

OHR: Economic Newsletter, Vol. 2, No. 1, February 1999

Newsletter

Economic Reform and Reconstruction in Bosnia and Herzegovina (BiH)

Sarajevo, February, 1999, Vol. 2, Issue 1

Economic Task Force Secretariat

**OHR in co-operation with IMG International Management
Group**

Economic Indicators BiH

Federation of BiH (Federation)

| Annualized growth rates* (excl. net wage) | Sep-98 | Oct-98 | Nov-98 | Dec-98 |
|--|---------------|---------------|---------------|---------------|
| Average net wage (kM) | 339 | 352 | 354 | — |
| Retail price growth | 2.9% | 2.1.% | 1.4% | 1.8% |
| Cost-of-living growth | 3.7% | 2.8% | 2.3% | 2.3% |
| Real wage growth | — | — | — | — |
| Industrial Production growth | 30.2% | 22.9% | 20.9% | 15.4% |

(Source: Federation Statistical Institute)

* Growth of indicator from month in 1997 to month in 1998.

Republika Srpska (RS)

| Annualized growth rates (excl. net wage) | Sep-98 | Oct-98 | Nov-98 | Dec-98 |
|---|---------------|---------------|---------------|---------------|
|---|---------------|---------------|---------------|---------------|

| | | | | |
|-------------------------------------|-------|-------|-------|-------|
| Average net wage (kM) | 180 | 186 | 207 | 236 |
| Retail price growth | 43.7% | 46.1% | 70.8% | 78.1% |
| Cost-of-living growth | 47.5% | 51.1% | 75.6% | 84.9% |
| Real wage growth | 17.5% | .03% | -9.1% | 5.1% |
| Industrial Production growth | 23.7% | 11.9% | 13.2% | 15.5% |

(Source: RS Statistical Institute)

Economic Policy and Reform

Madrid PIC and Donors' Information Meeting

In December, the Peace Implementation Council (PIC) met in Madrid and approved a comprehensive blueprint for civilian implementation of the Dayton Peace Accord over the next two years. The PIC focused particularly on the need for structural reforms (institutional reform and democratization; rule of law and human rights; and economic reform) and refugee returns.

The purpose of the Feb. 2nd Donors' Information Meeting in Brussels was to inform donors of the financial requirements (285 million EURO) needed to implement the decisions made in Madrid. There was agreement that the information provided was useful; the World Bank will organize a Donors' Conference in the spring.

Anti-Corruption Strategy

OHR's Economics Department, in coordination with members of the international community, is finalizing a comprehensive anti-corruption strategy for Bosnia and Herzegovina. Aspects of the strategy include elements of economic, legal and judicial, police and institutional reform. The strategy utilizes four pillars – eliminate opportunities, transparency and reports, controls and penalties, and education – to provide the tools needed to identify, develop and implement changes in the structure and procedures of government to eliminate or significantly reduce corrupt activities and heighten public awareness. The strategy will be formally

presented to Steering Board members in March.

Additional Customs Duties

In a recently held discussion chaired by the OHR, the Ministers of Trade from both Entities reached an agreement to apply additional customs duties. This has been a difficult issue where both Entities were not able to agree on how to protect domestic industries. It will be a temporary measure (one year). When implemented, this State-level decision will stop all illegal practices at the Entity level (so called "prelevman," i.e, taxes on imports). This is a major step towards the full implementation of the Customs Laws in BiH. The last step will be the cancellation of the one percent preferential treatment for the two neighboring countries.

Agricultural Task Force Formed

An Agricultural Task Force (ATF), formed under OHR leadership in December, is to serve as a coordination forum between the international community working on agriculture issues and the ministries, with a focus on the long-term rehabilitation of the sector. ATF's Steering Committee is comprised of one representative from each ministry and one representative from selected organizations of the international community (USAID, WB, EU, UN). The Steering Committee has responsibility for reviewing and leading the effort to address policy issues and agriculture strategy.

ATF's first meeting will be held February 27. Included on the agenda are agriculture policy/veterinary issues, and institutional reforms. As IMG will be responsible for collecting information on all agriculture activities taking place in BiH, information on such activities should be forwarded to IMG who will make the data available at each ATF meeting and on the Internet. (For further information, contact Ms. Linda Eilks, OHR Agriculture Adviser, Tel: 447-275, ext. 936).

National Bank Closure

Substantial progress has been made on the closure of the National Bank of Bosnia and Herzegovina (NBBH), a key issue for completion of the first review under the IMF stand-by arrangement. The OHR is following a plan prepared by the Federation government, in consultation with the payment bureau (ZPP) and the Central Bank of Bosnia and Herzegovina, whereby covered government deposits at the NBBH will be moved to commercial banks. The uncovered deposits will be frozen in a NBBH account. The NBBH has stopped all banking operations, thus reducing any risks to the currency board. Herzegovina, whereby the covered government deposits at the NBBH will be moved to commerce

Training for Prosecutors and Police

OHR's Anti-Fraud Unit held the first in a series of anti-corruption seminars for public sector officials from Bosnia and Herzegovina from Dec. 8-15 in Germany and Austria. The 12 participants, including judges, prosecutors and police from both Entities, spent several days at the Bavarian and Munich Police Schools and also visited both German and Austrian prosecutors and courts to observe the successful German investigative and prosecution systems which utilize the anti-corruption task force concept. The seminar also provided useful information on the European judicial system in which the prosecutor assumes the primary role of guiding the police. This system will soon be adopted in BiH. The OSCE Democratization Department sponsored the visit; additional logistical and training support were provided by the German government.

Organization of Public Services

Joint Power Coordination Center

A Joint Power Coordination Center (ZEKC) was formed in December by representatives of the three Elektroprivredas in Bosnia and Herzegovina. The objective of the ZEK is to coordinate the work of the three power transmission systems in a secure and effective manner and to ensure the transmission

of electric energy from generating facilities to domestic and foreign consumers.

The ZEKC was established in accordance with the standards of the Union for Coordination, Production and Transmission of Electricity (UCPTE) and the European Union (EU) under the guidance of the OHR and with the participation of Electricite de France (EDF), the British Department for International Development (DFID), and the World Bank.

The Energoinvest-Sarajevo (Nedzarici) building was chosen as the permanent ZEKC headquarters.

Post and Telecommunications

The draft of the State law on Posts has been forwarded to the Bosnian parties. It will be discussed at a meeting with the Universal Postal Union (UPU) in Bern on February 25-26.

In discussions with the Directors General, it is clear that there is a great willingness and need to improve the functioning of the postal sector and to increase its efficiency. There is a recognition that besides improving traditional mail delivery service, new services have to be introduced which will allow for more efficient use of the postal infrastructure. Discussions with various donors have been held to obtain funding for an in-depth analysis of the present situation, which will lead to the development of a master plan for reform. Discussions will also be held in the near future with the Federation Minister of Transportation and Communications and his Deputy to look into the possibility of integrating postal operations in the Mostar and Sarajevo regions.

In telecommunications, all parties have agreed that 387 is the country code for BiH. A telecommunications numbering expert will be in BiH the week of February 8 to analyze the switching capacity of existing exchanges to determine the technical capabilities of the network before deciding on the final

numbering scheme. With the assistance of SFOR, a temporary source of power for the Paric telecommunications transmission site near Mostar was put into operation. The functions and structure of the Telecommunications Regulatory Agency have been agreed to and as soon as the Council of Ministers appoints the members, the Agency will be able to begin work.

The following activities were accomplished in the Post sector in 1998: exchange of mail (backlog); memorandum of understanding on Inter-Entity mail; delivery of x-ray machine; reestablishment of Inter-Entity mail three times a week; two-day workshop on Post modernization and restructuring; establishment of a Post Working Group/Steering Committee; adoption of the Post as a priority sector at the Madrid conference; delivery of postal vehicles for Inter-Entity mail to Posta Srpska; discussions with EBRD, EU and World Bank on financial support for Postal sector restructuring; and start of the drafting of legislation for a State level Post law.

The following activities were accomplished in the Telecommunications sector in 1998: opening up the backbone Inter-Entity connections; establishment of a Telecommunications Commission; reactivation of the Telecommunications Task Force; decision concerning the recognition of three operators; State law on Telecommunications; reestablishment of Inter-Entity links via Sanski Most-Prijedor; agreement on establishment of Telecommunications Regulatory Agency; first review of Entity laws; agreement on principles of Tariff Policy; and agreement on substance of International Licenses.

Reconstruction Update

A Comparative Look at Credit Lines

Since 1996, donor-funded credit lines have been an essential source of capital for Bosnian enterprises willing to resume business activity and create employment opportunities. Resources were provided through the following main credit

projects (see insert):

- the International Finance Corporation (IFC) long-term loans;
- the USAID Business Finance Facility (BRFF);
- a World Bank credit line financed under the Emergency Recovery Project (ERP) and currently implemented by the Investment Bank of the Federation (IBF);
- A Federation Government credit line financed under the World Bank Transition Assistance Credit (TAC) and currently implemented by the IBF (The ERP and TAC credit lines were implemented respectively by the Project Coordination Unit (PCU) and the Federal Ministry of Finance (FMOF) up to January 1998 when the IBF took over);
- a recently opened credit line implemented by the KfW and financed by Germany, Austria and Switzerland;
- three credit lines implemented by the Bank of Reconstruction (BOR) and financed by Malaysia, Japan and Belgium;
- a Federation Government credit line funded under the ERP and TAC revolving funds and targeting export-oriented companies;
- a Japan non-project grant credit line; and
- a recently opened World Bank revolving credit line for Republika Srpska.

Since mid-1996 a total of KM 430,448,650 has been disbursed to the BiH economy through these credits.

The existing facilities mainly target small and medium-size companies, providing resources for both working capital and rehabilitation or equipment. The disbursed loans have mainly

financed industrial enterprises active in food-processing, timber and wood, building materials and metal processing. Loans to new business are provided under the KfW facility.

Six new credit facilities are currently under preparation: an EBRD/Italian Government-funded credit framework facility for private SMEs; an IFC Wood Sector Agency credit line; and four bilateral funded (Saudi Arabia, Turkey, Belgium, Kuwait) credit lines targeted to SMEs. Micro-credit projects, such as the Micro Enterprise Bank (MEB) project and the Local Initiative Project (LIP), complement the credit lines currently operating in BiH by addressing micro and small enterprises' credit needs, thereby broadening and deepening the range of financial services available in BiH.

Transport Sector Status Review: 1996-1998

Roads: As a result of reconstruction activities carried out during the past three years, almost 50% (2000 km) of the main road network and approximately 300 km of the most important regional roads have been rehabilitated. Thus, a majority of road projects funded under the Emergency Transport Reconstruction Program (ETRP) have been completed (49 projects). In addition, 22 projects were started, and financing was provided for 7 additional projects (work not yet started). In budgetary terms, USD 81,816,508 was pledged/financed and a 66.3% "utilization rate" achieved (see table below).

Road Bridges: Nearly 80% of the damaged/destroyed bridges (funded under the ETRP) on the most important routes have been reconstructed. Funds have been identified for nine out of ten international bridges over the Sava and Una rivers between BiH and Croatia. The first international bridge over the Sava river (between Orasje and Zupanja) was reopened in December 1998-a first step toward the normalization of connections with Central European roads. By the end of 1998, 27 projects were completed, 19 projects were started, and financing was provided for 10 additional projects (work not yet started). In

budgetary terms, USD 72,885,339 was pledged/financed and a 30.10% “utilization rate” achieved.

Railways: By the end of 1998, the entire railway network was operational, although at Minimum Military Requirements (MMR) standards only. There are no longer any obstacles to railway traffic functioning at reduced speed on the main tracks. Nevertheless, work is still required (i.e., telecommunication links, signal safety devices) to modernize the system and to ensure the minimum safety standards needed to resume railway traffic at normal speed. By the end of 1998, 50 projects were completed, 2 projects were started, and financing was provided for 22 additional projects (work not yet started). In budgetary terms, USD 47,430,494 was pledged/financed and a 67% “utilization rate” achieved.

Civil Aviation: All BiH airports (including Tuzla) have been reopened to civilian flights with necessary minimum conditions regarding safety and accommodation. In 1998, the rehabilitation of the Sarajevo Airport Terminal Building (phase 1) was started as well as tendering for the renovation of interiors (phase 2). Funds were also provided for urgent reconstruction work for both Mostar and Banja Luka Airports. By the end of 1998, 13 projects were completed, 5 projects were started, and financing was provided for 15 additional projects (work not yet started). In budgetary terms, USD 40,994,250 was pledged/financed and a 30.6% “utilization rate” achieved.

| AMOUNT (US\$) | | | | |
|--------------------|------------|------------|------------|------------|
| Roads | 1996 | 1997 | 1998 | Total |
| Pledged/Financed | 31,638,693 | 36,316,437 | 13,861,378 | 81,816,508 |
| Completed Projects | 22,768,878 | 24,668,288 | 261,340 | 47,698,506 |
| Ongoing Projects | 2,592,734 | 2,891,734 | 1,084,671 | 6,569,138 |

| | | | | |
|--------------------------|------------|------------|------------|------------|
| Utilisation Rate (%) | 80.2% | 75.9% | 3.7% | 66.33% |
| Road Bridges | 1996 | 1997 | 1998 | Total |
| Pledged/Financed | 39,548,944 | 22,328,612 | 11,007,783 | 72,885,339 |
| Completed Projects | 17,006,814 | 2,774,272 | 581,843 | 20,362,929 |
| Ongoing Projects | 1,324,572 | 54,000 | 197,000 | 1,575,572 |
| Utilisation Rate (%) | 46.4% | 12.7% | 3.5% | 30.10% |
| Railways | 1996 | 1997 | 1998 | Total |
| Pledged/Financed | 27,819,663 | 19,360,831 | 250,000 | 47,430,494 |
| Completed Projects | 27,819,663 | 3,894,206 | 0 | 31,713,869 |
| Ongoing Projects | 0 | 49,500 | 0 | 49,500 |
| Utilisation Rate (%) | 100.0% | 20.4% | 0.0% | 67.0% |
| Civil Aviation | 1996 | 1997 | 1998 | Total |
| Pledged/Financed | 26,994,250 | 9,800,000 | 4,200,000 | 40,994,250 |
| Completed Projects | 9,626,000 | 550,000 | 0 | 10,176,000 |
| Ongoing Projects | 2,384,120 | 4,600 | 0 | 2,388,720 |
| Utilisation Rate (%) | 44.5% | 5.7% | 0.0% | 30.6% |

Source: IMG Transport Database

Note: “On-Going Projects” refers to projects under design, tendering and construction; in the table, only the amount corresponding to the actual progress in civil works is included. The “utilization rate” is the ratio of total funds spent for “completed” and “on-going” projects over the total amount pledged/financed. It can be used as a measure of the progress in civil works. (For further information, please contact IMG Transport Unit, Mr. Nenad Nikolic, Tel: 666-020.)

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[Summary Report:](#) Donor Aid to BiH as per 1 February 1999 –
Summary Report by Sectors for all BiH

[Main Credit Lines](#) Operating in BiH as of End January 1999

Office of the High Representative