million, leaving a financing gap of about 58 percent. Most donor funding committed to date has been in support of imports for war-damaged farms, leaving a gap for that subcomponent of just \$10 million, or 18 percent of needs. Other subcomponents, such as funding for fruit trees and vineyard rehabilitation, forestry and pasture development, and farmer support services development are currently 100 percent unfunded, and are the prime areas for which near-term donor support is crucial.

Structural and Policy Issues for the Medium Term

3.165 For the assistance program in agriculture to be successful, governmental authorities will need to focus on three key policy issues early on:

- (a) Addressing the issue of disputed **property rights** to agricultural land and farm buildings. Temporary usufruct rights to current nonowner occupants of agricultural lands will need to be issued, while claims of former owners are registered and processed through a "land commission."
- (b) Converting **free food aid distribution** into a program of food aid sales and targeted income support to the needy. Such a program will prevent disincentives to local agricultural production and will generate the required demand pull for farm outputs. (Modalities for such programs are described in the companion report on economic policies, prepared for the Second Donors' Conference.)
- (c) Restoring a minimum level of **farm extension**, animal health, and artificial insemination services, to raise livestock productivity and prevent the spread of diseases.

K. INDUSTRY

Background and Current Situation

3.166 Before the war, the industrial sector operated throughout the country and produced a wide range of industrial and consumer goods. Products and manufactures included textiles, leather/fur products, castings, tools, cars, tractors, bicycles, mining, construction and agricultural equipment, switchgear, lumber, furniture, paper and pulp, iron and steel, food and beverages, and chemicals. Most of these products were successfully marketed to some 90 countries throughout

the world, generating foreign exchange surpluses. The structure of industry in Bosnia and Herzegovina consisted of a dozen or so large conglomerates, generally export oriented, and some 1,000 medium- and small-size firms supplying the local market.

3.167 In the late 1980's, Bosnia and Herzegovina began to modify the legal framework for enterprises and undertook the restructuring of a large number of companies. These actions marked the initial steps of the transition to a market economy. This process was interrupted, however, when the war broke out. Legal confusion resulting from the war, large-scale destruction in some areas, the split of many companies between the Entities, and lack of access to suppliers and markets contributed to the collapse of the industrial sector. In 1994, industrial production was only 6 percent of its pre-war level.

3.168 Two sets of problems stand in the way of rapidly restarting industrial plants. Those that are *internal* to the plants include: direct war-damage; lack of spare parts, supplies and stocks of raw materials for operations; the fact that plants have not operated for the entire war period and unexpected technical difficulties are likely once they resume production; lack of staff in plants, which have — due to their limited production during the war — operated with skeleton crews of workers and managers; and the still unclear financial and legal status of the enterprises. *External* problems include: uncertainty about the capacity and the reliability of transport infrastructure, which is vital to ensure inputs get to plants and products get to markets; loss of markets due to other suppliers taking over the markets when enterprises in Bosnia and Herzegovina stopped delivering; the need to re-establish sources of supply of raw materials and spare parts; and uncertainties about supplies and reliability of power and water.

Reconstruction Program Update

3.169 The recovery program submitted in December 1995 is based on two assumptions: first, that reconstruction of the industrial sector should be accompanied by the continuation of pre-war reforms; and second, that industry is not a sector in which the government should have a direct role in production organization and transactions. Recovery of the industry sector is not aimed at restarting pre-war state-owned plants regardless of their economic efficiency but rather at stimulating growth by providing support to competitive enterprises. The program is therefore aimed at facilitating private sector involvement through:

- (a) Revolving credit (mainly for working capital).
- (b) An enterprise development fund.
- (c) A venture capital fund.
- (d) Technical assistance.

3.170 This program remains valid as an overall framework. However, in view of a lack of implementation capacity and of remaining uncertainty with regard to the time frame required for adoption of an appropriate legal framework by the governmental authorities in Bosnia and Herzegovina, the first year priorities have been revised (Table 3.13).

**Table 3.13: 1996 Industry Priorities
(US\$ million)**

	3-4 Year Program 1996-99	Revised First Year Program (March 1996)	Financing Identified ¹ (March 1996)	Financing Gap	
				US\$ million	% of total
Revolving Credit	280	30	30	0	0
Enterprise Development Fund	50	60	19	41	68
Venture Capital Fund	50	20	2	18	90
Technical Assistance	20	10	5	5	50
Total	400	120	56	64	53

1 - The amounts shown represent firm or indicative donor commitments from first quarter pledges, which in the case of industry include Germany, Greece, Italy, the Netherlands, the US, the Open Society Institute and the World Bank (through support of the line of credit component under the recently-approved "Emergency Recovery Project"). Funding under consideration but not announced as part of the first quarter pledged amount, for example the proposed EBRD loan for a venture capital fund, is not included. Once approved, these funds would reduce the financing gap.

Implementation Arrangements

3.171 Significant assistance will be required to implement the program of industrial reform and revival envisioned by the Government. The first step would include support through direct technical assistance and temporary financing to help those enterprises most needed to begin the reconstruction, such as cement and building materials. Such financing and support would be implemented in a decentralized way, most likely through existing banks in Bosnia and Herzegovina or a special window in an existing institution, with some expertise and guidelines provided by the government authorities. Simultaneously, technical and advisory assistance should be provided to prioritize financing requirements; evaluate projects on financial, economic, and technical grounds; and support the creation of groups within the banking industry to take over project evaluation in the long term.

3.172 Independent agencies should be established to select beneficiary enterprises using pre-determined criteria, such as a proven pre-war record of high performance and competitiveness; demonstrated current access to markets and sources of inputs; adequate technology, workers and management to produce products of acceptable quality; sufficient supplies and reliability of power and water as well as proven availability of adequate transportation systems. These criteria would help ensure that the businesses benefitting from donor assistance will have good prospects for long term viability and sustainability.

Donor Activities to Date²⁵

3.173 Several governments, including Germany, Greece and the US, have announced their intention to contribute to the industry sector, although the type of support may not yet be decided. More generally, project concepts have been developed to provide large enterprises with

²⁵ The information in these sections and in Table 3.13 has been compiled from official reports on donor programs, where available. Where formal reports were not available, information has been based on informal discussions with donors.

credit to cover urgent working capital needs, particularly to those enterprises that have valid export contracts but are unable to obtain financing.

3.174 The EBRD is preparing a venture capital fund (\$19.7 million) aimed at attracting foreign private investors through equity operations, and overcoming the lack of long-term financing in the banking sector.

3.175 The World Bank has also developed lines of credit for small and medium enterprises (SMEs) under the "Emergency Recovery Project". This project component (\$30 million) has been funded by the World Bank, the Government of the Netherlands, and the Open Society Institute. In addition, the Italian Government has also indicated strong interest in providing support for SMEs. The lines of credit are to be implemented under the responsibility of a special unit, consisting of government representatives. They will provide credit to viable and creditworthy SMEs for working capital, small repairs to restore production, and technical assistance. Implementation is currently underway.

Financing Gap and Current Priorities

3.176 Restarting industrial activity will have a two-fold effect: by generating employment, it will contribute to the stabilization of Bosnia and Herzegovina and therefore to the implementation of the peace process; by generating production and potential exports, it will help to ensure the sustainability of the economic recovery. Appropriate support mechanisms for the development of the private sector are to be established as soon as possible, both by the government authorities in Bosnia and Herzegovina and by the international community. The government authorities in Bosnia and Herzegovina should undertake necessary reform of the legal framework and support the development of local enterprises. The international community should, in turn, provide the needed resources and guarantees for investors and lenders. To date, however, the first-year requirements are only 47 percent covered. Substantial amounts have been committed to support of the revolving lines of credit (to cover working capital needs of enterprises); the financing gap is largest for the Enterprise Development Fund (set-up to stimulate growth of SMEs by financing business support services) and the Venture Capital Fund (set-up to support equity based investment in Bosnia and Herzegovina).

Structural and Policy Issues for the Medium Term

3.177 Although there is a role for the Government in the short term for jump-starting production, industry is *not* a sector in which the government should have a direct role in organization of production and transactions. Several issues should therefore be addressed:

- (a) **Privatization of enterprises and banks.** Privatization of enterprises and banks should be at the center of government policy for the industrial sector, to create a diversified economy in which privately owned and operated enterprises make independent decisions on production and marketing, and private banks provide financial intermediation to meet the investment requirements of these private enterprises. Within this framework, large and state-owned industrial and commercial

enterprises and banks would be replaced by a larger number of small and medium-size companies and banks. The authorities' preference for a regionally based (and flexible) approach toward enterprise/bank reorganization is appropriate.

- (b) **Financial mechanisms.** Establishing a stronger and more effective system of financial intermediation, by strengthening existing banks as soon as possible, is key to industrial revitalization. Subsidies, when used, should be transparent and banks should not finance the subsidies themselves. To prevent excessive budgetary pressure, subsidies should be limited by the extent to which concessional (grant) resources are made available to the budget from donors.
- (c) **Provision of risk insurance.** The government has recognized that foreign investment and joint ventures are of great importance to the restructuring of the industrial sector, and that specific measures to attract potential investors should be adopted. Donors should consider the provision of political and *force majeure* risk coverage to potential foreign investors and lenders.

ANNEX A

SIMPLIFIED AND STREAMLINED WORLD BANK PROCUREMENT GUIDELINES FOR BOSNIA AND HERZEGOVINA EMERGENCY LENDING

1. The procurement procedures listed below will apply to all World Bank-supported emergency operations.

Goods

2. **International Competitive Bidding (ICB).** For procurement packages estimated to cost more than \$5 million each, simplified ICB will be used. The process, as discussed below, should be established.

- (a) **Advertisement.** As early as possible but no later than appraisal time, a General Procurement Notice (GPN) will be published for every project in the Development Business announcing ICB procurement packages and consultant services to be procured and inviting interested eligible suppliers, contractors and consultants to send their expression of interest to the project implementation agencies in Bosnia and Herzegovina. The GPN will also be published in the local press. The GPN will be followed by specific advertisements for individual contracts in the local press. Bidding documents will be sent to suppliers who will respond to the GPN.
- (b) **Bank's Standard Bidding Documents** will be used. Before project implementation begins, these documents will be customized and approved for each project. The period allowed for submission of bids may be reduced to four weeks. Bid and payment currency will be limited to one currency widely used in international trade.

3. **Limited International Bidding (LIB).** LIB, tendering by invitation, will be used for procurement packages estimated to cost over \$2 million and up to \$5 million each. The following LIB procedure will be used:

- (a) **List of LIB bidders.** The list will be based both on the expressions of interest received in response to the General Procurement Notice as well as other sources, such as procurement agents' own experience, etc. The list will be as broad as possible. Geographical distribution will be considered to the maximum extent possible.
- (b) **Bidding Documents for LIB.** The Bank's Standard Bidding documents will be used (see ICB above). Procedures will be established to enable dispatch of bidding documents and receipt of bids by the fastest means of communication, such as fax machines. This shall be subject to condition that project implementation agencies and procurement agents will be required to put in place a

mechanism to ensure transparency and fairness and to avoid any manipulation of bids received by faxes. LIB contracts under \$5 million will require prior approval of the Bank relating to the list of suppliers and technical specifications.

4. **International Shopping (IS).** IS will be used for procuring equipment and materials or standard specification commodities, estimated to cost between \$200,000 and \$2 million per contract. IS is based on comparison of price quotations obtained from at least three suppliers in two countries.

5. **National Shopping (NS).** This method will be used for contracts for goods available in Bosnia and Herzegovina up to an estimated cost of \$200,000 per contract with at least three quotations.

6. **Direct Contracting (DC).** Direct contracting will be used for proprietary items, for reasons of compatibility and standardization, in any other justified case. All direct contracting packages should be identified in the procurement plan for each project and preapproved by the Bank. Any direct contracting during project implementation will need prior Bank approval. Existing contracts will not be extended.

Works

7. **ICB.** See ICB for Goods above. ICB for works will be used for contracts estimated to cost more than \$5 million each. The advertisement procedure will be the same as for goods. The Bank's Standard Bidding Documents for Works will be used for all ICB packages.

8. **National Competitive Bidding (NCB).** Given the dispersed nature of works (repairs to roads, etc.), and lack of interest from foreign contractors, NCB is proposed for contracts between \$1 million and \$5 million per contract. However, interested foreign contractors will be allowed to participate in NCB. The following procedure will be followed:

- (a) **Prequalification.** A general prequalification of contractors will be carried out. For this purpose, a notice will be published in the local press. Contractors will be requested to express their interest for prequalification. The information submitted by firms will be used to carry out their general prequalification for different levels in terms of contract values. The prequalified contractors will be listed in a registry. The registry will remain open for additions/deletions during the course of project implementation. The prequalification criteria shall be approved by the World Bank.
- (b) **Bidding Documents** will be sent to prequalified contractors who will be allowed four weeks to submit their bids. This document shall include requirements based on the current situation in the country. Deutsche Mark will be used as the currency of bid pricing and contract.

9. **Simplified NCB.** Simplified NCB will be used for works contracts estimated to cost up to \$1 million per contract. These works will be procured under lumpsum, fixed price contracts

awarded on the basis of quotations obtained from three qualified contractors in response to a written invitation. The invitation shall include a detailed description of works, including basic specifications, the required completion period, a basic form of agreement acceptable to the Bank and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to successfully complete the contract.

10. **Direct Contracting for Works.** Any direct contracting not identified in the procurement plan will be subject to the Bank's prior approval.

Services

11. Consultants will be procured in accordance with the World Bank Guidelines which shall include both competition and sole sourcing. The sole sourcing packages will be identified and justified in the procurement plan for each project. Direct contracting during project implementation will need Bank's prior approval. Procurement documentation for consultant contracts procured competitively and exceeding \$2 million each will be subject to World Bank prior review. Follow up assignments will be permissible to the extent that this will be indicated in initial terms of reference.

Second-hand Equipment

12. Second-hand equipment, for example buses, can be procured through sole-sourcing with the Bank's prior approval, provided the equipment is appraised by an independent agency to confirm that the used equipment being considered will meet the criteria for quality, technical requirements, and economic value, and that spare parts and service for the equipment will be available for the operation of the equipment.

Credit Lines

13. The reconstruction program also includes small credit lines. Procurement under the credit lines will be the responsibility of beneficiaries. Goods and works to be financed with credit lines shall be procured through commercial practices which shall include competitive prices, account being taken also of other relevant factors such as time of delivery, efficiency and reliability of the goods, availability of maintenance facilities and spare parts thereof, and quality and competence of the parties rendering them. A mechanism of ensuring that the borrowed/granted funds are being used for the purposes intended will have to be established. This shall be approved by the Bank. This could be ensured by making disbursements against receipts for materials, equipment, and works procured.

Standard Procurement Documents

14. The World Bank has prepared several standard procurement documents which are required to be used in Bank-financed projects. These are as follows:

Standard Bidding Documents

- (a) Prequalification (for Goods/Works)
- (b) Goods (ICB)
- (c) Works (ICB)
- (d) Commodities (ICB)
- (e) Textbooks (ICB)
- (f) Pharmaceutical (ICB)
- (g) Supply and Installation
- (h) Procurement of Computer Systems (Single and Two Stage)
- (i) Standard Evaluation Report for Goods/Works

15. These documents are organized in fixed and variable parts. That means, changes specific to a procurement action, including the necessary modifications in the fixed sections, are made only in the variable sections. This facilitates and expedites the preparation of tender documents as well as helps their review and approval by the Bank staff.

16. In addition, the Bank has also prepared the following documents, use of which will facilitate the task of preparation of documents and will expedite procurement:

- (a) Works (NCB)
- (b) Simplified NCB (Works)
- (c) Shopping (for Civil Works)
- (d) Shopping (for Goods)

Consultant Standard Documents

- (a) Standard Letter of Invitation for Consultant Services
- (b) Lump-Sum Standard Consultant Contract
- (c) Time-based Standard Consultant Contract (Complex Assignments)
- (d) Standard Evaluation Report for Consultants

ANNEX B

DONOR COORDINATION IN THE FIELD: SECTORAL TASK FORCES

Sector	Initial Task Force Lead Agency	Main Participants
Water and Waste Management	IMG	Austria EC Netherlands Norway UK ICRC UNICEF USAID WHO World Bank
Electric Power and Coal	World Bank	EC France Switzerland UK EBRD GTZ World Bank
District Heating	USAID	IRC UNSCS
Natural Gas	ODA	EC Netherlands Russian Federation ICRC IFOR UNSCS World Bank
Roads / Urban Transport	EBRD - World Bank (alternating)	Czech Republic EC France Italy EBRD GTZ IFOR IMG USAID World Bank
Airports	EBRD	EC EBRD IFOR IMG World Bank

Sector	Initial Task Force Lead Agency	Main Participants
Railways	IMG	EC France Germany Italy EBRD IMG
Telecommunications	EBRD	EC Sweden Switzerland EBRD IMG
Agriculture	FAO	EC IFAD UNHCR USAID WFP World Bank
Education / Cultural Facilities	UNESCO ¹	Austria Canada EC Japan IMG UNESCO UNICEF UNHCR World Bank
Health / Social Safety Net	WHO ¹	Austria Canada EC Japan ICRC IMG MSF-Netherlands UNHCR WHO World Bank

¹ - These task force lead agencies are provisional.

Sector	Initial Task Force Lead Agency	Main Participants
Housing	IMG	Austria Denmark EC Germany IRC Norway NPA NRC SIDA Sweden UNHCR USAID World Bank
Landmine Clearing	UN/IFOR ¹	EC IFOR UN DHA UNHCR USAID NPA World Bank

1 - These task force lead agencies are provisional.

