

Bosnia and Herzegovina
Implementation of the Priority Reconstruction
Program in 1996

Status Report to the Donor Community

Prepared by the European Commission
and
the Central Europe Department of the World Bank
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Preface

In December 1995, following the signing of the Dayton/Paris Peace Agreements, the international donor community endorsed a medium-term priority reconstruction and recovery program for Bosnia and Herzegovina. The external financing requirement of the first year of this program was estimated at \$1.8 billion, as part of a \$5.1 billion effort over 3-4 years. At two pledging conferences, in December 1995 and April 1996, donor countries, multilateral institutions and other donor agencies pledged over \$1.8 billion of assistance on highly concessional terms to support Bosnia and Herzegovina in the implementation of the Priority Reconstruction Program.

The European Commission and the World Bank, in partnership with the authorities of Bosnia and Herzegovina, have regularly reported to the donor community on progress in implementation of the program. Status reports were presented to donors in April, June, September and November last year. The donor information meeting, held on January 9-10, 1997 in Brussels, provided a good opportunity for donors and the authorities of Bosnia and Herzegovina to exchange views on implementation experiences.¹

This report summarizes progress during 1996, using end-year data. The first section of the report provides an overview of donor activities. It reviews the evolution of donor pledges and commitments, the overall progress in implementation, disbursement of donor funds, and the geographical allocation of assistance. The second section briefly describes program implementation by sector, highlighting some of the important physical achievements. A detailed discussion of achievements and issues by sector, as well as the 1997 reconstruction program are included in the companion report, entitled "Bosnia and Herzegovina: The Priority Reconstruction Program - 1996 Achievements and 1997 Objectives", dated March 1997, prepared by the European Commission and the Central Europe Department of the World Bank.

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This report has been prepared using the same definitions as before. Implementation progress is measured primarily by *financial* benchmarks: (i) donor funding committed, and (ii) committed amounts under implementation. The report also uses disbursement of funds as one of the benchmarks of implementation. According to the commonly used definition of disbursement (see next page), advances made to implementing agencies in Bosnia and Herzegovina for future payments to suppliers are also included in disbursement figures. In order to better capture the amounts actually spent on the ground (funds expended), donors were asked to provide an *estimate* of the unused portions of such advances. According to these estimates, on average, the total amount of such unused advances represented about 17% of disbursed funds. It should also be noted that disbursement figures, under this definition, do not include transfer of funds from donors to trust funds administered by international financial institutions or other international agencies. While these funds are considered disbursed from the donors' point of view, according to the definition, they would be accounted for at the time of actual withdrawal from the trust funds. Nevertheless, since these amounts do represent actual budgetary outlays for donors, Annex 1 indicates amounts transferred to those trust funds.

All information in this report was provided by donors. This information is collected and monitored in the Bosnia and Herzegovina Reconstruction Program Donor Database, jointly maintained by the European Commission and the World Bank in partnership with the authorities of Bosnia and Herzegovina. The European Commission and the World Bank would like to thank all donors for the efforts to provide timely and accurate information on their assistance programs. *Nevertheless, information gaps exist, and figures should be considered best estimates.*

¹ The background documents prepared for the donor information meeting discuss in detail the implementation experience. See Volume 1 and 3 of "Bosnia and Herzegovina-The Priority Reconstruction Program: From Emergency to Sustainability", dated November 1996, prepared by the European Commission and the Central Europe Department of the World Bank. The present report draws on these documents.

Definitions and Database Methodology

Donors use differing procedures for activating pledges so that they become available to be contracted and disbursed. For the purpose of consistency, the following definitions are used in the Database and this report:

A **pledge** is an expression of intent to mobilize funds for which an approximate sum is indicated.

A **firm commitment** is a pledge which has been: (i) approved by a national legislative body or multilateral Board; and (ii) allocated to a specific sectoral program or project.

An **indicative commitment** is a pledge which has either legislative approval but is not yet allocated to a specific sectoral program or project; or, a pledge which has been allocated in principle to a particular program or project, but is awaiting legislative approval.

Uncommitted funds have neither legislative approval nor project-specific allocation.

Amounts **under implementation** are those firmly committed funds for which contracts have been tendered, signed, or are underway (including amounts disbursed).

Disbursed funds are those transferred to an account in the name of a Bosnian agency, or a disbursement agency (foreign or local) in Bosnia, and include expenditures made against works, goods and service contracts, and for fiscal/balance of payments support. This category includes funds advanced to implementing agencies for the purpose of payment to contractors or suppliers, but not yet expended (see below). In-kind assistance is considered disbursed once provided.

Funds expended represent (i) actual expenditures made against works, goods and service contracts; (ii) the value of assistance delivered in kind; and (iii) fiscal/balance of payments support. The definition of funds expended does not include advances made to implementing agencies for future payments to suppliers.

- For each donor program, project or commitment, information provided by donors has been entered into the Bosnia and Herzegovina Donor Database by, *inter alia*: (i) sector and sub-sector; (ii) type (e.g., cash grant or loan); (iii) form (e.g., equipment or technical assistance); (iv) channel (e.g., direct or co-financing); and (v) commitment, tender issue, contract signature and end-disbursement dates.
- Amounts under implementation include the "ongoing" donor activities pledged in December 1995, as well as activities funded by "new" donor pledges made in December 1995 and April 1996.
- Where applicable to an individual canton within the Federation, donors' programs under implementation have been so classified; if support benefits more than one canton, these amounts have been classified as "multi-canton."
- While most donor support falls within one of the sectors of the Priority Reconstruction Program or peace implementation, certain donor programs -- such as "municipal rehabilitation" -- are multi-sectoral. Multi-sectoral programs have been disaggregated and designated to appropriate sectors according to guidance from donors.
- While amounts are maintained in the Database in the currency of origin, figures in this report have been converted to US dollars at the exchange rate prevailing on December 31, 1996. The donor information used in this report is as of end-December 1996.

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Bosnia and Herzegovina Implementation of the Priority Reconstruction Program in 1996

Status Report to the Donor Community

A. Overview of Progress

Nearly 60 multilateral and bilateral donors and many others have joined the reconstruction effort

1. Since the first pledging session for the 1996 reconstruction program in December 1995, a total of 59 donors -- 48 countries and 11 organizations -- have pledged their support for Bosnia and Herzegovina's Priority Reconstruction Program (Annex 1). Many dozens of other development and aid agencies and non-governmental organizations (NGOs) are also involved in the reconstruction effort and have been key to the success achieved so far. A total of about \$1,896 million was pledged for the 1996 program, in a truly broad-based international partnership of nations and multilateral institutions.²

\$1.9 billion in donor funds was firmly committed in 1996

2. Good progress was made in committing promised funding during 1996. While 4% of the original pledged amount (some \$83 million) remained uncommitted at the end of the year, this was more than offset by the larger-than-pledged commitments of many donors. As a result, total commitments exceeded \$2 billion. (Table 1). Of this total, about \$1.9 billion represented *firm commitments* (i.e., approved by national legislative bodies or boards of multilateral agencies and allocated to specific activities); \$123 million were *indicative commitments* (i.e., pending authorization or allocation). The last two months of 1996 witnessed a rapid increase in firm commitments, reflecting donor efforts to firm up their financial contributions before the end of the year.

	US\$ Million	% of Pledged Amount
Total 1996 Pledges	1,896	100%
1. Total Commitments	2,027	107%
a. Firm Commitments	1,904	101%
b. Indicative Commitments	123	6%
2. Uncommitted	83	4%

1/ Total commitments plus uncommitted adds to more than the 1996 pledged amount, since several donors have committed funds over and above their 1996 pledges, in order to continue ongoing activities. Since these funds have not yet been pledged, they have not been included in the total 1996 pledges.

Donor assistance has been highly concessional

3. As discussed earlier, funding commitments by donors exceeded the original target set for 1996. The quality of assistance has been high, with about 97% of the funding provided on grant or very concessional terms (Table 2). Given the worldwide scarcity of concessional assistance, this was a significant achievement. Moreover, this level of concessionality has been absolutely essential, given the lack of creditworthiness of the country and the need to avoid the build-up of large repayment obligations for the future.

	US\$ Million	% of Total Commitments
Total Commitments	2,027	100%
1. Grants	1,535	76%
of which In-Kind	73	4%
2. Loans	492	24%
a. Concessional	425	21%
b. Non-Concessional	67	3%

² Pledges for the 1996 reconstruction program totaled \$1,857 million as of the Second Donors' Conference of April 12-13, 1996. New 1996 pledges of some \$63 million have been made since that date (including Albania, Jordan, Kuwait, Latvia, Poland, San Marino, the Federal Republic of Yugoslavia, IFAD and UNDP). Since April 1996, the pledges of EBRD and the Council of Europe Social Development Fund were reduced by \$20 million and \$5 million respectively. With these changes, the revised total 1996 pledged amount is \$1,896 million.

Donor commitments for reconstruction activities were close to \$1.9 billion

4. Of the \$2,027 million in total commitments as of December 1996, some \$1,895 million was designated for reconstruction activities (Table 3). Most of these activities fit within the framework of the Priority

	US\$ Million	% of Total Commitments
Total Commitments	2,027	100%
1. Reconstruction Activities	1,895	93%
a. Multilaterally-Administered	1,156	[61%]
b. Bilaterally-Administered	739	[39%]
2. Peace Implementation	132	7%

Reconstruction Program. Some \$153 million of the total was committed to balance of payments support. Commitments for multilaterally-administered programs and projects (under the aegis of international financial institutions and including bilateral financing) accounted for an estimated \$1,156 million, or 61% of reconstruction activities, while commitments for bilaterally-

administered programs and projects (through national aid agencies, NGOs or others) represented the remaining \$739 million (39%). An additional \$132 million was earmarked for peace implementation activities, such as support for elections, media and the local police force.

Two-thirds of donor assistance was under implementation at year-end

5. At the end of 1996, implementation of the reconstruction program in Bosnia and Herzegovina was well underway. Some \$1,360 million of donor assistance financing civil works, goods and services, as well as critical balance of payments needs, was under implementation in support of the Priority Reconstruction Program, representing 67% of total commitments (Table 4). A further \$544 million was firmly committed, awaiting tender. During 1996, donors disbursed over \$1.1 billion (54% of total commitments and some 58% of total pledges), meeting the disbursement target set at the Lyon G7 Meeting in June 1996. Of this \$1.1 billion, an estimated \$914 million was actually expended on the ground.

	US\$ Million	% of Commitments
Total Commitments	2,027	100%
1. Total Under Implementation	1,360	67%
Of which Contracts Signed	1,268	63%
of which Amounts Disbursed ¹	1,104	54%
2. Not Yet Under Implementation	667	33%
a. Firm	544	27%
b. Indicative	123	6%

^{1/} Includes an estimated total of \$191 million in advances for future payments to suppliers.

Donor-funded activities focused on the Federation

6. During 1996, the primary focus of reconstruction program implementation in Bosnia and Herzegovina was on the Federation, where 81% of the total \$1,360 million under implementation -- or some \$1,098 million -- was underway (Annex 3). As for Republika Srpska, the effects of the international embargo in the early months of 1996 meant that preparation for reconstruction investments got a late start. Thus, just \$43 million, or 3% of total activities, were under implementation in Republika Srpska in 1996. Finally, some \$219 million (16%) was targeted to the State and to activities of an "inter-entity" nature.

Donors and the Bosnian authorities alike underestimated the time required to convert pledges to commitments and actual disbursements

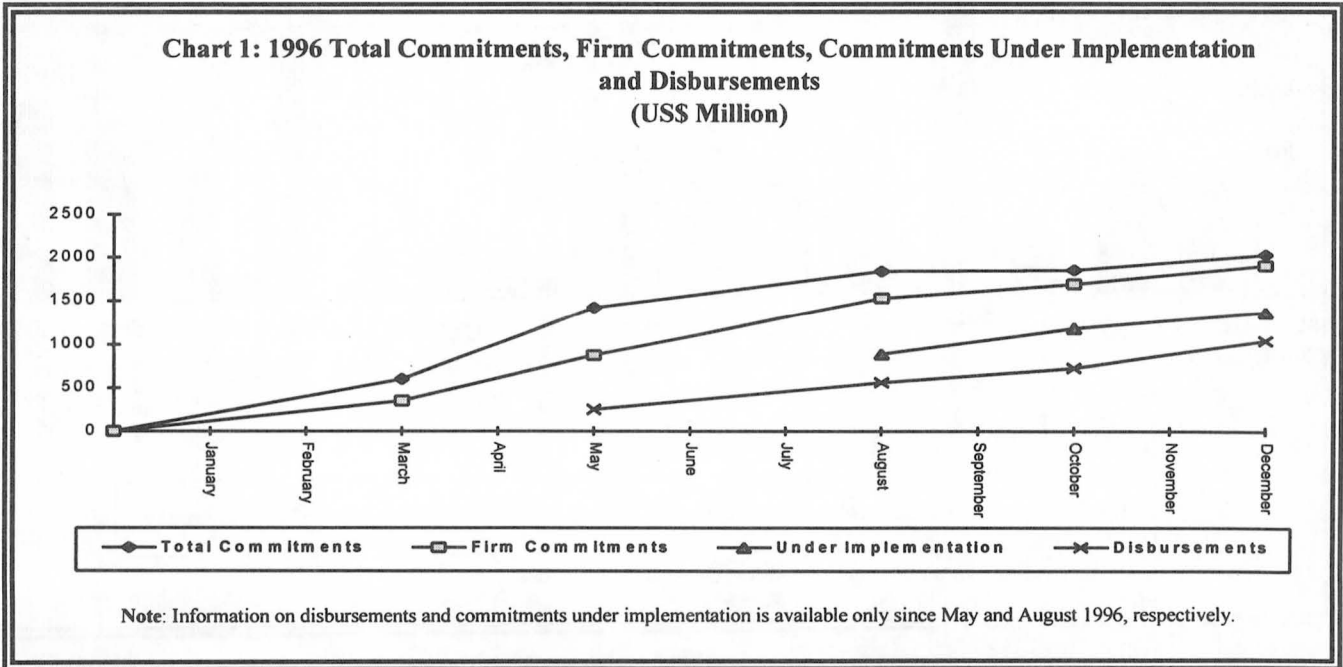
7. Early on, there was a general expectation that as soon as donor pledges were made, implementation of reconstruction activities could start. However, for most donors it took several months to finalize the formal approval of their commitments, select and prepare projects and do the necessary legal work before implementation could begin. The significant acceleration of disbursements since the middle of 1996 clearly reflects the time required by donors to prepare for the implementation of their assistance programs during the first half of the year (Chart 1). The substantial field presence

BOX 1: FROM PLEDGES TO IMPLEMENTATION

There are several stages that donors have to go through to translate their pledges into actual results on the ground. While the time of these steps and their sequencing may vary donor by donor, below is a list of actions that usually precede physical implementation:

- ⇒ Legislative approval of donor commitment.
- ⇒ Identification of reconstruction activities to be supported.
- ⇒ Identification of implementing agencies (if assistance is not implemented by the donor).
- ⇒ Preparation (feasibility study, design work, etc.) and appraisal of projects.
- ⇒ Approval of projects (e.g., by inter-ministerial committee).
- ⇒ Preparation and signature of contractual arrangements.
- ⇒ Start of project implementation, including mobilization of implementing teams.

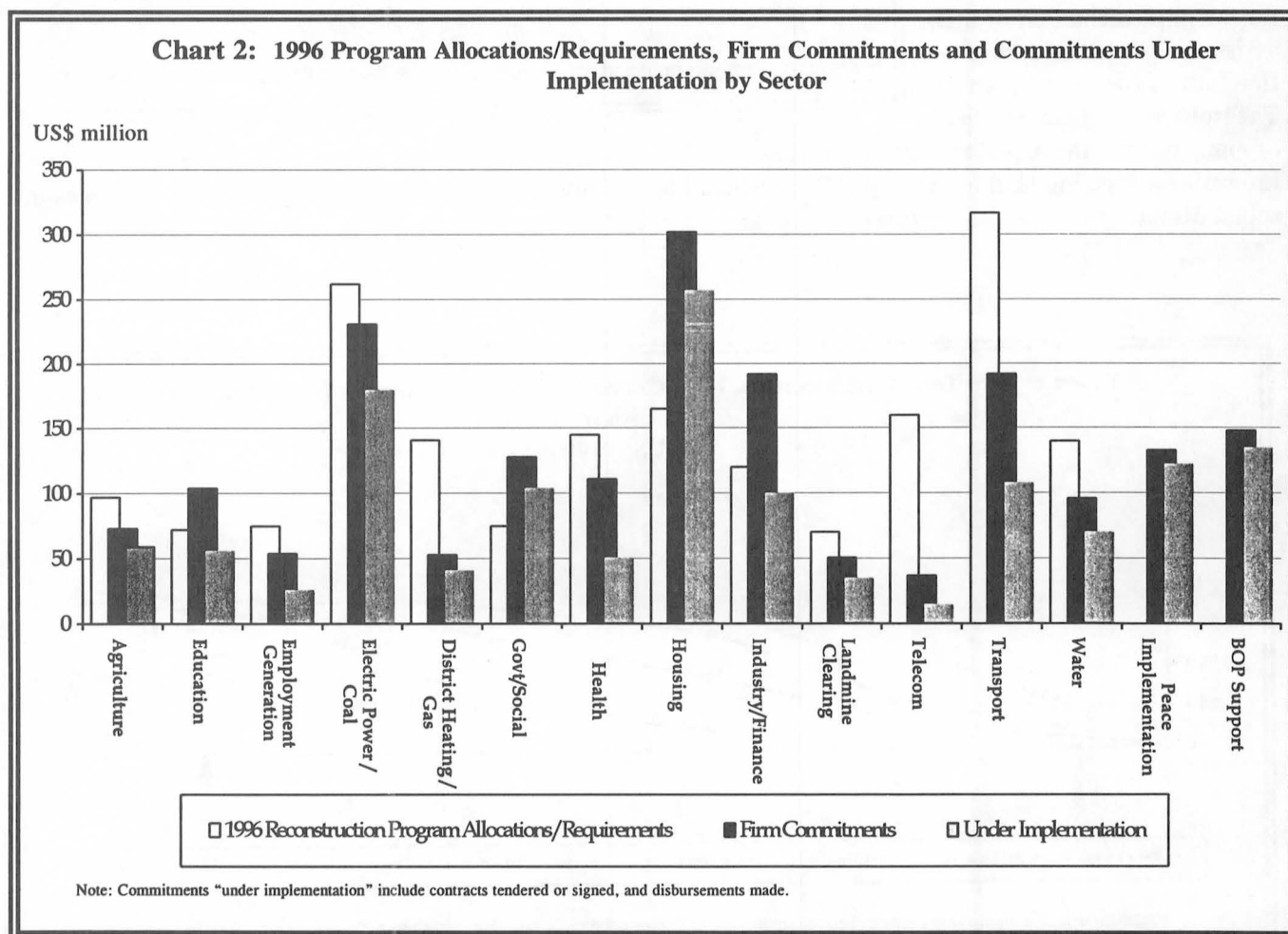
of many donors, the experience gained during 1996, as well as the work of the Sector Task Forces and the Donor Information Meeting held in January 1997 should all help shorten the time needed to translate donor pledges into actual disbursements and expenditures on the ground in 1997.



B. Implementation by Sector

While overall financing needs were met, mismatches between sectoral requirements and funding occurred

8. A sector-by-sector comparison of the 1996 program and actual donor commitments (Chart 2 and Annex 2) shows that firm commitments in several areas -- most notably in housing, industry/finance and government/social support -- significantly exceeded the original 1996 sectoral allocations. These funding "surpluses" reflected the high priority both the authorities and donors attached to the improvement of the housing situation, jump-starting of industrial production and employment generation through lines of credit, and to institution building and support to the most vulnerable groups. Larger-than-envisaged donor assistance gave implementation an important head-start in these sectors, but it also meant less financing for other key areas of reconstruction. Consequently, a significant portion of the large funding requirements for infrastructure rehabilitation, especially in transport and energy, was left unmet. Although funding shortfalls did not prevent significant progress being made in the reconstruction of these sectors (as described in the following paragraphs), many reconstruction activities originally planned for 1996 had to be postponed. The companion report, entitled "Bosnia and Herzegovina: The Priority Reconstruction Program - 1996 Achievements and 1997 Objectives" provides a more detailed description of the status of sectoral programs, as well as the 1997 challenges, policy issues and financing needs by sector.



1. Agriculture

A good start was made towards restoring agricultural production

9. In 1996, \$73 million was firmly committed and some \$56 million was disbursed in support of agriculture. Donor efforts focused on providing key inputs and equipment to farmers to sharply increase domestic food production and decrease dependency on food aid, and support subsistence agriculture to meet the minimal needs of the rural population. Minimum emergency requirements for seasonal farm inputs were largely met in 1996. Some \$10.5 million worth of seeds, fertilizers and pesticides were imported and distributed. About 4,600 pregnant heifers and 600 goats, as well as 2,000 tractors and combines, financed by multilateral and bilateral donors, were also delivered to farmers by end-1996. In addition, several NGOs implemented a number of livestock programs and provided agricultural handtools to farmers. There was also progress in re-equipping veterinary stations, and many small and medium-sized agroprocessing enterprises benefited from different lines of credit. In 1997, a continued effort is required to reduce Bosnia and Herzegovina's food dependency and to generate revenues and rural employment, providing job opportunities for returning refugees.

2. Education

Overall donor commitments exceeded requirements but some of the funds were committed for less urgent activities

10. In 1996, \$104 million was firmly committed and \$55 million was disbursed for reconstruction activities in the education sector. To the extent that a part of these funds was committed for less urgent activities, which could have been more appropriate for a later stage of the reconstruction program, some of the priority repairs to primary schools, originally envisaged for 1996 were left un-funded. The bulk of donor assistance was allocated to school rehabilitation, benefiting 31 pre-primary schools, 307 primary schools, 36 secondary schools and 2 tertiary institutions in the two Entities. Contracts were also signed for \$1.5 million of educational materials, including 20 textbook titles, as well as readers and other educational aids. Donor funds were committed principally for investments and to a limited extent for operating expenditures. The 1997 program continues to focus primarily on the repair and reconstruction of primary schools.

3. Employment Generation

Public works and micro-credit programs helped create jobs

11. During 1996, \$54 million was firmly committed and \$15 million was disbursed for employment generation and labor market development. The primary objective of the employment generation program was to create rapid employment opportunities for those made jobless by the war and to start up other active employment programs (job placement, retraining and microenterprise development). Despite the limited funding, good progress was made in implementing public employment schemes. Employment and Training Foundations (ETFs) were established in both Entities, and these Foundations contracted about \$6 million in public works projects, creating more than 10,000 months of work (or 3,000 jobs based on an average project implementation period of three months). Several bilateral donors also allocated funds outside the ETF framework for about 600 small, quick-impact rehabilitation projects that also created localized, short-term jobs. There was also progress in setting up micro-credit schemes to support self-employment and the development of microenterprises. About 350 small loans were disbursed through NGOs to displaced women, demobilized soldiers, and other rural and urban unemployed and would-be microentrepreneurs in Bihac, Gorazde, Mostar, Sarajevo and Tuzla, sustaining about 300 jobs and creating 330 new jobs. To complement job creation programs, employment counseling and

job-finding services were also initiated, particularly for demobilized soldiers and refugees wishing to return. Finally, local service providers (enterprises, NGOs, private and public training institutions) opened on-the-job and skills training programs, essential for ensuring that the unemployed have the skills to find long-term employment in a market-oriented economy. The significant increase in donor commitments for employment generation and labor market development during the last two months of the year provides a good basis for implementation of such programs in 1997.

4. Energy

a. Electric Power and Coal Mining

Funding gap narrowed significantly by year-end

12. In 1996, \$231 million was firmly committed, and good progress was achieved despite the funding shortfall that prevailed during most of the year. Four major 220 kV transmission lines were restored to service between Tuzla and Zenica, Jablanica and Mostar, Kakanj and Salakovac, and Mostar and Salakovac, significantly improving the reliability of the 220 kV system. Rehabilitation of the trans-country 220 kV lines (Trebinje-Jablanica-Jajce-Prijedor-Bihac) was near completion at the end of 1996. Rehabilitation of distribution networks throughout the country also started. Two main hydro power plants (in Salakovac and Grabovica) were recommissioned, and preparation for the rehabilitation of the Jablanica hydro power station begun. Rehabilitation of three major thermal power plants (Tuzla, Kakanj and Ugljevik) and associated coal mines got well underway. The Ugljevik power plant, Unit 6 of the Kakanj plant and a 200 MW unit at the Tuzla power plant were commissioned before the end of the year. Overall, some \$132 million of donor assistance was disbursed during 1996. The large funding gap that existed in the first half of 1996 narrowed significantly towards the end of the year, providing good prospects for continued progress in implementation of the reconstruction program in the power and coal sectors in 1997.

b. District Heating

Some 32,000 flats were reconnected to the district heating system

13. In 1996, some \$33 million was firmly committed for the reconstruction of district heating systems, and significant progress was achieved in restoring heat supply in Sarajevo before the onset of the winter. About 32,000 flats were reconnected to the district heating system, after extensive rehabilitation of building internal heating installations, in about four months. Most of the boilers and substations were repaired to a level sufficient to operate on base load throughout the winter, and about 3 km of network pipes were replaced. A new billing and collection system, including software and hardware, was introduced and the entire database of flat owners/occupants was updated. Disbursement of donor assistance amounted to some \$21 million. In 1997, the reconstruction program in district heating gives priority to those cities where the largest impact can be made in terms of enabling apartment dwellers to switch back to district heating, instead of using wood and coal for their space heating needs.

c. Natural Gas

Limited progress was due to lack of long-term gas supply agreement

14. About \$20 million was firmly committed and \$12 million was disbursed during 1996 for financing gas supply, repair works and technical assistance. While reconstruction of the natural gas system could not proceed as quickly as envisaged a year ago because of the lack of a long-term gas supply agreement, the following results were achieved. About one-fifth of the transmission system reconstruction and one-third of the distribution

system repair was completed; approximately 200 km of network piping was installed, the latter mostly by "citizen self-help". Some 30% of the measurement and regulating works for residential consumers and about 12% of the in-house installations (interior piping, heaters and cookers) were completed. Progress in reconstruction of the natural gas system in 1997 continues to depend on the resolution of gas supply issues. The companion report, entitled "Bosnia and Herzegovina: The Priority Reconstruction Program - 1996 Achievements and 1997 Objectives" provides a detailed description of the 1997 challenges.

5. Fiscal and Social Support

Donors attached high priority to institution building, social safety net and fiscal needs

15. In 1996, some \$276 million was firmly committed, substantially more than the initial estimate of the first-year needs, and about \$211 million was disbursed. Donor assistance focused on supporting government institutions, primarily at the Federation level, and to a lesser extent at the State level; supporting vulnerable groups; and general fiscal/balance of payments support. Of the \$276 million, \$69 million was allocated to institution building, including the rehabilitation of buildings and office space for key government institutions, office equipment, salary supplements to staff of core government agencies, as well as advisory services and training. The government institutions that benefited from this assistance in the Federation included, among others, the customs and tax administrations, the payments bureau, the banking supervision and the privatization agencies. Significant donor assistance (\$59 million) was also committed in support of the social safety net through two different types of programs: (i) transitional emergency relief to ensure minimum consumption needs and living standards are met (cash benefits to the poorest households to complement food aid programs, emergency repairs and provision of equipment to institutions for children and the mentally ill, and pension support for the elderly), and (ii) programs designed to bring lasting improvements in living standards (mobility aids, health care assistance, professional training and employment services for the disabled and the blind, support to foster parents and small villages for orphans). Finally, in addition to the specific institution building and social safety net programs, \$148 million was also committed by donors for financing balance of payments needs and fiscal expenditures (including recurrent expenditures of the government, pension and health programs, counterpart funding to donors' reconstruction assistance, and external debt service). In 1997, donor assistance needs to focus on supporting sustainable government policies in public finance, and social support programs.

6. Health

Support focused on repairs of health facilities and rehabilitation of war victims

16. In 1996, \$111 million was firmly committed and \$49 million was disbursed primarily to prevent further deterioration of the overall health situation by providing emergency assistance to the health sector and to initiate the physical and functional rehabilitation of the health care delivery system. In both Entities, public health interventions focused on preventive medicine, with particular attention to the most vulnerable groups (displaced persons and children). More than 60% of donor commitments were allocated to urgent repairs of hospitals and dispensaries, while another 30% or so of the funds were slated for addressing the war-related physical and psycho-social rehabilitation needs of the population. The war victims rehabilitation program aimed at the establishment of community-based rehabilitation centers throughout the country, strengthening of orthopedic and reconstructive surgical departments and development of the production of prostheses, and supply of drugs, medical supplies and equipment. In 1997, while support is still needed for emergency activities, donor assistance should increasingly be directed to the development of a sustainable health system.

7. Housing

Housing repairs improved the living conditions of some 95,000 people but only about 4,000 incremental housing units were created

17. The extensive damage to the stock and the urgent need to restore housing to livable conditions have generated considerable donor response. During 1996, some \$302 million was firmly committed and \$184 million was disbursed mostly for emergency repairs. The speed and the size of the commitments reflected donors' awareness of the need to make up the shortfall in usable housing, to act quickly in the short construction period before the onset of the winter, and to assist in the return of refugees and displaced persons. As a result, weatherproofing of an estimated 11,400 public housing units, and repairs to some 12,300 private dwellings were completed before the winter, providing shelter for some 15-16,000 people and much improved living conditions to another 80,000. In addition, another 23,700 units were at various stages of rehabilitation at the end of 1996. Donor-financed housing reconstruction has not only helped to improve living conditions but has also contributed to employment generation with an estimated 215,000 man-months of employment created by the housing repair projects. Given the magnitude of the housing damage caused by the hostilities, and in view of increasing demand for housing by returning refugees, continued significant donor assistance for the rehabilitation of the housing stock will be critical in 1997.

8. Industry and Finance

Lines of credit were instrumental in re-starting small and medium-sized enterprises and creating 11,000 new jobs

18. Strong donor support to small and medium-sized enterprises had tangible results in reviving economic activity, particularly commerce; facilitating enterprise development; improving productivity; and generating employment. Firm commitments for lines of credit (close to \$120 million) and for technical assistance (\$34 million) exceeded the estimated first-year requirements. A total of \$77 million in donor assistance was disbursed during the year. Several lines of credit were established to jump-start commercially viable companies, especially small and medium-sized private enterprises, and to promote the development of a true private sector. Some 300 loans totaling \$68 million were approved for small and medium-sized enterprises, creating an estimated 11,000 permanent new jobs. These programs gave enterprises access to cash, which was critical for working capital and to rehabilitate equipment. While lines of credit constituted the most important vehicle for financing industry last year, preparations for the creation of an equity fund, and a guarantee scheme to provide coverage against non-commercial risks for foreign business partners were also completed during the course of the year. These schemes, together with financial reform programs, will continue to support industrial growth in 1997.

9. Landmine Clearing

Progress was achieved in identification of minefields but mine-clearing is yet to start in earnest

19. Some \$51 million was committed and \$24 million was disbursed by donors in 1996 for landmine hazard management, including institution building, local capacity building, mine awareness programs, mine hazard assessment and marking and clearing of minefields. The aim of the 1996 program was to simultaneously: (i) establish the core capacity for handling mine-clearing over the coming years; and (ii) conduct minefield surveys and urgent mine-clearing. While progress was made in identifying some 17,000 minefields and building up local capacity with the training of some 600 mine-clearers, actual work to clear minefields started only in the fall of

1996 and only on a small scale. The limited progress was mainly due to the weakness of the local mine-clearing sector and disagreements between the State and Entity Governments on the sharing of responsibilities over the management of the mine-clearing program. Recent restructuring of the previous organizational arrangements should help speed up implementation of mine-clearing activities. For a detailed description of the issues and recommendations for 1997, please see the companion report, entitled "Bosnia and Herzegovina: The Priority Reconstruction Program - 1996 Achievements and 1997 Objectives".

10. Telecommunications

Connection of the Entities was not achieved

20. In 1996, only \$37 million in donor funds was committed and some \$15 million was disbursed for the rehabilitation of the telecommunications system. While donor commitments were clearly insufficient to start reconstruction on a large scale, the lack of the necessary agreement between the authorities on the network development plan, especially on the configuration of the backbone network, constituted an equally important obstacle to any significant reconstruction activities. Nevertheless, some urgent repairs were implemented from donor funding, and the PTTs also initiated reconstruction projects with their own financing. However, in 1996, the major objective of connecting the two Entities through direct lines was not met because of political reasons. In 1996, significant work was done to prepare a major program of reconstruction in the telecommunications sector. But its implementation will require that the State and Entity Governments reach an agreement on the structure of the network and on the policy framework within which it will operate.

11. Transport

Major progress was made in rehabilitation of transport links

21. In 1996, \$192 million was firmly committed and about \$91 million was disbursed for the reconstruction of the transport sector. While a significant financing gap remained even at the end of the year compared to the estimated needs, good progress was achieved in all areas of transport from the available funding. Some 90 km of roads, 2 tunnels and 4 bridges were rehabilitated, making it possible to upgrade to normal condition approximately 320 km of the main road network. In the railway sector, the Ploce-Doboj and Novi Grad-Tuzla lines were reopened to minimal standard, allowing trains to run from Ploce across Bosnia and Herzegovina to Northern Europe. However, railway operation on a significant scale has been so far impeded by political difficulties. The Sarajevo airport was reopened to limited civilian traffic, and preparatory activities, including fund raising, for the rehabilitation of the airport were completed with navigational aid equipment already received in Sarajevo. Donor assistance also supported the restart of public transportation, with about 200 new and second-hand buses donated to the main cities in Bosnia and Herzegovina, and with about 50% of the tram network brought back to service in Sarajevo. Major transport infrastructure funding needs remain for 1997.

12. Water and Waste Management

Water supply was restored in most communities

22. In 1996, \$96 million donor financing was firmly committed and \$47 million was disbursed for the rehabilitation of the water sector. At the end of 1996, works were in progress in 39 communities, including Sarajevo and Mostar. These works when complete will benefit an estimated 1.3 million persons. Progress has been relatively slow in improving water service in Sarajevo. However, contracts valued at \$20 million have been signed, and significant improvement in service is expected in 1997. In order to assist in future planning and programming, master emergency plans for the Federation and Republika Srpska identifying and prioritizing projects in the sector were completed, facilitating donor assistance in the water sector in 1997.

13. Peace Implementation Activities

Peace implementation activities provided essential conditions for reconstruction and recovery

23. Donor commitments for peace implementation activities increased rapidly during the period preceding the September 1996 elections. Overall, commitments for support to elections, media and the local police, as reported by donors, reached \$132 million by end-December.³ While not originally designed as part of the reconstruction program, these activities were essential to provide the necessary conditions for reconstruction and recovery to take place. It should be noted, however, that financing committed in support of these activities (totaling 10% of amounts under implementation), was not available for reconstruction. Disbursements for peace implementation activities reached \$115 million.

* * *

Conclusions

24. In 1996, there was intensive activity on many fronts. Sixty donors came together to support reconstruction in Bosnia and Herzegovina under the framework of the Priority Reconstruction Program. By the end of 1996, donors had disbursed more than half of all funds that were pledged. On the ground in Bosnia and Herzegovina, international agencies worked with the people of Bosnia to rapidly establish local capacity to implement and oversee the reconstruction effort. Together they launched programs in all sectors of the economy that, by year's end, were yielding the results already described.

25. In the immediate aftermath of the war, the key challenge was to get reconstruction off to a quick and visible start. That has occurred. In 1997, the challenge will be to shift to sustainable reconstruction, ensuring that limited resources go where they can have a lasting impact. This means complementing physical reconstruction with policy and institutional reforms.

26. In 1997, Bosnia and Herzegovina must not only move away from war but toward an open, restructured economy, increasingly integrated with the rest of Europe and capable of sustaining growth into the future. This goal is ambitious but achievable, and the Bosnian authorities must demonstrate that they are committed to it. They must take the difficult steps in 1997 to set up key institutions, establish clear cooperation between the Entities and different levels of government, pursue sustainable government policies and ensure good governance, including transparency and accountability in the use of donor funds. Such efforts, undoubtedly, will continue to attract strong interest and support from the international community for reconstruction and recovery.

³ Several donors who actively supported peace implementation activities during 1996 did not include the respective amounts in their pledges, nor did they report on the implementation status of their assistance. Therefore, the overall amount of donor support for peace implementation activities is understated in this report.

Priority Reconstruction Program in Bosnia and Herzegovina
Pledges, Commitments, Amounts Under Implementation and Disbursed by Donor ^a
in US\$ million
As of December 31, 1996

Donor	Total Pledges	Total Commitments	Transferred to International Agency Trust Funds ^b	Under Implementation	Disbursed ^c	Funds Expended
Albania	0.02	0.02		0.02	0.02	0.02
Australia	1.13	1.13		1.13	1.13	1.13
Austria	11.50	23.07		23.07	16.49	13.33
Belgium	7.57	7.28		3.23	3.23	1.58
Brunei	2.00	18.70		18.70	16.70	16.70
Bulgaria	0.01	0.03		0.03	0.03	0.03
Canada	25.44	22.71	6.47	15.20	14.83	9.95
Croatia	0.50	7.50		7.00	7.00	7.00
Czech Republic	6.00	6.42		6.33	6.33	6.33
Denmark	5.10	9.63		8.26	8.26	8.26
Egypt	1.00	1.03		1.03	1.03	1.03
Estonia	0.07	0.07		0.07	0.07	0.07
F.R. Yugoslavia	10.00	11.70		11.70	11.70	11.70
Finland	5.00	8.94		6.19	6.19	6.19
France	9.29	13.19		11.65	11.13	11.13
FYR Macedonia	0.10	0.10		--	--	--
Germany	39.25	51.49		41.46	38.56	38.56
Greece	7.00	7.00		7.00	7.00	7.00
Hungary	1.00	1.00		1.00	1.00	1.00
Iceland	1.60	1.60	0.15	0.15	--	--
Indonesia	2.10	2.08		2.00	1.00	1.00
Ireland	6.00	6.20	0.98	6.20	6.20	4.87
Italy ^d	63.65	70.70	41.48	11.43	11.43	8.16
Japan	136.70	107.70	49.00	48.30	43.00	36.17
Jordan	1.37	--		--	--	--
Kuwait	35.00	21.15		1.00	--	--
Latvia	0.09	0.11		0.11	0.11	0.11
Lithuania	0.07	0.08		--	--	--
Luxembourg	3.23	2.87	0.52	2.63	2.63	2.11
Malaysia	12.00	12.00		12.00	1.00	1.00
Netherlands ^d	100.02	100.00	75.00	73.12	66.83	63.22
Norway ^d	40.76	42.40	3.85	38.54	38.54	38.54
Poland	2.90	3.00		3.00	--	--
Portugal	1.00	--		--	--	--
Qatar	5.00	5.00		2.24	2.24	2.24
Republic of Korea	1.00	1.00		1.00	1.00	1.00
Romania	0.21	0.21		0.21	--	--
Russia	50.00	--		--	--	--
San Marino	0.14	0.23		--	--	--
Saudi Arabia	50.00	50.00		20.00	5.00	5.00
Slovakia	1.50	1.50		1.50	1.50	1.50

ANNEX 1

Donor	Total Pledges	Total Commitments	Transferred to International Agency Trust Funds ^b	Under Implementation	Disbursed ^c	Funds Expended
Slovenia	2.89	3.19		3.19	3.06	3.06
Spain	17.50	14.40	2.05	6.66	6.47	5.96
Sweden	30.40	38.50	1.00	30.40	30.40	29.94
Switzerland ^d	33.50	31.87	6.51	30.42	14.59	14.16
Turkey	26.50	46.50		2.70	2.70	2.70
United Kingdom	39.70	57.75	4.79	53.76	52.74	52.74
United States	281.70	294.40		261.84	237.79	158.97
CE Soc. Dev. Fund ^e	5.00	5.00		--	--	--
EBRD ^f	80.21	89.31		--	--	--
European Commission	367.10	430.21		262.70	201.62	131.00
IsDB	15.00	19.00		6.00	6.00	6.00
ICRC ^g	1.50	1.50		1.50	1.50	1.50
IFAD	7.30	7.32		7.32	6.43	6.43
OIC	3.00	3.00		3.00	3.00	3.00
Soros Foundation	5.00	5.96		5.96	0.26	0.26
UNDP ^g	2.00	0.64		0.64	0.64	0.64
WHO ^g	1.18	1.88		1.48	1.48	1.48
World Bank	330.00	357.60		296.00	204.50	189.80
TOTALS	1,895.80	2,026.87 ^h	191.80	1,360.07	1,104.36	913.57

a/ Information on commitments and status of implementation is not available for the following countries: Portugal and Russia.

b/ Several donors have transferred part of their contributions to trust funds administered by international agencies, including international financial institutions. This column shows the amounts actually transferred by these donors. Donors who have placed grant funds to Bosnia and Herzegovina in a trust fund with the World Bank include: Canada \$3.6 million; Iceland \$150,000; Italy \$36 million; Japan \$19 million (as part of a \$50 million contribution Japan transferred to a World Bank-administered trust fund for post-conflict countries, of which Bosnia is expected to be one of the main beneficiaries); Luxembourg \$520,000; The Netherlands \$75 million; Norway \$4 million; Sweden \$1 million; and Switzerland \$5.8 million. These funds are considered to be under implementation or disbursed once actual work contracts are underway or payments made.

c/ Includes an estimated total of \$191 million in advances for future payments to suppliers; this amount has been subtracted to reach "funds expended".

d/ Donors who contributed to resolution of arrears with IBRD are as follows: Italy \$15 million; The Netherlands \$6.5 million; Norway \$1.5 million; and Switzerland \$2 million. These amounts are not included in the reconstruction pledges shown.

e/ As of October 15, 1996, the Council of Europe Social Development Fund reduced its pledge from \$10 million (made in December 1995) to \$5 million.

f/ As of August 15, 1996, the EBRD reduced its pledge from \$100 million (made in April 1996) to about \$80 million.

g/ ICRC, UNDP and WHO implement various programs on behalf of bilateral donors, in addition to carrying out programs funded by pledges made at Donors' Conferences in December 1995 and April 1996.

h/ Uncommitted pledges totaling \$83 million are not included. Total commitments plus uncommitted pledges add up to more than the 1996 pledged amount, since several donors have committed funds over and above their 1996 pledges in order to continue ongoing activities. Because these funds have not yet been formally pledged, they have not been shown as part of the total 1996 pledges.

Priority Reconstruction Program in Bosnia and Herzegovina
As of December 31, 1996

1996 Program Allocations/Requirements, Firm Commitments, Implementation and Disbursement by Sector (in US\$ millions)							
Sector	1996 Program Allocations/ Requirements	Firm Commitments	Firm Commitments as % of 1996 Requirements	Under Implementation	Implementation as % of 1996 Requirements	Disbursed ¹	Disbursed as % of 1996 Requirements
1. Reconstruction	1,839	1,624	88%	1,103	60%	854	46%
Agriculture	97	73	75%	59	61%	56	58%
Education	72	104	144%	58	81%	55	76%
Employment Generation	75	54	72%	26	35%	15	20%
Energy	403	284	70%	221	55%	165	41%
Electric Power & Coal	262	231	88%	180	69%	132	50%
District Heat and Gas	141	53	38%	41	29%	33	23%
Gov't/Social Support	75	128	171%	104	139%	76	101%
Health	145	111	77%	51	35%	49	34%
Housing	165	302	183%	256	155%	184	112%
Industry/Finance	120	192	160%	100	83%	77	64%
Landmine Clearing	70	51	73%	35	50%	24	34%
Telecom	160	37	23%	15	9%	15	9%
Transport	317	192	61%	108	34%	91	29%
Water and Sanitation	140	96	69%	70	50%	47	34%
2. Peace Implementation	—	132	—	122	—	115	—
3. Balance of Payments	—	148	—	135	—	135	—
TOTAL	1,839	1,904	104%	1,360	74%	1,104	60%

^{1/} Includes an estimated total of \$191 million in advances for future payments to suppliers, for a total of \$914 million expended. Funds expended as % of 1996 requirements are 50%.

Priority Reconstruction Program in Bosnia and Herzegovina
Geographic Location of Activities Under Implementation
As of December 31, 1996

Table 1: Financing Requirements, Implementation and Disbursement by Entity
(in US\$ million)

	Revised 3-4 Year Requirements	Under Implementation	% Under Implementation	Disbursements
Federation	3,690	1,098	81	868
Republika Srpska	1,400	43	3	35
State and Inter-Entity	n.a.	219	16	201
TOTAL	5,090	1,360	100	1,104

Table 2: Implementation and Disbursement of Commitments in the Federation by Canton^{1/}
(in US\$ million)

Canton	Ethnic Composition ^{2/}	Under Implementation	% Under Implementation	Disbursements
1. Canton-Specific:		611	56	455
Una-Sana (Bihac Region) (1)	B	38	3	23
Posava (2)	C	16	1	9
Tuzla-Podrinja (3)	B	106	10	79
Zenica-Doboj (4)	B	83	8	75
Gornjedrinski (Gorazde) (5)	B	20	2	13
Central Bosnia (Travnik-Vitez) (6)	M	45	4	32
Neretva (Mostar-Konjic) (7)	M	100	9	75
West Herzegovina (Posusje-Grude) (8)	C	11	1	8
Sarajevo (9)	B	183	17	133
West Bosnia (Glamoc-Tomislavgrad) (10)	C	9	1	8
2. Multi-Canton and Unspecified:		487	44	413
TOTAL		1,098	100	868

^{1/} The "multi-canton" category includes both amounts specified as benefiting more than one canton, and amounts for which donors did not have or provide precise information. Thus, canton-specific results are not complete and should be seen as indicative only. Over time, more precise information will make canton-specific results more reliable.

^{2/} B = Bosniac majority cantons; C = Croat majority cantons; M = Mixed cantons