

Bosnia and Herzegovina

The Priority Reconstruction Program: From Emergency to Sustainability

Volume 1

An Overview of Progress and Challenges for 1997

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Executive Summary

1996 has been the first peaceful year in Bosnia and Herzegovina, following the three-and-a-half years of war. This year has not been an easy one, but no one expected that it would be. Major political challenges had to be addressed: the "real" establishment of the Federation, the elections in Mostar, and finally the country-wide elections in September, just to name a few. And significant further political challenges still lie ahead: the creation of common institutions, the arbitration for the Brcko Area and the municipal elections. There have been ups and downs in the painful process of reconciliation and reintegration. But what really matters: there has been no war.

A year after Dayton, the first results of peace and reconstruction, and return to normal life are beginning to emerge, especially in the Federation. Industrial production and employment have increased, so have wages--although all from very low levels. Some basic services, like water, electricity and heating have been or are being restored in most communities. Repairs of housing are underway. The Sarajevo airport has been opened to limited commercial traffic, and major road and railway links are under reconstruction. Schools reopened in September and health clinics are being rehabilitated. Donor support played a major role to make this happen.

Despite the initial achievements, reconstruction needs remain vast and economic activity remains at low levels. Industrial production is still only at 10-15% of its pre-war level, half of the labor force is unemployed, incomes are low, and the social safety net that exists is almost entirely dependent on donor support. Refugee return, significantly falling short of expectations, is hindered by lack of housing, utilities and job opportunities, and the devastated infrastructure still constitutes a major bottleneck to increased economic activity. Although war damage was less in Republika Srpska, sanctions and resulting lack of donor assistance have meant costly delays in much-needed reconstruction.

1996 represented a year of transition from emergency interventions to reconstruction. 1997 should mark a shift to sustainable reconstruction and equitable socio-economic recovery country-wide. Ensuring sustainability is all the more important, since reconstruction is primarily a Bosnian effort. The \$5.1 billion Priority Reconstruction Program, endorsed by the donor community a week after the signing of the Paris Peace Agreements, will cover at most only about a quarter of the estimated war damages. Large-scale donor support is expected to last for another 2-3 years, and Bosnia and Herzegovina needs to prepare now for the time when donor assistance is scaled back.

Sustainability, both an objective of and a pre-requisite for donor support, is a broad theme. It covers many aspects of government policies: (i) cost recovery in infrastructure through user charges; (ii) sustainable budgets at all levels of government; (iii) viable and competent public institutions; (iv) reform of the trade regime to make it more open and compatible with European norms; and (v) structural reforms in the banking and enterprise sectors to create viable financial intermediaries and unleash private initiative. Sustainable policies are critical to achieving high economic growth and, eventually, creditworthiness.

In December 1995, the donor community pledged support to the \$5.1 billion medium-term Priority Reconstruction Program, and in 1996, it delivered on its promise to commit \$1.8 billion. The financing needs of the reconstruction program for the next two-year period of consolidation are estimated at \$2.5 billion, of which the 1997 requirements represent \$1.4 billion. This amount of external funding would keep the medium-term program on track, and would allow some "catch-up" of donor support to Republika Srpska and ensure a more balanced regional allocation of resources. The priorities are clear: continued rehabilitation of physical and social infrastructure, support of refugee return and employment generation. But all these must happen in a sustainable and participatory way.

The challenge is not just to set the target but to present a coherent approach. A comprehensive policy framework has to be outlined to justify continued donor support and the allocation of resources to specific sectors. And, as donor assistance is likely to be scaled back in the years ahead, clear sectoral priorities need to be defined to do more with less.

Given the world-wide scarcity of concessional assistance, mobilizing \$1.4 billion for the 1997 reconstruction needs will not be easy. Compliance with the peace agreement by the parties, good progress on the political front and in economic reforms would make a significant difference in donors' readiness to commit this amount.

The challenges of reconstruction remain formidable. Cooperation between the Entities and the different levels of government; sustainable government policies; good governance, including transparency and accountability in the use of donor funds, and strengthened local capacity are all essential for achieving results of the reconstruction effort. Similarly, adequate and timely funding on concessional terms; donor programs that address the priority needs and provide for appropriate regional allocation of resources, as well as strong donor coordination through the Sector Task Forces and the Economic Task Force are also key to success.

The war ended only a year ago. Working together, the government and donors can maintain peace and create a better life for the people of Bosnia and Herzegovina.

Preface

This report consists of two main sections. The first provides an overview of progress in the reconstruction effort during 1996, and summarizes the lessons of implementation. The second section focuses on 1997, and describes the priorities and the overall financing requirement of the second year of the reconstruction program, as well as the challenges that lie ahead.¹

Implementation progress in this report is measured primarily by *financial* benchmarks: (i) what proportion of pledged donor funding has been committed; and (ii) how much of committed amounts are under implementation. The report uses disbursement of funds as one of the benchmarks of implementation. According to the commonly used definition of disbursement (see below), advances made to the implementing agencies in Bosnia and Herzegovina for future payments to suppliers are also included in the disbursement figures. In order to present an accurate picture of *financial* implementation, estimates of the unused portions of such advances have been prepared, and are shown in footnotes. (On average, based on a sample of donors, the unused amount of such advances is on the order of some \$60-70 million.) Based on more detailed information from donors that should be available in the next round of data collection, these estimates will be further refined in the next status report in order to better capture expenditures actually spent in the field.

It should also be noted that disbursement figures include payments for completed contracts as well as advance payments made to suppliers according to the terms of the contracts under implementation. Finally, disbursement data, in line with the used 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 the amounts transferred to those trust funds.

Many donors will find *physical* indicators equally interesting. This report provides a flavor of physical results achieved so far; however, comprehensive information from donors is not currently available. A system to monitor contracting of donor reconstruction activities is under preparation, with the support of the Office of the High Representative, IFOR and the U.S. government, in order to track and report on physical results. Information on completed contracts and physical benchmarks will thus be enhanced over time, as donor reporting is deepened.

All information on implementation progress has been provided by donors. This information is collected and monitored in the Bosnia Reconstruction Program Donor Database, a joint effort of the European Commission and the World Bank in partnership with the Government of Bosnia and Herzegovina. The European Commission and the World Bank would like to thank the many dozens of donor country and organization representatives who spent time completing database forms, reviewing data sheets and answering questions on their pledges, commitments and programs in support of the Reconstruction Program in Bosnia and Herzegovina. The high response rate indicates the priority the donor community places on reconstruction in Bosnia and Herzegovina. *Nevertheless, information gaps exist, and figures should be considered best estimates.*

* * *

The European Commission and the World Bank would also like to express their appreciation for the valuable comments received from the High Representative, the European Bank for Reconstruction and Development, the International Management Group (IMG) and other members of the Economic Task Force in Sarajevo during the preparation of this report. Nevertheless, the authors are solely responsible for any errors in the report.

¹ This document is supplemented by two other volumes. Volume 2 of this report, "The Economic Vision and Near-Term Tasks Towards Sustainable Recovery and Growth", summarizes the macroeconomic and structural agenda for 1997. Volume 3, "Reconstruction Sector Reports", provides a detailed, sector by sector stocktaking of achievements and implementation issues, as well as a review of the financing needs for 1997, and a discussion of sustainable sector policies.

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, however is pending 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 balance of payments. This category includes funds advanced to Bosnian agencies for the purpose of payment of contractors or suppliers, but not yet expended (see below). On average, such advances have accounted for \$60-70 million of funds in the category *disbursed*. In-kind assistance is considered disbursed once provided.

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

- For each donor program, project or commitment, information provided by donors has been entered to 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 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 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 average exchange rate of October 1996. The donor information used in this report is as of October 1996.

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I. A Year After Dayton: Progress in 1996

A. The First Results²

Peace and reconstruction show the first results

1. The people of Bosnia and Herzegovina have experienced the first benefits of peace. In the Bosniac-majority area, industrial production doubled in a year, although from a very low base, while average net wages roughly quadrupled, reaching about DM160 per month.³ Employment also increased, though slower than industrial production, bringing the unemployment rate down from an estimated 90% in 1994/95 to 50-60%, which is still extremely high. In the Croat-majority area, industrial production is estimated to have reached 85% of its pre-war level and the average net monthly wage exceeded DM330 by June 1996. Finally, in Republika Srpska, estimates indicate some recovery in both industrial production and wages following the suspension of the embargo in February 1996.

2. The first results of reconstruction are also becoming visible, mostly in the Federation. In August 1996, the Sarajevo airport opened to limited commercial air traffic, and by now there are regular flights to Bosnia and Herzegovina, operated by commercial airlines. Repairs have been completed on two key bridges which regularize an important road link between Sarajevo and Mostar, and the reconstruction of another eleven bridges and several road sections is underway. Urban transport has restarted in the main cities, and Sarajevo tramways are running regularly after almost four years of virtually no service. Rehabilitation of four main power transmission lines has been completed, and the reconstruction of five principal power generation plants is underway. District heat installations in 32,000 flats in Sarajevo are being renovated in preparation for the coming winter. Some 5,000 head of livestock and 1,000 farm tractors have been imported. Commerce is picking up, thanks in part to several donor funded lines of credit to small businesses. Finally, repairs of some 15,000 flats and private homes are underway, many of which have been completed.

B. The Donor Effort

1. From Pledges to Commitments

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

3. Since the first pledging session for the 1996 reconstruction program in December 1995, a total of 58 donors -- 47 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. To date, a total of about \$1,894 million has been pledged for the 1996 program, in a truly broad-based international partnership of nations and multilateral institutions.⁴

² Sections A and B of the paper draw on the document entitled "Implementation of the Priority Reconstruction Program in Bosnia and Herzegovina - First Status Report to the Donor Community", issued in September 1996. The data have been updated as of October, 1996.

³ Statistical information is only partially available.

⁴ 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 \$61.5 million have been made since that date (including Albania, Kuwait, Latvia, San Marino, Poland, the Federal Republic of Yugoslavia, UNDP and IFAD). Since April, 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 \$1,894 million.

Some 90% of pledges had been firmly committed by end-October

4. Good progress has been made in committing promised funding. Almost all pledges, or about \$1,851 million, had been committed by donors to specific sectoral programs by the end of October (Table 1). Of this total, around \$1,688 million represents *firm commitments* (i.e., approved by national legislative bodies or Boards of multilateral agencies, and able to be implemented); \$163 million are *indicative commitments* (i.e., pending authorization or allocation); and some \$118 million remains *uncommitted*.⁵ This is a significant improvement since August; some \$160 million was firmly committed over the last two months, reducing the amount of uncommitted or indicatively committed funds to \$281 million in total.

	US\$ Million	% of Pledged Amount
Total 1996 Pledges	1,894	100%
1. Total Commitments	1,851	98%
a. Firm Commitments	1,688	89%
b. Indicative Commitments	163	9%
2. Uncommitted	118	6%

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 commitments for reconstruction activities exceed \$1.7 billion

5. Of the \$1,851 million in total commitments to date, some \$1,719 million has been designated for reconstruction activities (Table 2). Most of these activities fit within the framework of the Priority Reconstruction Program. Some \$165 million of the total has been committed to balance of payments support.

	US\$ Million	% of Total Commitments
Total Commitments	1,851	100%
1. Reconstruction Activities	1,719	93%
a. Multilaterally-Administered	1,049	[61%]
b. Bilaterally-Administered	670	[39%]
2. Peace Implementation	132	7%

Multilaterally-administered programs and projects (under the aegis of international financial institutions and including bilateral financing) account for an estimated \$1,049 million, or 61% of reconstruction activities, while bilaterally-administered programs and projects (through national aid agencies, NGOs or others) represent the remaining \$670 million (39%). An additional \$132 million has been earmarked for peace implementation activities such as support for elections, media and the local police force.

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2. From Commitments to Implementation

Close to \$1.2 billion is under implementation

6. Ten months into the reconstruction effort, the work of rebuilding Bosnia and Herzegovina is well underway. Some \$1,176 million civil works, services, equipment and goods contract, as well as critical balance of payments support, is under implementation in support of the Priority Reconstruction Program, representing 64% of total commitments (Table 3). A further \$512 million is firmly committed and awaits tender. Over the past two months, the value of signed contracts increased by about \$325 million, an indication of good implementation progress.

	US\$ Million	% of Commitments
Total Commitments	1,851	100%
1. Total Under Implementation	1,176	64%
Of which Contracts Signed	1,050	57%
of which Amounts Disbursed ¹	720	39%
2. Not Yet Under Implementation	675	36%
a. Firm	512	27%
b. Indicative	163	9%

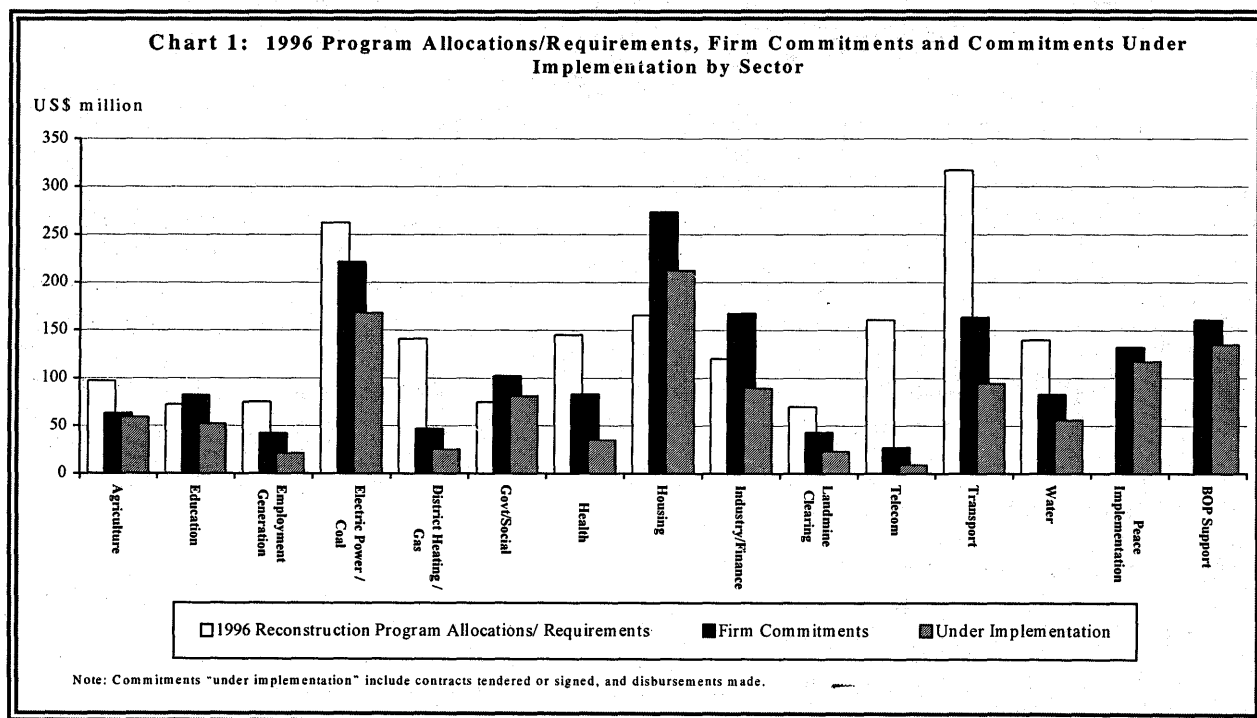
1/ Includes an estimated total of \$60-70 million advances for future payments to suppliers. Future reports will provide more details on "funds expended", as donor reporting is enhanced.

⁵ Definitions of terms used in this report and in the Bosnia and Herzegovina Donor Database are provided in the Preface.

Estimates based on past trends indicate that out of the \$675 million not yet under implementation, about \$250 million could be tendered and/or contracted by year-end, bringing total under implementation to \$1.4 billion, or about three-quarters of total 1996 pledges.

While overall financing needs have been largely met, sectoral financing gaps have remained

7. While in the initial months donor focus was on humanitarian and other “quick-fix” rehabilitation, data indicate that during the past several months donors have embarked on reconstruction proper: Projects designed to repair transport and electric power networks, rebuild housing, and support lines of credit and government institutions represent about 77% of amounts tendered, contracted and disbursed. A sector-by-sector comparison of 1996 sectoral allocations, or requirements, funding commitments and amounts under implementation (Chart 1 and Annex 2) shows that donor funding commitments in several sectors -- notably housing, industry/finance and government/social support -- have met and even exceeded estimated 1996 requirements. While these funding “surpluses” have given implementation an important head start in these sectors, they have also meant less donor financing for other areas in need. This in turn has led to some “mismatches” between requirements and commitments of funding which have left financing gaps in some very important programs, such as transport and energy. Volume 3 of this report provides a detailed description of the status of sectoral programs, including a review of sector funding requirements and gaps.

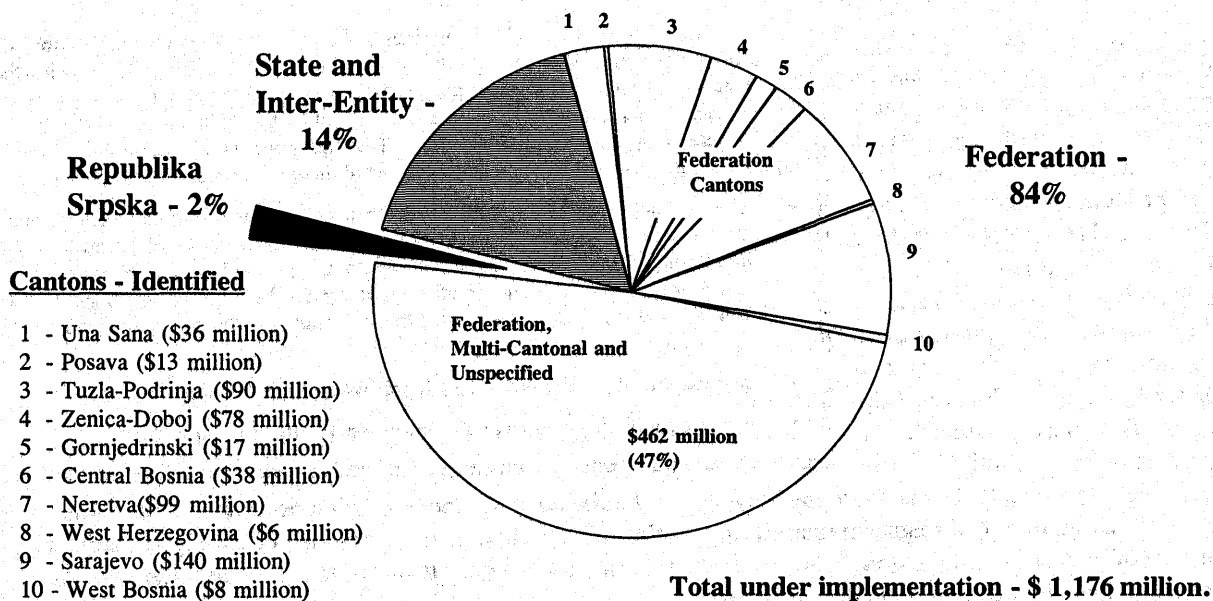


Donor-funded activities have focused on the Federation

8. The primary focus of reconstruction program implementation in Bosnia and Herzegovina to date has been on the Federation, where 84% of the total \$1,176 million under implementation -- or some \$987 million -- is underway (Chart 2 and Annex 3). Within the clearly identifiable cantonal allocations of \$525 million, Bosniac-majority cantons account for 69% (\$361 million), while Croat-majority cantons represent 5% (\$27 million) and mixed cantons 26% (\$137 million). The remaining \$462 million includes both amounts specified as benefiting more than one canton, and amounts for which donors did not have or provide precise information. As for Republika Srpska, the effects of the international embargo earlier this year meant that preparation for

reconstruction investments got a late start. Thus, just \$24 million, or 2% of total activities, is under implementation in Republika Srpska. Finally, some \$165 million (14%) has been targeted to the State and to activities of an "inter-entity" nature.

Chart 2: Implementation by Geographic Location



C. Implementation Experience

1. On the Bosnian side

The authorities have been generally effective in implementing the program

9. While a number of donors implement their assistance programs through their own implementing agencies or NGOs, others rely on the Bosnian authorities to implement the agreed reconstruction activities. The State and the Entity governments established reconstruction boards or equivalent bodies to coordinate the implementation of the donor-funded reconstruction program. These bodies have played a useful role in defining the priority areas of reconstruction and taking decisions on implementation issues. Several Project Implementation Units (PIUs) have also been set up to manage the day-to-day implementation of reconstruction projects. While these PIUs are not fully skilled in project management and implementation, and need substantial further strengthening in these areas, they have been instrumental in getting more than 900 contracts signed for the procurement of essential goods and services during the last 10 months, a significant achievement under difficult circumstances.

Some implementation risks have been reduced

10. The background document prepared for the donors' meeting in April 1996⁶, listed a number of preconditions for the success of the reconstruction program. These included, among others, (i) the freedom of movement of goods; (ii) transparent procurement procedures, and (iii) the creation of some form of political insurance scheme to boost private sector financing for the restart of industrial production. Early action by IFOR and compliance by the authorities reduced widespread difficulties with the free movement of goods that had been experienced until the early months of this year, although occasional delays in the delivery of donor-financed imports still occur due to bureaucracy and ambiguity regarding the tax-status of such imports. As regards the transparency of procurement procedures, the government has recognized the need for an effective mechanism for monitoring the procurement process, and decided to establish a Procurement Monitoring and Audit Unit (PMAU), initially supported by foreign consultants. This unit should become a nucleus for a future Government Audit Agency with an enlarged scope of independence and authority. The establishment of the PMAU is an important step in preventing possible abuse of donor funds and providing extra comfort to the authorities and donors alike. Finally, the authorities have decided to establish a political risk insurance scheme, to be back-stopped by donor funds, to help the normalization of business relationships between Bosnian and foreign companies and banks. This scheme, if successful, could significantly help the restart of industrial production, and would constitute a first step towards the reintegration of Bosnia and Herzegovina's industry with the rest of Europe.

BOX 1: PROCUREMENT MONITORING AND AUDIT UNIT

In order to ensure the transparency of procurement practices, the Bosnian authorities have entrusted the Institute of Accounting and Auditing (IAA), with the assistance of the International Procurement Agency b. v. (IPA), to monitor and audit all procurement activities carried out under World Bank (including World Bank-administered trust funds) financed projects. IAA has access to all records and accounts of the institutions responsible for the execution of these projects, and its tasks include:

- The monitoring of at least one full cycle of procurement and disbursement transactions carried out by each PIU for World Bank financed projects. This monitoring task, which applies to randomly selected cases, consists of an assessment of methods and practices used by the PIUs in procuring goods and services and their consistency with the provisions of the respective credit/grant agreements.
- Ex-post annual procurement audits for all World Bank financed projects.
- Specific audits as requested by the government or the World Bank.

But limited progress has been achieved in politically charged inter-entity matters and in landmine clearing

11. While some progress in building economic institutions between the Entities and within the Federation has been made (tax administration, customs and payments systems, and the Central Bank), there has been little cooperation between and sometimes within the Entities in the major network sectors (electric power, gas, roads, railways and telecommunications). The difficulties of reaching agreements by the parties, including those within the Federation, have led, for example, to a stalemate in the reconstruction of the telecommunication system. Work is underway to resolve these difficulties and to bring about rationalization of the railways operations. Donors will be concerned to see that rational arrangements are put in place in the railways, power and other network sectors that provide for least-cost solutions to investment programs and ensure operational efficiency in these sectors. In other sectors (like water supply), there has also been reluctance to cooperate in multi-ethnic communities, but donors' insistence has helped to bring the parties together in their own interest. Now, after the elections, there may be a better chance for inter-entity as well as intra-entity cooperation. Special incentives, like the proposed Quick Impact Regional Fund (see paragraph 25), could also play a useful role in helping foster regional cooperation by supporting small-scale but highly visible reconstruction activities in multi-ethnic communities.

⁶ "Bosnia and Herzegovina-The Priority Reconstruction and Recovery Program: The Challenges Ahead", Discussion Paper No. 2, dated April 2, 1996, prepared by the World Bank, the European Commission and the European Bank for Reconstruction and Development for the Second Donors' Conference.

12. Clearing of landmines is critical for ensuring freedom of movement, refugee return and for the entire reconstruction program. However, progress in this very complex area has been much slower than expected due to disagreements between the State and the Entities, and the Bosnian authorities and several donors on management and taxation issues, among others. A multi-pronged approach is being explored for 1997, including contracts with commercial companies, use of NGOs and a "train and equip" program for local mine-clearers.

With faster implementation, limited local capacity may become a bottleneck

13. As noted above, the Bosnian authorities deserve credit for the efficiency of project implementation. However, as the reconstruction program enters its second year, the tasks of coordination and implementation will become even more complex. While most of the Bosnian implementing agencies have competent staff, their number is very limited, and their capacity to handle a large number of projects may be stretched to the limit. Furthermore, there is competition for highly-qualified people among foreign institutions located in Bosnia and a growing demand coming from the private sector, resulting in a salary structure that makes it hard to keep staff in the public sector. On the positive side, with demobilization and return of refugees, many well-trained people can return to their original professions, increasing the pool of qualified staff for implementing agencies. Donor support to these agencies, in the form of technical assistance and the financing of some recurrent expenditures, could help strengthen their capacity to manage the coordination and implementation of reconstruction activities.

14. Another aspect of local capacity concerns the ability of local contractors to play a significant role in the implementation of the reconstruction program, and the availability of construction materials. There was a consensus among donors from the outset that local contractors should be used as much as possible, with their selection based on competition and the quality and timeliness of their work. Experience suggests that Bosnian contractors in most cases have been able to deliver good quality work in a timely manner and have considerable capacity. In addition, to ensure appropriate quality, arrangements for (local or foreign) construction supervision have also been put in place. As for the availability of construction materials, the market has been working and little shortage has actually occurred. It is important, however, that the local construction industry remain fully competitive through the strict application of competitive bidding procedures and keeping the procurement process open to foreign bidders.

2. On the Donors' Side

Overall, donors have lived up to the expectations by committing more than \$1.8 billion in 1996

15. As discussed earlier, funding commitments by donors have reached the original target set for 1996.

	US\$ Million	% of Total Commitments
Total Commitments	1,851	100%
1. Grants	1,386	75%
of which In-Kind	73	4%
2. Loans	465	25%
a. Concessional	398	21%
b. Non-Concessional	67	4%

Given the world-wide scarcity of concessional assistance, this is a significant achievement, although the damages in Bosnia and Herzegovina are multiple of this amount. The quality of assistance has been high, with about 96% of the funding provided on grant or very concessional terms (Table 4). 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.

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

16. 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, to select and prepare projects and do the necessary legal work before implementation could begin. The substantial acceleration of disbursements since the middle of the year clearly reflects this time-lag. The substantial field presence by many donors, their experience in 1996, as well as the work of the Sector Task Forces and the preparatory Donor Information Meeting should all help shorten the time needed to translate donor pledges into actual disbursements and expenditures on the ground in 1997.

BOX 2: 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.

Better donor coordination could have helped to close large financing gaps in some sectors

17. In spite of the several fora and mechanisms for donor coordination--most importantly the Sector Task Forces and the Economic Task Force in Bosnia and Herzegovina, as well as sectoral donor meetings--it is striking that key sectors, such as transport and energy, remained significantly underfunded despite the adequacy of the overall resource envelope. It took more time than expected for several Sector Task Forces to establish themselves and to define their proper role in the donor coordination framework. IMG played a major role in helping to get many of the Sector Task Forces off the ground. The Sector Task Forces have recently undergone significant refocus and reorganization to move them from information exchange fora to planning, coordination, advisory and project progress monitoring bodies. The Sector Task Forces have also developed closer working relationships with the Office of the High Representative in order to attain consistency between their deliberations and the High Representative's efforts in the civilian aspects of peace implementation. The membership of these task forces has been strengthened during the year, and they now also include representatives of the Bosnian authorities, which should help ensure that donor activities appropriately reflect the government's priorities. The Sector Task Forces are increasingly becoming a "one stop shop" for donors who would like to avoid duplication of efforts and ensure that their assistance fits into the Priority Reconstruction Program. The reinforced coordination structure agreed at the Peace Implementation Council will further support these efforts.

Information on donor activities focused on financial indicators of implementation

18. Donors have regularly provided information to the EC and the World Bank on the status of their commitments, and this information has been recorded in the donor database operated jointly by the two institutions and shared with the Bosnian authorities. These donor reports are essential for both monitoring implementation progress and for helping donor coordination. The database, as originally designed, focused on a few key financial indicators of implementation, keeping in mind donors' willingness and capacity to provide regular updates. As donors set up field offices and the reconstruction effort has gained momentum, physical indicators of progress on individual projects (contract completions and other benchmarks) have been more systematically measured by donors and this information has become more readily available. A system for monitoring actual expenditures on the ground ("funds expended") and contract completions and other indicators of physical progress has been initiated; the collection of data is underway.

II. From Emergency to Sustainability: Challenges for 1997

D. Objectives of the Medium-Term Reconstruction Program

The basic framework for donor support remains valid

19. 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 European Bank for Reconstruction and Development, was endorsed by the donor community at the First Donors' Conference, held in December 1995 in Brussels⁷. This \$5.1 billion program, to be implemented over a period of three to four years, established a common framework for donor support for the reconstruction of Bosnia and Herzegovina.

20. One year after the start of implementation, this basic framework--though with some changes in emphasis described below--remains valid. Its three key objectives are to:

- **Provide sufficient financial resources to support a broad-based rehabilitation process that will enable rapid economic recovery and growth.** Support must cover the full range of war-damaged sectors--agriculture and industry, as well as the traditional infrastructure sectors (transport, telecommunications, energy, and water) and the basic social services (housing, education and health). The reconstruction program must focus on creating employment opportunities across the economy. Facilitating the voluntary return of refugees, and reintegrating demobilized soldiers and the unemployed into the economy is not only an economic necessity but is essential to the peace process. Clearing of the estimated 15,000 minefields needs to progress quickly to improve safety of the people and facilitate implementation of reconstruction activities. Reconstruction needs to proceed hand-in-hand across all sectors; if any sector lags behind others, bottlenecks may develop and slow down the entire process.
- **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--and donor support for the strengthening of existing institutions at the State, Entity and local levels as well as for the creation of the new institutions--will be critical to the success and sustainability of the reconstruction effort.
- **Support 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. Establishment of a market economy will be key to the creation of jobs and to sustainable high economic growth on the medium term.

E. Priorities and Financing Requirements of the 1997 Program

Government policies and donor support need to emphasize sustainability

21. The 1997 program reflects these three broad objectives. However, while the first year's program focused mostly on emergency assistance--and could be characterized as a transition between humanitarian interventions and reconstruction--1997 will be devoted to reconstruction proper, and to the support of policy measures that enhance the sustainability of the reconstruction efforts. In other words, in 1997, both the government and donors should be increasingly conscious of the need to ensure the long-term viability of their interventions.

⁷ IMG provided invaluable assistance in the formulation of the priority reconstruction and recovery program by preparing country-wide and specific damage/need assessments.

Reconstruction needs remain vast

22. Despite the first results that are now beginning to emerge, the reconstruction needs remain vast. Industrial production is still only at 10-15% of its pre-war level, unemployment is unbearably high, hundreds of thousands of people are without permanent housing, and many communities continue to lack basic social services. The social safety net is still largely based on humanitarian assistance since the government budget lacks sustainable financing to support the poorest groups of the society. Finally, the desired return of refugees is hindered by all of these circumstances, and would actually aggravate the situation, unless reconstruction progresses rapidly and momentum is maintained.

The 1997 program focuses on infrastructure, refugee return, employment generation and overall sustainability of the program

23. The key, mutually reinforcing, priorities of the 1997 program include:

- **Continued rehabilitation of physical and social infrastructure.** The 1997 program will continue rehabilitation activities in the transport, energy, water, and (if conditions permit) telecommunications sectors, as well as in education and health. The major focus will be on the rehabilitation of *existing* facilities, that are essential for economic recovery and social well-being. Expansion or creation of new facilities will be exceptional, and will only take place if an exceptionally high rate of return can be reliably identified or to facilitate refugee return. Government policies and donor assistance programs would need to ensure gradual achievement of *cost recovery* in the infrastructure sectors as well as provide for mechanisms to finance at least recurrent costs in the social sectors. Appropriate pricing policies (through user charges) in the energy, telecommunications and water sectors, as well as increased collection efforts, would go a long way to make reconstruction investments in these sectors financially sustainable. In education and health, recurrent costs will need to be borne by the different levels of government, therefore it is essential to factor these expenditures into the appropriate budgets. If this does not happen, and since donors are not showing interest in financing recurrent costs, rehabilitated schools may be left without teachers and health facilities without doctors. Finally, clearing of landmines, a pre-requisite for many reconstruction activities, will need to proceed rapidly.
- **Support of refugee return.** The return of refugees has significantly fallen short of expectations. While there are obviously many other reasons, lack of serviced housing and job opportunities have contributed to a large extent to this outcome. Therefore, the 1997 program puts increased emphasis on the rehabilitation of potential return areas designated by UNHCR. *Integrated* assistance programs, covering housing, job creation (through public works, lines of credit and other schemes to support industrial recovery), as well as rehabilitation of basic utilities, such as water and electricity, will be designed to facilitate return. Since progress in all the areas of the reconstruction program will be essential for facilitating the return of refugees and displaced persons, it is critical to ensure that an appropriate balance is maintained in the sectoral allocation of donor resources. Unbalanced refugee return programs would not be sustainable or successful; renovated houses without water or electricity, or a nearby school or clinic would not create an incentive for return. Therefore, it is critical to pursue an integrated approach, as part of the overall reconstruction program, covering all basic elements necessary for refugee return. While the return of refugees is an important social and political objective, any targeted intervention should meet the test of sustainability.
- **Employment generation through private and financial sector development.** With very high levels of unemployment in the entire country, rapid creation of jobs is absolutely essential. The rehabilitation of infrastructure itself generates significant employment opportunities both directly by the use of local contractors and indirectly by increasing the purchasing power of those that are employed. Continuation of the public works programs, started in 1996, is also helpful in providing temporary employment and income to a large number of people, but these programs are usually not sustainable in the longer term. Industrial and agricultural production is still at a very low level, and though many industrial facilities will never become viable and should not be reopened, there are several others which have a future. Therefore, a package of assistance to revitalize the economy and create jobs is suggested for 1997 including: political risk insurance

schemes to facilitate the re-establishment of normal trading relationships with other countries and the creation of joint ventures; lines of credit for working capital; small-, medium- and micro-enterprise support schemes, including equity funds; and privatization assistance for the large state-owned enterprises.⁸

- **Support of sustainable budgets and structural policies.** The entire 1997 program should support the objective of sustainability, as outlined above. In addition, there will be *specific* support for the creation and strengthening of government institutions and for addressing some of the major structural issues of transition, all to ensure the sustainability of recovery. While many of the structural reforms will take years to implement, early steps would be essential to sustain high economic growth on the medium term. The *public finance* reform agenda will focus on the allocation of expenditure and tax responsibilities across the various tiers of government, enhanced debt management capacity, and further reforms in customs and tax policies and administrations. In *banking*, the reforms would encompass actions to restructure and privatize banks, as well as support further reforms in legal, regulatory and supervision frameworks. *Privatization* of enterprises will need to commence and private sector activities will have to be supported by appropriate legislation, such as corporate law, bankruptcy and competition laws, as well as legislation on accounting and auditing. Finally, reform in *trade practices* and customs administration in both Entities will need to be implemented to make trade practices more compatible with the European norms which is Bosnia's long-term vision. These reforms would be supported by different types of donor assistance, including fiscal/balance of payments support and technical assistance.

The external financing requirement of the 1997 program amounts to \$1.4 billion

Sector	Revised 3-4 Year Program¹	1996 Firm Commitments	1997 Requirements / Sectoral Allocations
Agriculture	304.0	63.0	90.0
Education	273.0	82.0	70.0
Employment Generation	76.0	42.0	30.0
Energy	871.0	268.0	310.0
District Heating and Natural Gas	257.0	47.0	110.0
Electric Power and Coal	614.0	221.0	200.0
Fiscal and Social Support ²	514.0	262.0	120.0
Health	425.0	83.0	90.0
Housing	693.0	273.0	150.0
Industry/ Finance	612.0	167.0	180.0
Landmine Clearing	203.0	43.0	60.0
Telecommunications	173.0	27.0	60.0
Transport	583.0	163.0	175.0
Water and Waste Management	363.0	83.0	100.0
Subtotal		1556.0	
Support to Peace Implementation		132.0	
Subtotal		1688.0	
1996 Indicative Commitments		163.0	
Total	5090.0	1851.0	1435.0 ³

¹ The 3-4 year program has been revised based on assessment of needs in each sector and 1996 developments.

² Includes support for government institutions, the social fund, other social rehabilitation programs, as well as balance of payments assistance. The counterpart funds of balance of payments support can be used by the government to finance overall fiscal needs, including recurrent costs in different sectors and other reconstruction-related expenditures. The original 1996 program did not include a separate line item for fiscal/ balance of payments support but the sectoral requirements did include the corresponding recurrent costs.

³ While not specifically earmarked, this total includes provision for the creation of a "Quick Impact Regional Fund" to support regional economic cooperation by the Office of the High Representative.

⁸ In August/September 1996, the World Bank carried out a survey of 175 public and private enterprises in different parts of Bosnia and Herzegovina. This package of assistance has been designed to respond to the needs of enterprises, as identified by the survey. For more details, see Volume 3.

24. The overall external financing requirement of the 1997 program and the sectoral allocations have been established on the basis of a sector-by-sector assessment of future needs, taking into account both the status of reconstruction program implementation during the first year and Bosnia and Herzegovina's absorptive capacity. The aggregate amount of \$1.4 billion accounts for some "catch-up" of donor assistance to Republika Srpska, following the first year when the vast majority of assistance was targeted to the Federation. It is expected, therefore, that many of the 1997 projects and programs will have significant Republika Srpska components. The \$1.4 billion represents the external financing requirement for 1997 on a commitment basis, meaning that donors would be expected to commit this amount during the course of the year. If donor pledges indeed match this amount, together with the first year's commitments, by the end of 1997, just under two-thirds of the \$5.1 billion will have been committed.

F. Implementation Challenges

1. For the Bosnian authorities

Cooperation between the Entities and the different levels of government is essential

25. Cooperation of the different ethnic groups is critical to the entire peace process, and a pre-requisite for the success of the reconstruction program and its support by donors. Now, after the elections, inter-entity cooperation must enter into a new stage, and Entity governments must work together and with the State government to establish the common institutions and define common policies in the areas envisaged under the Dayton/Paris Accord. Furthermore, enhanced collaboration between Bosniacs and Croats at all levels of the Federation is key to the smooth functioning of Federation institutions and to the efficiency of donor support. *Donors are encouraged to provide assistance for projects that help ethnic cooperation. It is suggested that a quick impact regional fund be established to promote small-scale projects with the specific objective of regional cooperation (see Box 3). Donors are encouraged to contribute to this fund.*

BOX 3: QUICK IMPACT REGIONAL FUND

The Office of the High Representative (OHR) established, in the spring of 1996, three Regional Joint Civilian Commissions. These Commissions were to address implementation issues on the regional level and to cover regions both from the Federation of Bosnia and Herzegovina, and Republika Srpska. The approach adopted by the Regional Joint Civilian Commissions stressed the need to encourage and re-establish links between the Federation of Bosnia and Herzegovina and Republika Srpska on the regional level. The natural linkages between the different regions existed before the war, and this interest is to be encouraged. The regional authorities also have the first-hand knowledge of the needs, as well as of the potential, of the regions.

There are also encouraging signs of increasing willingness for cooperation in mixed communities. This interest should be backed by an appropriate instrument. This applies also to the return of refugees to mixed areas as well as to moving back to the Zone of Separation.

Consequently, it is proposed that a Quick Impact Regional Fund with an initial size of \$20 million be created to finance small scale projects of cross-entity character or to support mixed communities. The Fund would be multi-sectoral, and would receive proposals from cantons, regions and municipalities. The proposals should be formulated in cooperation between the applicants from the respective regions or municipalities of the two Entities or mixed municipalities. The Fund could then meet, on a short notice, the different financing needs according to locally defined priorities. The management of the Fund would be contracted to an expert agency which could be located at the OHR. The feasibility of each project would be judged according to the criteria set by the OHR.

Government policies need to ensure sustainability of reconstruction

26. The authorities in Bosnia and Herzegovina have to prepare themselves for the time when donor resources are scaled back, by pursuing policies that make the results of reconstruction viable in the longer term without significant aid flows. This implies the consistent application of cost recovery measures as well as macroeconomic and structural policies that lead to sustainable high economic growth. While achieving full cost recovery may take some time in many sectors, clear timetables and action plans should be designed and adhered to. Similarly, it is essential to prepare realistic budgets for all levels of government, supported by appropriate tax

policies and administration. Donors will not be willing to provide support to replace local efforts in tax collection and cost recovery. Finally, there is a need to pursue sector policies (e.g. in agriculture) that ensure longer term sustainability, and to proceed with the privatization and restructuring of industry to increase efficiency, and without wasting scarce resources on non-viable enterprises. *In designing their assistance programs, donors should ascertain the longer term viability of their interventions, and satisfy themselves that the government's overall policies and actions in the given sectors indeed lead to sustainable development. Scarce donor funds should concentrate in those areas where sector policies are adequate, while in other areas, donor support should be contingent on the introduction of appropriate government policies. Technical and other assistance to the government to develop such sector policies should be an important element of donor efforts.*

Transparency is key to continued donor support

27. Transparency of regional allocation of donor resources by the government and fair procurement processes are essential for maintaining the momentum of donor support. Geographical allocation of resources should be primarily based on need, taking into account the extent of war damages. However, it is important that all groups of the society, even if in largely varying degrees, see some of the benefits of reconstruction, otherwise further tensions are bound to emerge. Procurement procedures should be fair and clear, and information on procurement activities should be accessible to all concerned. The establishment of the Procurement Monitoring and Audit Unit (PMAU) has been an important first step to safeguard the integrity of the procurement process. The role and autonomy of the PMAU should be broadened and its foreign technical assistance strengthened so that it could eventually cover all procurement activities that are implemented by government agencies. Over time, the PMAU could evolve into a government audit agency that would review the orderly use of reconstruction support. *Donor assistance to strengthen the PMAU would help this happen. Donors could also avail themselves of the PMAU's resources (including its foreign audit capacity) to carry out audits of their assistance programs.*

Strengthened local capacity would enhance donor confidence and efficiency of implementation

28. Demonstrated local project implementation capacity would strengthen donor confidence and encourage donors to have their assistance programs implemented through the Bosnian authorities and implementing agencies. This, in turn, would enhance the sense of ownership of the reconstruction program by the authorities of Bosnia and Herzegovina. There are already some good examples of competent local project management. As their capacities are strengthened in project management and other areas, the role of existing PIUs could be gradually broadened to cover all or at least a large part of donor assistance in the given sector. Their participation in the Sector Task Forces should allow the PIUs to provide feedback on their experience and to play a role in the design of future donor assistance to the sector. The terms of reference of the PIUs and the remuneration of their staff will have to be clearly decided on by the authorities. These PIUs and Foundations (in the case of some employment creation and demobilization support activities) provide a convenient framework for donor assistance. Finally, since reconstruction activities have barely started in Republika Srpska, a major effort is still needed by the authorities to build up implementation capacity. *Donor support, in the form of technical assistance and the financing of some recurrent costs, would be essential for the strengthening of the PIUs and the establishment of adequate coordination/implementation capacity in Republika Srpska.*

2. For the donor community

Adequate and timely funding of the reconstruction program is key to its success

29. In December 1995, when the donor community endorsed the Priority Reconstruction Program, donors acknowledged that the implementation of this \$5.1 billion program would require their sustained support over a period of 3-4 years. The 1997 Program envisages donor support on the order of \$1.4 billion. If donor funding were to fall short of this amount, it would seriously risk slowing down implementation of the reconstruction program. *Donors should make every effort to meet the 1997 financing requirements, and to translate their pledges into specific commitments as early as possible during the year. Special legislative or other approval procedures might be needed to get commitments and implementation of donor assistance under way on an accelerated basis. Furthermore, given the lack of creditworthiness of Bosnia and Herzegovina, the concessionality of donor assistance should remain as favorable as it was in the first year.*

30. Since reconstruction needs exceed by far the available resources, it is critical that scarce donor funds are spent on the highest priority activities. The Priority Reconstruction Program and its annual requirements were prepared with the objective of guiding both the authorities and the donors in selecting the priority areas for interventions and their sequencing. The 1997 Program has been discussed by the Sector Task Forces representing both the donors and the authorities. *It is essential that donors keep to the Priority Reconstruction Program to ensure that the people of Bosnia and Herzegovina receive maximum benefit of their assistance programs.*

Sector Task Forces are the key fora for coordination between donors and with the authorities

31. By now, many Sector Task Forces are able to fulfill the role envisaged earlier, namely to be the key fora for sectoral donor coordination. While individual donors will continue to supervise the implementation of their assistance programs, the Sector Task Forces will have an important oversight function, monitoring the implementation of the overall sector program. Thus, they will be able to identify generic implementation issues which they will flag to donors and to the Economic Task Force in order to facilitate their resolution. The terms of reference of Sector Task Forces have been revised to reflect their increased role as the reconstruction program enters into its second year (Annex 4). Government participation in the Sector Task Forces, which has recently become a regular practice, ensures that donor activities respond to the government's priorities and facilitates coordination of implementation. *Those donors that*

BOX 4: SECTOR TASK FORCES--A ONE STOP SHOP FOR DONORS

Many donors who want to contribute to Bosnia's reconstruction efforts are not sure how to go about finding priority projects to support. The Sector Task Forces, which consist of representatives of key government sector agencies and key donors in a sector, are increasingly in a position to help. The *Water and Waste Water Sector Task Force*, under IMG's technical leadership, surveyed national reconstruction requirements in the water sector, using funds donated by the Dutch government and the EC. Projects were prioritized with the government to determine which of the numerous water and waste water systems should be tackled first. This work, resulting in a "menu" of priority projects, will give donors a head start in putting their 1997 program together if they consult with the task force. Most other Sector Task Forces are also moving in this direction. These efforts by the Sector Task Forces will help donors keep fully informed on what other donors are doing and ensure that scarce funds are put only into the highest priority projects.

have not done so are encouraged to empower their representatives in the Sector Task Forces. Furthermore, donors are urged to rely heavily on the Sector Task Forces in designing their assistance programs in order to avoid possible duplication, and to ensure appropriate geographical balance and maximum amount of synergy between the different donor programs.

32. Coordination of the work of Sector Task Forces is presently carried out by the Economic Task Force, whose membership consists of representatives of the Office of the High Representative and the largest multilateral and bilateral donors. This coordination framework has been recently reinforced by the Peace Implementation Council.

Geographical allocation of donor support needs to be re-balanced

33. The primary focus of reconstruction program implementation in Bosnia and Herzegovina to date has been on the Federation (and mainly on the Bosniac-majority cantons), where some \$987 million (84%) of the total \$1,176 million under implementation is underway. As of October 1996, only about \$24 million (2%)⁹ was under implementation in Republika Srpska. Most of this assistance has been of emergency nature, or in support of peace implementation; full-scale reconstruction activities have barely started. *In 1997, a major effort by donors will be required to allow Republika Srpska to "catch up" with the investment level reached in the rest of the country. This support must shift from emergency, quick impact aid to full-scale reconstruction and sustainability. As regards the Federation, donors will need to fine-tune their assistance to continue to ensure that funds are directed to the geographic locations with greatest needs. Again, Sector Task Forces should play an important role in guiding donors in this respect.*

⁹ The remaining 14% of the assistance was targeted to the State or to inter-entity activities.

Information on donor activities needs to better capture physical progress

34. In order to monitor effectively the implementation of the reconstruction program, more detailed information will be requested from donors regarding the actual expenditures spent on the ground and the physical implementation of their assistance programs. First, data will be requested on “funds expended”, within the category of “funds disbursed” (estimates are that some \$60-70 million at any one time is advanced but not spent, and these estimates must be refined). Second, a “contracting module” has been developed as part of the donor database to record information on physical progress. Members of the Sector Task Forces are expected to be the main providers, as well as the main users, of this information. A more accurate picture of physical progress will help both the government and the donor community to spot problem areas and quickly devise remedies. Finally, this module will help better assess the overall implementation of the reconstruction program. *In view of the importance of having information on the assistance programs that is as accurate as possible, donors are encouraged to cooperate in this important endeavor.*

PRIORITY RECONSTRUCTION PROGRAM IN BOSNIA AND HERZEGOVINA
Pledges, Commitments, Amounts Under Implementation and Disbursed by Donor^a
in US\$ million
 October 1996

Donor	Total Pledges	Total Commitments	Transferred to International Agency Trust Funds ^b	Under Implementation	Disbursed ^c	Funds Expended (N.A.)
Albania	0.02	0.02		--	--	
Australia	1.13	1.13		1.13	1.13	
Austria	11.50	22.95		22.58	11.56	
Belgium	7.57	7.48		--	--	
Brunei	2.00	18.70		18.70	16.70	
Bulgaria	0.01	--		--	--	
Canada	25.44	22.30	6.47	11.72	11.72	
Croatia	0.50	0.50		--	--	
Czech Republic	6.00	6.00		5.50	0.04	
Denmark	5.10	3.76		3.76	3.66	
Egypt	1.00	1.00		0.60	0.60	
Estonia	0.07	--		--	--	
F.R. Yugoslavia	10.00	10.00		--	--	
Finland	5.00	9.09		3.06	3.06	
France	9.29	13.19		11.65	10.94	
FYR Macedonia	0.10	0.10		--	--	
Germany	39.25	38.70		35.67	28.41	
Greece	7.00	7.00		7.00	--	
Hungary	1.00	1.00		1.00	1.00	
Iceland	1.60	1.60	0.15	0.15	--	
Indonesia	2.10	2.10		--	--	
Ireland	6.00	4.51	0.98	3.33	3.33	
Italy ^d	63.65	70.70	40.70	7.51	7.51	
Japan	136.70	95.70	39.00	43.60	36.60	
Kuwait	35.00	35.00		--	--	
Latvia	0.09	--		--	--	
Lithuania	0.07	0.08		--	--	
Luxembourg	3.23	2.87	0.52	2.63	2.63	
Malaysia	12.00	12.00		12.00	--	
Netherlands ^d	100.02	100.00	75.00	69.77	58.11	

a/ Information on commitments and status of implementation is not available for the following countries: Bulgaria, Croatia, Latvia, 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 \$9 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 \$60-70 million advances for future payments to suppliers.

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 additional to the total reconstruction pledges shown.

Donor	Total Pledges	Total Commitments	Transferred to International Agency Trust Funds ^b	Under Implementation	Disbursed ^c	Funds Expended (N.A.)
Norway ^d	40.76	42.40	3.85	37.67	37.67	
Poland	2.90	2.90		--	--	
Portugal	1.00	--		--	--	
Qatar	5.00	5.00		2.00	2.00	
Republic of Korea	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	42.00		20.00	5.00	
Slovakia	1.50	1.50		1.50	--	
Slovenia	2.89	3.19		3.19	1.53	
Spain	17.50	17.76	2.05	4.65	4.65	
Sweden	30.40	31.30	1.00	19.88	18.67	
Switzerland ^d	33.50	27.60	7.18	26.15	12.01	
Turkey	26.50	11.50		2.20	--	
United Kingdom	39.70	38.93	4.79	38.93	34.21	
United States	281.70	296.96		232.20	123.36	
CE Soc. Dev. Fund ^e	5.00	5.00		--	--	
EBRD ^f	80.21	87.21		--	--	
European Commission	367.10	385.88		212.58	104.00	
IsDB	15.00	19.00		6.00	6.00	
ICRC ^g	1.50	1.50		1.50	1.50	
IFAD	7.30	7.30		7.30	6.82	
OIC	3.00	3.00		3.00	3.00	
Soros Foundation	5.00	5.00		--	--	
UNDP ^{g, h}	2.00	0.64		0.64	0.31	
WHO ^g	1.18	1.18		1.18	1.18	
World Bank	330.00	325.60		293.00	160.40	
TOTALS	1,894.43	1,851.27ⁱ	181.69	1,176.14	720.31	650-660

^{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/} As of October 15, 1996, UNDP reduced its pledge from \$6 million to \$2 million.

^{i/} Uncommitted pledges totaling \$118 million are not included. Total commitments plus uncommitted pledges add 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 total 1996 pledges.

Priority Reconstruction Program in Bosnia and Herzegovina
October, 1996

1996 Program Allocations/Requirements, Firm Commitments, Implementation and Disbursements 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	1,396	76%	924	50%	512	28%
Agriculture	97	63	65%	59	61%	30	31%
Education	72	82	114%	52	72%	34	47%
Employment Generation	75	42	56%	21	28%	7	9%
Energy	403	268	67%	193	48%	81	20%
Electric Power & Coal	262	221	84%	168	64%	67	26%
District Heat and Gas	141	47	33%	25	18%	14	10%
Gov't/Social Support	75	102	136%	81	108%	48	64%
Health	145	83	57%	35	24%	24	17%
Housing	165	273	165%	212	128%	144	87%
Industry/Finance	120	167	139%	89	74%	64	53%
Landmine Clearing	70	43	61%	23	33%	13	19%
Telecom	160	27	17%	9	6%	8	5%
Transport	317	163	51%	94	30%	41	13%
Water and Sanitation	140	83	59%	56	40%	18	13%
2. Peace Implementation	—	132	—	117	—	73	—
3. Balance of Payments	—	160	—	135	—	135	—
TOTAL	1,839	1,688	92%	1,176	64%	720	39%

^{1/} Includes an estimated total of \$60-70 million advances for future payments to suppliers, for a total of \$650-660 million expended. Funds expended as % of 1996 requirements are 36%.

Priority Reconstruction Program in Bosnia and Herzegovina
Geographic Location of Activities Under Implementation
October 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	987	84	568
Republika Srpska	1,400	24	2	11
State and Inter-Entity	n.a.	165	14	141
TOTAL	5,090	1,176	100	720

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:		525	53	267
Una-Sana (Bihac Region) (1)	B	36	4	13
Posava (2)	C	13	1	3
Tuzla-Podrinja (3)	B	90	9	55
Zenica-Doboj (4)	B	78	8	28
Gornjedrinski (Gorazde) (5)	B	17	2	6
Central Bosnia (Travnik-Vitez) (6)	M	38	4	21
Neretva (Mostar-Konjic) (7)	M	99	10	60
West Herzegovina (Posusje-Grude) (8)	C	6	1	1
Sarajevo (9)	B	140	14	76
West Bosnia (Glamoc-Tomislavgrad) (10)	C	8	1	4
2. Multi-Canton:		462	47	301
TOTAL		987	100	568

^{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

Terms of Reference of Sector Task Forces (September 1996)

A. Policy Setting

1. To establish policy guidelines for program development.
2. To establish technical, managerial or financial conditions that donors require of recipients so as to promote a sound economic framework and effective project implementation.
3. To consult with the Economic Task Force of the Office of the High Representative (OHR) who shall provide guidance and recommendations with respect to political conditionality.

B. Needs Assessment and Program/Project Development

1. To keep abreast of priority investment needs in each sector.
2. To develop, if they do not exist, or modify, the country wide programs within the sector, and to alert donors and recipients to any perceived inadequacies in the composition of existing programs.
3. To identify and prioritize specific projects within programs.
4. To match projects with donors to optimize execution of projects.

C. Funding Gap Identification

1. To advise OHR (Economic Task Force), World Bank and EU of funding gaps between program needs and pledges so that fund solicitation will be appropriately directed.

D. Monitor Project Implementation

1. To ensure to the extent possible that Donor Database being maintained by the WB/EC accurately reflects all activity and current status thereof.
2. To track the progress of projects against schedule.
3. To track the costs incurred on a project against budget.

E. Provide Information and Report on Progress and Problems

1. To ensure that the OHR, task force members, non task force member donors are kept informed on all matters of policy, program development, and project implementation through regular written and oral reports.

Sector Task Force Leaders

Sector	Sector Task Force Leader (Organization)	Phone
Water / Waste Management	Mr. Warner Labi (IMG)	(387 71) 666-020
Electric Power and Coal	Mr. Jan Grefhorst (IMG)	(387 71) 666-284
Natural Gas and District Heating	Mr. Anthony James (ODA)	(387 71) 667-959
Transport	Mr. Dino Bicciato (IMG)	(387 71) 660-020
Agriculture / Food Aid	Mr. Michael Koch (World Bank)	(387 71) 440-293
Education / Cultural Facilities	Mr. Colin Kaiser (UNESCO)	(387 71) 670-726
Health / Social Safety Net	Mr. J.M. McGinnis (WHO)	(387 71) 670-838
Housing	Mr. Kevin Mannion (IMG)	(387 71) 666-020
Landmine Clearing	Mr. Martin Barber (United Nations)	(387 71) 454-247
Industry/Finance	Mr. Craig Buck (USAID)	(387 71) 667-900
Employment and Training	Mr. Gareth Howell (ILO)	(387 71) 665-695
Macro and Structural Issues	Mr. Saumya Mitra (World Bank)	(387 71) 440-293
	Mr. Alessandro Zanello (IMF)	(387 71) 668-167