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INTERNATIONAL FINANCE CORPORATION

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP FRAMEWORK

FOR

BOSNIA AND HERZEGOVINA

FOR THE PERIOD FY23-FY27

June 17, 2022

**Western Balkans Country Management Unit
Europe and Central Asia Region**

**International Finance Corporation
Europe Region**

**The Multilateral Investment Guarantee Agency
Economics and Sustainability Group**

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KM 1.00 = US\$0.5469

GOVERNMENT FISCAL YEAR

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ABBREVIATIONS AND ACRONYMS

ASA	Advisory Services and Analytics	IBRD	International Bank for Reconstruction and Development
BiH	Bosnia and Herzegovina	ICAM	Investment Climate and Access to Markets
CAD	Current Account Deficit	IDA	International Development Association
CE	Citizen Engagement	IFC	International Finance Corporation
CEFTA	Central European Free Trade Agreement	ILO	International Labor Organization
CLR	Completion and Learning Review	IMF	International Monetary Fund
COVID-19	Coronavirus Disease 2019	JSERP	Joint Socio-Economic Reform Program
CPF	Country Partnership Framework	KM	Convertible Mark
DPF	Development Policy Financing	LIFE	Local Investment-Friendly Environment Project
DPL	Development Policy Loan	MIGA	Multilateral Investment Guarantee Agency
EBRD	European Bank for Reconstruction and Development	MSMEs	Micro, Small and Medium Enterprises
ECA	Europe and Central Asia	MW	Megawatt
EIB	European Investment Bank	MWh	Megawatt-hour
ESG	Environmental, Social and Governance	NDC	Nationally Determined Contribution
EU	European Union	NBFI	Nonbank Financial Institutions
EUR	Euro	OSCE	Organization for Security and Co-operation in Europe
ERP	Economic Reform Program	PBC	Performance Based Indicators
ESF	Environmental and Social Framework	PCG	Partial Credit Guarantee
ESS	Environmental and Social Standard	PLR	Performance and Learning Review
FBiH	Federation of Bosnia and Herzegovina	PPP	Public-Private Partnership
FDI	Foreign Direct Investment	RE	Renewable Energy
FM	Financial Management	RS	Republika Srpska
FRSMP	Federation Road Sector Modernization Project	SCD	Systematic Country Diagnostic
FY	Fiscal Year	SIDA	Swedish International Development Agency
GDP	Gross Domestic Product	SMEs	Small and Medium Enterprises
GEF	Global Environmental Facility	SOE	State-owned Enterprise
GHG	Green House Gas	TA	Technical Assistance
HBS	Household Budget Survey	TF	Trust Fund
HLO	High-Level Outcome	WBG	World Bank Group
IBiH	Country-Level BiH Institutions	WeB	Western Balkans
IPF	Investment Project Financing	yoy	year on year

	IBRD	IFC	MIGA
Vice President:	Anna Bjerde	Stephanie Von Friedeburg (acting)	Ethiopis Tafara
Director:	Linda Van Gelder	Damien Shiels (acting)	Merli Baroudi
Task Team Leaders:	Christopher Sheldon, Johannes Widmann	Ary Naim, Lada Busevac, Levent Karadayi	Gianfilippo Carboni, Olanrewaju Kassim

FY23-FY27 COUNTRY PARTNERSHIP FRAMEWORK FOR BOSNIA AND HERZEGOVINA

TABLE OF CONTENTS

I. INTRODUCTION	1
II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA	1
2.1 Socio-political and Institutional Factors.....	1
2.2 Growth Challenges and Recent Economic Developments.....	2
2.3 Recent Developments.....	2
2.4 Poverty and Shared Prosperity	5
2.4 Development Agenda	6
III. THE WORLD BANK GROUP COUNTRY PARTNERSHIP FRAMEWORK.....	8
3.1. Government Program and Medium-Term Strategy.....	8
3.2 Proposed World Bank Group Country Partnership Framework	9
3.2.1 Consultations on the FY23-FY27 Country Partnership Framework	9
3.2.2 Lessons from the Completion and Learning Review (CLR)	9
3.3 Overview of the World Bank Group Country Partnership Framework.....	10
3.3.1 Approach to Selectivity and Knowledge Gaps	11
3.3.2 One World Bank Group and Coordination with Development Partners	12
3.3.3 Higher Level Outcomes and Objectives Supported by the World Bank Group Program	13
3.4 Implementing the FY23-FY27 Country Partnership Framework.....	20
3.4.1 Financial Envelope	20
3.4.2 Managing Program Implementation.....	20
IV. MANAGING RISKS TO THE CPF PROGRAM	22
Figure 1: Post-crisis growth trajectory unlikely to close gap with pre-crisis growth path.....	4
Figure 2: BiH SCD Update Areas of Intervention	6
Figure 3: Proposed CPF Results Chain.....	11
Table 1: Coordination of Development Partners around JSERP priorities.....	13
Table 2: BiH Political Mapping and Scenarios.....	21
Table 3: Risks to the BiH CPF FY23-FY27 Program	23
Annex 1: CPF Results Matrix (FY23-FY27)	24
Annex 2: World Bank Group Completion and Learning Review (CLR).....	37
Annex 3: Operations Portfolio (IBRD)	70
Annex 4: FY23-FY27 IBRD Pipeline	71
Annex 5: MIGA Exposure	71
Annex 6: Select Economic Indicators 2020-2024.....	72
Annex 7: Citizen Engagement	73

FY23-FY27 Country Partnership Framework for Bosnia and Herzegovina

I. INTRODUCTION

1. This Country Partnership Framework (CPF) outlines the priorities for the work of the World Bank Group (WBG) in Bosnia and Herzegovina (BiH) for the period of FY23-FY27. These priorities are based on the analysis of BiH's overall development challenges, as outlined in the FY20 Systematic Country Diagnostic (SCD) Update,¹ BiH's Joint Socio-Economic Reforms Program (JSERP) 2019-2022,² consultations with the government, private sector, civil society and development partners, and taking into account the areas in which the WBG has the highest potential to add value.

2. The timing of this CPF reflects the impact of the COVID-19 pandemic and the good progress being made in difficult reform areas. The previous CPF covered the FY16-FY20 period, but the WBG focused its efforts on providing a response to the COVID-19 pandemic before embarking on the new CPF.³ The next general elections will be held on October 2, 2022. Given good progress in the approval of new operations and to provide an anchor for the policy dialogue between government and the WBG in difficult reform areas—for example, in the health sector, — the new CPF is proposed now rather than after the elections. But the new CPF is also designed to be flexible to adjust to major new development priorities of the new government as well as to shifts in the country context. The Performance and Learning Review (PLR) of the CPF will be used to make any adjustments to the program and could be advanced as necessary.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

2.1 Socio-political and Institutional Factors

3. BiH is characterized by a complex governance structure. The general government sector consists of four authority levels: the BiH Council of Ministers (or “the State” level), Government of the Federation of Bosnia and Herzegovina (FBiH), Government of the Republika Srpska (RS), and the Government of Brcko District. The FBiH is further decentralized into 10 cantons, each with its own government. At the local level, both the FBiH and the RS have authority over 79 and 64 municipalities, respectively. This unwieldy structure is superimposed on a country of only 3.2 million people.

4. In addition to structural shortcomings, BiH suffers from serious political impediments and challenges in decision-making. Traditionally, decision-making in BiH has been characterized by lengthy deliberative and legislative procedures fraught with bargaining and uncertainty. Some of the costliest consequences of this institutional structure have been insufficient progress in transforming the economy, slower progress toward European Union (EU) accession than BiH's neighbors, and challenging environment for businesses.

¹ Report No. 148573-BA. The medium-term reform challenges in the FY20 SCD update continue to remain relevant.

² The JSERP was adopted at the entity level in October 2019 and by the BiH Council of Ministers in January 2020. However, implementation of the program has been delayed, also due to the COVID-19 pandemic, and will take place mostly during the CPF period. All its reform areas remain highly relevant to BiH's development.

³ As a direct response to the pandemic, the WBG provided over US\$100 million in financing not foreseen under the previous CPF. This included an emergency operation to strengthen the health sector's response to the pandemic, the restructuring of projects to support people who lost their jobs due to the pandemic and to support the design and implementation of an emergency credit scheme for businesses. In addition, a new operation was prepared to support the recovery of private firms affected by the economic impact of the pandemic.

5. Most recently, decision-making of the BiH Council of Ministers has not been fully operational since August 2021. In July 2021, at the end of his term, the High Representative for BiH instituted a law criminalizing the denial of the genocide. As a result, leading political representatives have limited their participation in BiH joint institutions, including the BiH Presidency and Parliament, and the Council of Ministers. Decision-making on the State level in BiH has since been seriously hindered. In December 2021, the RS National Assembly voted to start withdrawing from BiH's armed forces, judiciary and the tax system.

2.2 Growth Challenges and Recent Economic Developments

6. BiH is a potential EU candidate which has maintained macroeconomic stability over the last decade. This was largely facilitated by the currency board peg to the euro, which, together with the EU membership prospects, remains a critical economic anchor. Despite real income growing roughly over 3 percent per annum since 2015, per capita GDP continues to hover around one-third of the EU27 average. This income gap is significantly larger compared to other peers in the Western Balkans. A more pronounced convergence toward the EU27 average income will be challenging if BiH's growth model remains to be driven by private consumption with low investment rates. In addition, the pandemic has inflicted a significant cost on BiH's economy in terms of loss of lives, welfare, and economic opportunities. Still, while a full recovery to the 2019 real income level is achieved in 2021, BiH is unlikely to catch up with the pre-pandemic growth trajectory, unless political bottlenecks are resolved. Moreover, the European Commission has set 2025 as a target date for Western Balkan EU accession back in 2018. With geopolitical tensions on the rise, this target looks ambitious.

2.3 Recent Developments

7. Following a contraction in 2020 of 3.1 percent, the rebound in real GDP growth surprised on the upside in 2021. The recovery in economic growth estimated at 7.1 percent in 2021 was an exceptional performance, which helped real GDP exceed the pre-crisis level. Real growth was driven by a surge in exports, and robust growth in private consumption. On the production side, wholesale and retail trade rebounded strongly from the large decline in activity seen in the second and third quarters of 2020, while real growth in manufacturing accelerated in response to higher export demand.

8. In tandem with growth, inflation accelerated. In 2021, headline inflation in BiH rose to 2 percent compared to a deflation rate of 1.1 percent the year before and an inflation rate of 0.6 percent in 2019. The consumer price index (CPI) soared to 13.2 percent in April 2022 year on year (yoy), continuing upward inflationary pressures that started around mid-2021 due to strong consumer demand, global supply bottlenecks, and a high passthrough effect given the currency board arrangement. Food and transport prices accelerated to 21.4 percent and 28.9 percent in April 2022 (yoy), disproportionately affecting the less well-off.

9. The labor market improved, but the unemployment rate remains elevated. The unemployment rate increased by 1.5 percent to 18 percent in 2021 compared to the year before. Job gains in agriculture and construction drove up the employment rate to 40.4 percent in 2021, which nevertheless remains at low levels compared to other Western Balkan countries. In parallel to the tightening of the labor market, net nominal salaries rose about 4.3 percent in 2021, however the swift rise in consumer prices in the fourth quarter of 2021 has eaten into households' real incomes.

10. Buoyant indirect revenues and sluggish capital spending were insufficient to return the fiscal balance to a surplus in 2021. The latest consolidated data estimate a 2.5 percent of GDP fiscal deficit in

2021, compared to a deficit of 1.8 percent in 2020. In 2021, revenues rose on the back of stronger collection of the Value-added Tax (VAT) and all other revenues. Meanwhile, higher expenses on goods and wages, as well as social transfers, such as pensions and veteran benefits have raised expenditures, while capital spending remains low. Low government capital expenditures reflected implementation lags triggered by difficulties in forming the government in the Federation (FBiH) and country-level BiH institutions (IBiH). Specifically, both the BiH Fiscal Council and FBiH Parliament adopted with significant delay the Global Fiscal Framework for 2022–24 and the FBiH budget for 2022, respectively. The budget for IBiH 2022 has not yet been adopted, which means that IBiH is operating based on the temporary financing schedule, which limits the scope of spending to what was approved in the previous budget. FBiH was operating under the temporary financing schedule in the first quarter of 2022. Thus, fiscal policy in IBiH and FBiH is governed by spending limitations in the first half of the year. Total public debt remains moderate at around 34.5 percent of GDP at end-2021, and predominantly consists of loans from international financial institutions. BiH's access to private-sector funding will remain limited, and the execution of the reform agenda is key to attracting Foreign Direct Investment (FDI) and external financing, and hence protect reserves.

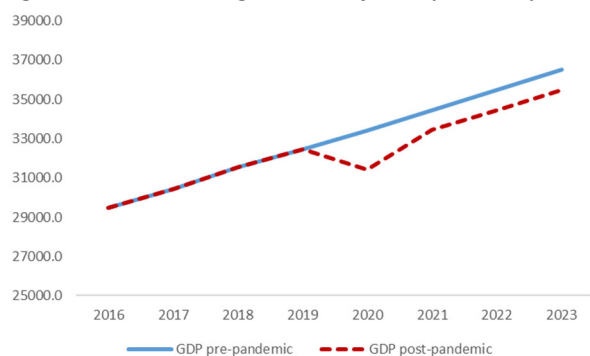
11. The sharp rise in exports narrowed the traditionally large, structural merchandise deficit, and helped narrow the current account deficit (CAD). The CAD narrowed from 3.9 percent in 2020 to an estimated 2.3 percent in 2021 as the merchandise trade deficit narrowed, while the services surplus widened compared to the year before. The sharp rise in exports benefited from strong demand and a rise in the terms of trade for base metals (steel, iron, and aluminum), mineral and wood products, machinery, and furniture. BiH has limited direct trade links with Russia and Ukraine, with trade accounting for 3.2 and 0.8 percent of total imports and exports, respectively. That said, the share of imports of gas from Russia is sizable (between 65 and 70 percent of total), and takes place through TurkStream the Turkish pipeline, which is likely to continue supplying gas to Southeast Europe. Natural gas participates with only 3 percent in total energy supply, which in turn implies that BiH's vulnerability to shocks of natural gas prices and wholesale electricity price is low. The indirect impact working through a growth slowdown in EU, BiH's major export market, will have a more profound effect on the external sector. This effect could also entail a reduction in remittances inflows, which account for about 8 percent of GDP. In 2021 stronger tourism receipts and remittances helped finance the trade deficit. Close to 80 percent of the CAD is financed by net direct investments, while the total external debt-to-GDP ratio, which includes public debt and estimates of private debt, is projected to remain below 66 percent in 2021.

12. The banking sector is liquid, well-capitalized but with risk from tighter liquidity. The Russian-owned Sberbank in BiH, which had a market share of 6.8 percent, came under pressure after the introduction of sanctions against Russia following the war in Ukraine. Any potential risks were rapidly contained after the ASA Finance Group (ASA Bank) in March 2022 bought Sberbank in FBiH, and Nova Banka bought Sberbank in RS. A few banks with a total market share of 35 percent are still exposed to Russia, Ukraine, and Belarus. Overall, the banking system is well equipped to cope with the shock as the systemwide nonperforming loan ratio has declined to 5.5 percent of total loans in 2021Q3, and profitability improved with a return on equity of 11.5 percent, up from 6 percent at the end of 2020. The capital-to-asset ratio remained unchanged, while capital buffers are within regulatory requirements.

13. In the medium term, real GDP growth is projected to decline to 2.7 percent in 2022, and below the average of 3.5 percent for 2023-2024. The war in Ukraine will have a negative impact on aggregate demand through lower business and consumer confidence in BiH and slower growth in the EU. At the same time, however, price and volume effects for BiH's exports of iron and steel products and aluminium could help meet the shortages in the world market, and in part offset the negative effects of a slowdown in EU growth. According to the baseline scenario (Figure 1), BiH will not catch up with the pre-pandemic growth trajectory over the medium term. Growth is expected to be driven by a slowdown in private

consumption helped by higher wages, a tightening labor market, and domestic lending in the short term, and despite the acceleration in inflation. Investment in energy and infrastructure will add to the growth stimulus over the medium term. Higher exports are likely to be offset by higher imports mainly for infrastructure projects. As the impact of the pandemic subsides, and the political paralysis is overcome, the JSERP 2019-2022, which tackles key structural reforms and responds to EU accession priorities, is expected to gain attention. Several risks weigh heavily on this growth outlook. First, effects of a protracted war in Ukraine would have a more substantive negative impact on aggregate demand in BiH through lower business and consumer confidence. Second, protracted war-related uncertainties would also stall more prominently the recovery in the EU, adversely impacting demand for BiH exports and possibly spill over into slower remittances. Finally, if geopolitical tensions shift to the Western Balkans and aggravate already significant political frictions in BiH, this could further affect adversely real output growth.

Figure 1: Post-crisis growth trajectory unlikely to close gap with pre-crisis growth path (KM million)



Source: BiH Agency for Statistics, WB staff calculation; Calculations in 2015 KM

14. With the global energy market disrupted due to the war in Ukraine, inflationary pressures are assumed to start slowly subsiding in the second half of 2022, leaving inflation at 6.5 percent for the year. The rise in main commodity prices traded internationally, such as wheat, oil, and natural gas, are expected to prolong inflationary pressures in the EU, thus impacting inflation in BiH due to the currency board arrangement. As a result, inflation could remain elevated throughout the year, on average 6.5 percent. Higher prices, particularly for fuel and food, are likely to have a disproportionately negative effect on the less well-off, as the poor tend to spend a greater share of their expenditure on these items and have limited mechanisms to cope with higher inflation to preserve their purchasing power.

15. The fiscal deficit in 2022 is expected to be driven by capital and pre-election spending ahead of the general elections planned for October 2022, and a return to surplus is envisaged in 2023. Without access to international markets, the authorities will continue relying on support from international financial institutions. The extent of this financial support will depend on internal political developments and the de-escalation of tensions, which have risen significantly since August 2021.

16. Beside the risks associated with the war in Ukraine, three other risk factors continue to dominate the BiH outlook. First, a prolonged impact of the pandemic if the virus continues mutating could adversely affect economic activity, and second, the existing political frictions could aggravate post-election difficulties in forming governments. Political frictions could even further intensify if geopolitical tensions shift to the Western Balkans. This would result in a more aggravated detrimental impact on the implementation of structural reforms needed for EU accession. Finally, a prolonged delay in moving forward on the EU accession process may further diminish the country's overall willingness and ability to pursue reforms.

2.4 Poverty and Shared Prosperity

17. Poverty in BiH remains a worrisome prospect for a significant proportion of the population, especially in rural areas. The only poverty data available is from a 2015 Household Budget Survey (HBS).⁴ According to this HBS poverty rose slightly from 15 to 16 percent between 2011 and 2015. The poor are disproportionately concentrated in rural areas, where poverty rates are much higher than in urban areas (19 percent and 12 percent, respectively) and where jobs tend to be scarce and salaries low. Approximately 40 percent of poor rural workers are employed in the agricultural sector, which faces low and declining productivity and competitiveness. Across entities, poverty remained stable in RS at about 14 percent between 2011 and 2015, whereas it increased in FBH from 15 to 17 percent during the same period. The slight increase in poverty has been the result of negative consumption growth among the bottom 40 percent of the distribution; the average per capita household consumption of this group fell by 0.5 percent annually between 2011 and 2015. Inequality has remained constant in both years.

18. Women and the youth face significant challenges in the access to economic opportunities. Employment and activity are substantially lower for women than for men and the country has one of the lowest female labor force participations in the region and across Europe and Central Asia (ECA). About 36 percent of the labor force aged 15 to 24 was unemployed in 2020; among the highest youth unemployment rates in ECA. Of those, a significant part was unemployed for more than a year. Furthermore, about 1 out of 5 young individuals were not in education, employment, or training in 2020. About 57 percent of young people expressed that they wanted to emigrate, the highest rate in the region.

19. The Roma have limited access to basic services and economic opportunities. The Roma population start facing challenges early in life as evidenced by a low pre-primary net enrollment rate of only 3 percent in 2017. They also face limited employment prospects with employment for this group at only 11 percent, the lowest in the region. Unemployment of the Roma population is the highest among all Western Balkans countries at 56 percent of the working-age Roma population. In 2017, about 82 percent of the young Roma aged 15-24 were not in employment, education, or training.

20. Following the rebound in economic growth in 2021, household welfare could be affected due to slower economic growth and higher inflation. In 2020, the pandemic caused substantial damage to the labor market. The slowdown in the economy and the resulting loss of jobs and earnings have likely eroded household welfare. Policy measures introduced by the government to protect firms and households prevented a worse impact on the labor market. Despite a renewed acceleration in Covid-19 cases toward the end of 2021 and beginning of 2022, improvements in the activity and employment rate continued until the end of 2021. The effects of the war in Ukraine could adversely affect economic growth. Lower growth in the EU could affect the non-labor income of households by limiting remittances from those who have emigrated, on which the country is particularly dependent (representing about 8 percent of GDP in 2020). The war is also likely to intensify existing increases in prices. Higher prices, particularly for fuel and food, are likely to have a disproportionately large negative effect on the less well-off, since the poor tend to spend a greater proportion of their expenditure on these items and have limited mechanisms to cope with higher inflation and preserve their purchasing power.

⁴ Starting in 2004, consumption poverty has been measured through a regular series of HBS. Surveys have been spaced about four years; 2015 HBS being the latest poverty data available in the country. The country has recently finished collecting the 2021-2022 HBS survey. Final data is expected to be available in 2023. BiH is also the only Western Balkan country without an EU Statistics of Income and Living Conditions (EU-SILC) survey which is used to measure internationally comparable income poverty data in the other Western Balkans and EU economies.

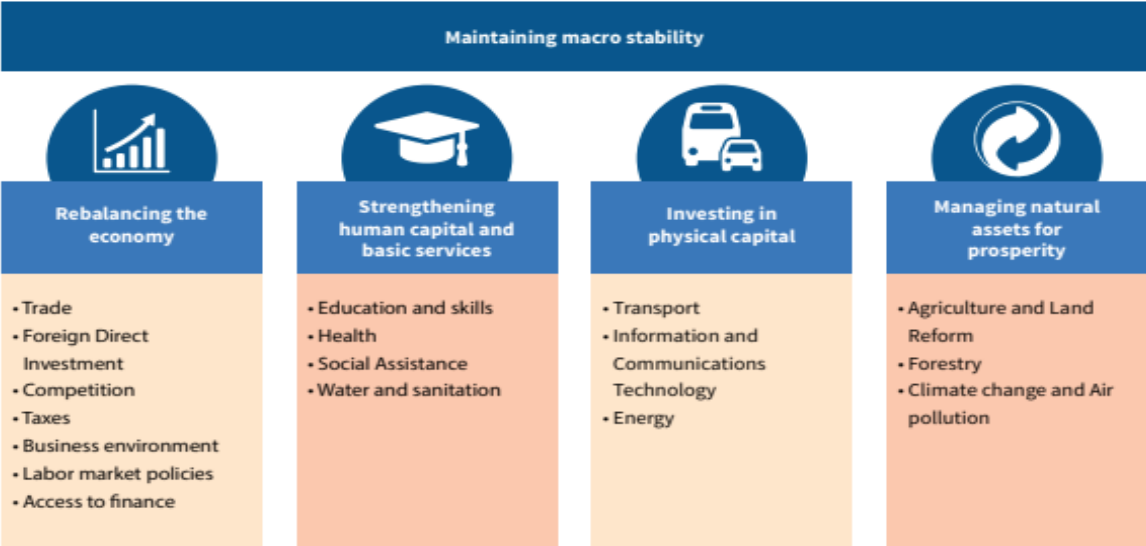
21. Recent shocks clearly illustrate the need for authorities to take decisive actions towards adopting transparent data policies, collecting surveys on a regular basis, and making information publicly available in a timely manner. The lack of official poverty data since 2015 may be affecting the country’s ability to design and assess the impact of policies and shocks. To be effective, policy decisions must be based on sound and widely accepted objective poverty data. To better understand the performance over time of the overall population in general and the less well-off in particular, frequent comparable household data, including information on income, is needed.

2.4 Development Agenda

22. A FY20 SCD Update highlighted BiH’s key development challenges. According to the SCD Update, while BiH’s citizens aspire to a future of rising living standards and joining the EU, the country remains far from reaching these aspirations and faces the critical challenge of rapidly losing its population. Although economic growth has been stable before the pandemic, it remained too low to underpin a path to shared prosperity. Investment levels, at 18 percent of GDP during the time of the SCD Update, need to increase, as does labor productivity. With young people and families leaving the country, the remaining population is rapidly aging, and very low birth rates mean that this trend is likely to continue. BiH’s complex institutional setup has important and costly consequences in terms of slow progress in the economic transformation of the country and slow progress toward EU accession. The COVID 19 pandemic as well as the war on Ukraine, and related spillovers into BiH, have underlined BiH’s need for preparedness to external shocks. Overall, the priorities of the FY20 SCD update for the country’s medium-term reform agenda remain highly relevant.

23. The SCD Update confirmed that, to a large extent, the challenges identified in the 2015 SCD for BiH remain valid. BiH needs to rebalance its economy in three areas. First, it must move from public sector led spending growth to private sector led competitiveness and productivity growth. Second, the economy must move from being consumption-based to being investment-based. Third, the country needs to move from an inward- looking economy to an export-driven one. To achieve higher, sustainable, equitable growth, interventions will be needed in four areas: (i) rebalancing growth, (ii) investments in physical capital, (iii) stronger human capital, and (iv) natural resources management. Figure 2 shows these four areas of interventions and specific sectors for action. The challenges and opportunities to support these four interventions are described in the following paragraphs.

Figure 2: BiH SCD Update Areas of Intervention



24. To increase employment and growth, BiH needs to integrate its small economy with larger markets. Although BiH has a relatively diversified manufacturing industry, the country's exports remain low in volume and with limited value-addition which linked to low salaries and low quality of jobs that are available. Increasing the volume and quality of exports will require integrating into European and global value chains. Unleashing the competitive potential of BiH's companies will be essential to creating more opportunities and better paying jobs. However, political instability and a uniquely challenging business environment have discouraged investment—domestic and foreign—translating into low productivity and outdated production processes. A cumbersome business environment characterized by costly, time-consuming administrative processes of numerous government agencies constrains companies. Financial inclusion is behind that of regional peers, and lack of access to finance from commercial banks limits the potential of the private sector especially Micro, Small and Medium Enterprises (MSMEs). For the private sector, while employment rates have increased successively since 2014 until the COVID19 crisis, job creation was not sufficient to compensate the decline in public sector employment. Unleashing the potential of the private sector will require a change in the focus of authorities from regulating and controlling firms to encouraging their growth.

25. Improving human capital has become an urgent agenda in BiH. Deficiencies in healthcare and education significantly undermine the potential for people to have healthy and productive lives. It also encourages migration for youth to countries that can offer quality jobs with better standards of living. The education system fails to equip students with skills that are in demand in the job market, which further contributes to high levels of inactivity. Lack of access to care facilities for children and elderly adults limit the ability of women to participate actively in the economy. Inefficiencies in the healthcare system have become more prominent, undermining not only the quality of services provided to the population, but also BiH's fiscal sustainability. The COVID-19 pandemic is placing an already fragile healthcare sector under considerable additional strain. Widespread school closures in response to the pandemic have also led to learning loss, posing long-term risks to human capital accumulation. Disadvantaged and low-income students are particularly vulnerable and are more likely to drop out at the secondary and tertiary education levels. Overcoming these and existing challenges will require managed continuity of services, including through further digitization.

26. BiH continues to severely underinvest in infrastructure, including in its maintenance. Consequently, a deteriorating transportation infrastructure continues to limit connectivity. The level and quality of BiH's transport infrastructure is rated one of the poorest among regional peers and continues to hamper connectivity of producers and consumers to global and regional supply chains. Poor road infrastructure increases travel time and costs for people and firms access to services, markets, and job opportunities. Low investment and insufficient competition continue to hinder digital connectivity and technology—a major unrealized potential. In energy, dependence on coal for electricity generation has increased, at a high cost to the economy and pollution to the environment. BiH is one of the worst performers in ECA with respect to Green House Gas (GHG)-intensity of GDP and energy intensity of the economy.

27. Closing the infrastructure gap is challenging due to the limited fiscal space, as the COVID-19 related fiscal measures increased fiscal deficit and public debt. Due to the country's complex political system and layers of governments, public expenditure is likely to remain inefficient and concentrated on recurrent expenditures or debt servicing rather than on capital investment. Public-Private Partnerships (PPP) have been limited to date, due mainly to small market size, inadequate PPP legal and institutional framework, a burdensome business climate, and more importantly, high domestic political risks. However, given the government's limited capacity to bridge the large infrastructure gap, PPPs can be a viable option to scale up investments by bringing in private capital, particularly if PPP framework and institutional capacity is improved, and reforms gain momentum in line with the EU integration process.

28. BiH has abundant natural resources, which have not been leveraged to enhance growth and create better jobs. The contribution of agriculture and forestry, two traditionally significant sectors in the economy, to growth and employment has been decreasing. Those products that are being produced have limited value added but the agriculture sector’s comparative advantage is in the ability to reach the EU common market. Pollution is reducing living standards, health, and productivity. Highly polluting heating methods, industrial activity, and reliance on coal for electricity generation has reduced air quality. Increasing energy efficiency in public and private buildings will be necessary to alleviate air pollution in cities. Climate change is affecting the country, with agriculture, water, and hydropower being the most vulnerable sectors. Better leveraging of natural resources will require upgrading production processes, moving up value chains, and developing enabling infrastructure. In addition, extreme natural events such as severe the floods in 2014 highlighted the exposure of BiH with an enormous cost to the population.

29. BiH’s high emission, coal dominated energy sector leaves it vulnerable to external shocks. Over 60 percent of electricity in BiH is from coal, much of it by obsolete generators, with hydropower providing the balance. In addition to the air quality and climate impacts, the introduction of a carbon tax, the upcoming EU Carbon Border Adjustment Mechanism, and constraints on financing coal fired power plant will seriously affect the viability of the sector and BiH’s energy landscape. To maintain its energy security and achieve its 2050 decarbonization goal, BiH will need to expand lower carbon energy alternatives including utility-scale hydropower, a major shift to solar and wind, and prioritize the support for Just Transition.

30. In addition to the above challenges, creating an efficient, effective public sector while reducing the state’s footprint in the economy will be a crucial component for a new growth model. The efficiency and productivity of the public sector, including State-Owned Enterprises (SOEs), must be increased while ensuring fiscal sustainability and improving public service delivery. BiH’s complex, fragmented institutional structure has reduced the quality of governance, the efficiency and accountability of the public sector, and the efficacy of policies. Having one of the largest SOE assets to GDP share among peers, BiH needs to downsize the state’s footprint in the economy to avoid further crowding out of the private sector and leverage the benefits of productivity gains from a shift towards private sector.

III. THE WORLD BANK GROUP COUNTRY PARTNERSHIP FRAMEWORK

31. This WBG CPF reflects the challenges identified in the FY20 SCD update; the government’s medium-term strategy as expressed in the JSERP for 2019-2022; lessons learned from the Completion and Learning Review (CLR) and selectivity principles based on the WBG’s comparative advantage.

3.1. Government Program and Medium-Term Strategy

32. BiH’s JSERP for 2019-2022 highlights key reform areas which are expected to be the main focus of government’s attention during the CPF period. The JSERP was adopted at the entity level in October 2019 and by the BiH Council of Ministers in January 2020. It is based on the Reform Agenda document 2015-2018 which was an important step to facilitate BiH’s future progress towards EU accession and to meet the EU obligation as set out in the EU *acquis communautaire*. Due to the COVID-19 pandemic and the more recent political paralysis, implementation of the JSERP will be largely during the CPF period. In addition to the JSERP, and as part of EU accession process—which provided a positive economic and policy anchor to maintain macroeconomic stability amidst global economic uncertainties—BiH also submits to the EU an annual Economic Reform Program (ERP), which is based on the priorities from the JSERP. BiH’s last ERP, from May 2022, covers the 2022-2024 time period and acknowledges the tremendous impact of the COVID-19 pandemic on the economy and peoples’ livelihoods. Its objective is to continue the

favorable pre-pandemic growth trends with a focus on competitiveness and inclusive growth while maintaining macroeconomic and fiscal sustainability.

33. According to the JSERP, and as spelled out in more detail in the ERP, reform and investment priorities cover: (i) the public sector, (ii) business environment, (iii) energy, (iv) transport, (v) agriculture, (vi) the environment, (vii) tourism, (viii) trade, (ix) health, and (x) education, employment and inclusion. The reform program highlights the need to improve the efficiency of public companies especially SOEs. To improve the business environment the program aims at reducing mandatory payments, the introduction of new obligations, and overall high levels of unfair competition. The energy sector needs better regulation to improve the functioning of the system and in both energy and transport the reform program notes insufficiently developed and built infrastructure. To improve agricultural development the program aims at reducing obstacles related to fragmented holdings, unfavorable production structures, and low productivity, product quality and quantity. To protect the environment, it aims at better coordination and synchronization of institutions, adaptation of EU legislation, and the implementation of the existing legal framework. To improve tourism development the program points to the lack of a legal and institutional framework, limited budgetary resources and human resources. For trade, the program aims at an improvement in value chains which were interrupted due to the pandemic. The program acknowledges the need for a comprehensive reform of the health sector which is burdened by an inadequate network of health care institutions, the demographic structure of the population, and great inefficiency overall. Lastly, in order to improve inclusion, it aims at improved connection between the education system and the labor market, as well as improved targeting in the social assistance system.

3.2 Proposed World Bank Group Country Partnership Framework

3.2.1 Consultations on the FY23-FY27 Country Partnership Framework

34. Consultations with government, the private sector, civil society, and development partners confirmed the country's key priorities and the WBG's key support areas as presented in the CPF. Consultations started in 2020, were paused due to the COVID-19 pandemic, then continued during 2021-2022, and included key stakeholders at state- and entity-level. Consultations confirmed the country's key development challenges as presented in the JSERP and the SCD update. The consultations also confirmed the high relevance that all entities give to the WBG's role in addressing BiH's development challenges and each entity's commitment to continue to engage with the WBG regardless of any political tensions between entities and their participation in state-level decision-making. Government representatives welcomed the fact that the CPF will continue many priorities from the previous CPF, including on the creation of employment, public sector reform and the environment, which remain key development priorities for BiH over the coming years if not decades. Consultations with the private sector took place in April 2022 and participants confirmed the alignment of the CPF with the main private sector challenges, as well as with the strategic priorities for the private sector. For BiH to increase the value-add of its exports, the participants noted the need for improved infrastructure (both hard and economic), promotion of energy efficiency in light of rising energy prices, support for the broad e-mobility agenda, digitalization and streamlining of administrative processes, improved waste and wastewater management, and a comprehensive reform of the education sector. Lastly, consultations with civil society confirmed the broad proposed strategic direction for the WBG's engagement especially with respect to the focus on employment and inclusion.

3.2.2 Lessons from the Completion and Learning Review (CLR)

35. The proposed CPF draws lessons from the implementation of FY16-FY20 CPF as reflected in the Completion and Learning Review (Annex 7). The CLR assessed outcome achievement under the previous

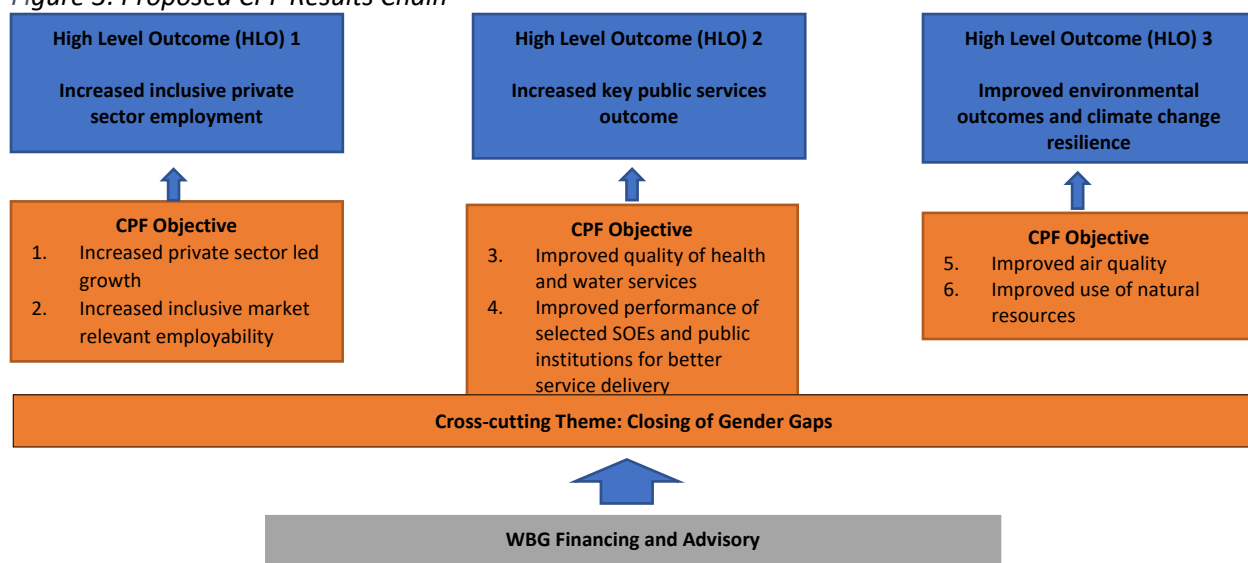
CPF overall as moderately satisfactory. Key lessons the new CPF will take on board include: (i) a stronger emphasis on comprehensive citizen engagement to help overcome the country's institutional governance and decision making challenge; (ii) close collaboration with all entities and key stakeholders, including development partners before declaring project effectiveness and starting implementation; (iii) tailoring of any support to reform efforts based on the specific challenges and constraints at the entity-level; (iv) continued emphasis on proactive portfolio monitoring including active communication between the Bank and all levels of government; (v) sequencing upstream interventions on policy reforms to enable IFC to facilitate investments in sectors like renewable energy; (vi) instituting a bottom-up approach to link country and entity-level commitments with political commitments at the regional level; (vii) continued dialogue for financial sustainability of sectors; (viii) maintaining a robust but targeted Advisory Services and Analytics (ASA) and Technical Assistance (TA) program for key reforms and (ix) advisory work to address specific gaps in the local business environment, or upstream activities within the financial sector to open-up new inclusive credit markets. IFC will put emphasis on upstream interventions with high development effectiveness, e.g., advisory work to address gaps in the local business environment that prevent specific investments, or upstream activities within the financial sector to open-up new inclusive credit markets.

3.3 Overview of the World Bank Group Country Partnership Framework

36. The proposed WBG CPF for FY23-FY27 supports BiH in achieving a sustained recovery from the impacts of the COVID-19 pandemic and also supports reforms in line with the country's ambition to join the EU and reach higher living standards. It selectively supports the aspirations from the JSERP which are expected to continue to form the country's primary goals throughout the CPF period. The CPF is designed to be flexible, including during its early years of implementation, so that it can be adjusted to the shifts in the current fluid global and domestic context.

37. The CPF applies the WBG's Green, Resilient and Inclusive Development (GRID) principles and is built around three High-Level Outcomes (HLO) and six CPF objectives. Given the central importance of jobs and employment for BiH's dwindling population, HLO 1 aims at increased inclusive private sector employment. The WBG's activities under HLO 1 will contribute to inclusive development by focusing on increased private sector led growth (CPF Objective 1) and increased inclusive market relevant employability (CPF Objective 2) with a particular focus on women and marginalized groups. The CPF will, under HLO 2, support improved public services outcomes that build resilient human capital and physical and institutional infrastructure. Activities will focus on addressing service delivery gaps through the improved quality of health and water services (CPF Objective 3) and improved performance of selected SOEs and public institutions for better service delivery (CPF Objective 4). Finally, to reduce the risks of climate change impacts and protecting BiH's natural capital, the CPF will promote improved environmental outcomes and climate change resilience under HLO 3 through investments for improved air quality (CPF Objective 5) and the improved use of natural resources (CPF objective 6). All three HLOs and supporting CPF objectives mutually reinforce each other. Gender is a cross-cutting theme in the CPF, and a focus embedded in all CPF objectives and HLOs. In addition, inclusion and governance cut across most areas but with a special emphasis in HLO 1 and Objective 4.

Figure 3: Proposed CPF Results Chain



38. The CPF will address the medium-term implications of COVID-19 crisis in line with the government crisis response strategy. Authorities in BiH have responded to COVID-19 with an array of measures to protect citizens, affected economic sectors, and households, and to strengthen health sector resilience. Both entity governments have established economic stabilization and guarantee funds to support firms and individuals. In addition, the FBiH government adopted a law on the mitigation of negative economic consequences as a result of COVID-19 while RS introduced one-off support to health workers and the police. In response to the pandemic, the Bank provided US\$36.2 million under the Bank’s emergency Covid Multiphase Programmatic Approach (MPA). An employment support project was restructured to assist newly unemployed, and a follow up project is currently under preparation. A banking sector project was also restructured to support the design and implementation of emergency credit guarantee schemes. A new operation approved in December 2020 provided US\$65.3 million in financial assistance to companies affected by the crisis. In response to the COVID-19 crisis, IFC leveraged several regional finance platforms to enable flow of much needed credit and working capital to MSMEs during the peaks of the crisis: ProCredit: US\$16 million; Green Growth Fund and EFSE V Fund: US\$9.2 million; and regional Distressed Asset Recovery Program (DARP) platform: US\$65.6 million. As part of MIGA’s COVID-19 Response Program, MIGA issued new political risk insurance guarantees in the financial sector to support the continued supply of credit to the economy and to lay the foundation for economic recovery.

3.3.1 Approach to Selectivity and Knowledge Gaps

39. The CPF is selective and well-coordinated across the WBG programs and the identified set of HLOs and CPF objectives. Selectivity criteria include: (i) alignment with strategic priorities and measures identified in the government’s development strategy JSERP; (ii) addressing challenges identified in the SCD update including opportunities to achieving WBG’s twin goals and (iii) the WBG’s comparative advantage and value proposition in combining financial products, knowledge and convening services, and implementation support. The CPF builds on previous and ongoing engagements of strategic areas where there is clear convening power and high government commitment. In this regard, the WBG will deepen engagements to support remaining reforms for enabling factors including access to finance, and an investment climate that supports creation of inclusive jobs for youth and women. Similarly, in human capital, stronger emphasis will be given to improving the efficiency and financial stability of the health and

water sectors to address service delivery gaps. While education is an important area identified in the SCD update the Bank will not be engaged in a major way in this area. Major education reform will be complex and there is sufficient presence of other Development Partners in this sector. WBG efforts on education will focus on skills development for employment and some technical assistance for education service delivery in selected jurisdictions (and the PLR can be used to review engagement in the sector, as needed). Given the importance of climate change and green recovery, the WBG will be engaged in two new areas of climate smart agriculture and air pollution, which will contribute to the implementation of the Bank's Climate Change Action Plan. The CPF also maintains a focus on inclusion with investments in specific demography and geographic areas with the highest needs.

40. Advisory Services and Analytics (ASA) during the CPF period will focus on analyzing key knowledge gaps and topics for reform. Key ASA activities include the ongoing SOE Reform which collects knowledge on the factors that perpetuate SOEs inefficiencies and has developed a policy dialogue aimed at finding a path to reform. Analysis of the public sector employment practices' impact on labor markets will explore interactions between public and private sector labor markets, emphasizing operational implications on education and SOE sectors and government productivity. A Country Economic Memorandum (CEM) has been initiated in FY22. So far, the authorities have expressed interest in the future of the energy sector and how to approach the transition to renewable energy, while in parallel proceeding with the closure of some coal mines (in FBiH). Other potential topics include analyzing the competitiveness in agriculture or sustainability of the pension system.

3.3.2 One World Bank Group and Coordination with Development Partners

41. The delivery of CPF objectives will rely on a well-coordinated one WBG approach. The CPF will capitalize on the complementarity of IBRD, IFC and MIGA instruments and employ private sector solutions to address BiH's development challenges, recognizing the critical role of private capital. The deployment of WBG instruments will entail active collaboration between IBRD and IFC, encompassing considerations of both public policy and private sector engagement. Engaging upstream through IBRD ASA and IFC advisory will help the government put in place the appropriate sectoral policies and regulatory frameworks in critical sectors such as energy, finance, health and agriculture. IBRD and IFC will collaborate to foster a better business environment, including on SOE reform, PPP regulations and practices, and access to finance. MIGA will continue to explore opportunities to use political risk insurance guarantees in promoting cross-border investments in critical and emerging sectors. These efforts will be central to crowding in private finance in each of the CPF Objectives.

42. The focus of the WBG's engagement is also based on the coordination with other Development Partners. The WBG will continue its high level of alignment and cooperation with Development Partners. The World Bank closely collaborates with the EU in areas such as public finances, public sector management reform, waste-water treatment, solid waste management, and agriculture. The International Monetary Fund (IMF) is a close partner in strengthening public finances including the management of arrears. In transport, energy, and the environment, the WBG continues to explore partnerships with the EU including the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB). Key partners in the health, water and sanitation sectors, and business environment include Switzerland, Sweden, the EU, and the US. The strong engagement by other partners also shows the areas in which WBG engagement can be limited to a supportive role rather than a direct engagement. Table 1 maps donor engagements around key priorities.

Table 1: Coordination of Development Partners around JSERP priorities

JSERP priorities	Lead Partner	Supporting Partner
Agriculture and Environment	WBG, UN, United States	EU, Sweden
Business Environment	WBG, United States	EU/EBRD, Sweden
Education	OSCE, UNICEF	EU, Germany, Council of Europe
Employment	WBG	EU, Sweden, United States, ILO
Energy and Transport	EU/EBRD+EIB, WBG	Sweden, United States
Public Sector Reform	EU	WBG, Sweden
Trade	EU	WBG

3.3.3 Higher Level Outcomes and Objectives Supported by the World Bank Group Program

HLO 1: Increased inclusive private sector employment

43. A more dynamic private sector is critical for BiH's transition towards a sustainable and inclusive growth model. Job creation has been minimal and many formal jobs have been mostly in industries with low added value and in micro enterprises which have lower productivity. A difficult business environment also discourages entrepreneurship and fosters informality. In addition, the public sector and SOEs account for one third of employment of BiH and continue crowding out private firms from a limited talent pool. BiH needs to promote the potential of the private sector as it reduces the footprint of the very large public sector simultaneously. It also needs to shift its economy from a focus on local consumption and imports to one that recognizes the potential of international integration through investments and exports. Increasing investments and jobs in the private sector will require BiH to undertake a broad set of reforms to enhance competitiveness. Deficiencies in infrastructure for connectivity (including digitalization) undermine private sector competitiveness and will require mobilization of private capital, including through PPP, as well as increased and better prioritized public investment.

44. To support this HLO, the CPF will build on past engagements to remove barriers for job creation by creating an efficient environment for competitiveness and improving access to finance for private sector investment and addressing demand side constraints for better market relevant income opportunities, particularly for youth and women. While these activities are a continuation from the previous CPF there will be a stronger focus on inclusion of disadvantaged groups for better income opportunities and on creating a competitive environment for foreign and domestic market in selected sectors. The WBG through policy dialogue, financing and analytical work will support broad set of reforms that are necessary to address BiH's long-standing structural and institutional weakness for a conducive environment that allows private sector to expand output, employment and exports.

CPF Objective 1: Increased private sector led growth

45. BiH has potential to become a highly competitive economy. However, the business environment is constrained, inter alia, by uncertainties related to political instability, cumbersome administrative processes, low know-how, nontariff barriers to trade, weak trade facilitation, and infrastructure gap undermining BiH's private sector to be competitive both in domestic and international markets. BiH's competitiveness is further constrained by lack of access to finance for MSMEs, particularly for smaller enterprises and underserved segments, even prior to the COVID-19 crisis. Inefficient SOEs cause resource misallocations leading to crowding out of the private sector. The agriculture sector, which is an important contributor to employment, food production and GDP, is characterized by land fragmentation, low productivity, and low competitiveness. BiH has a relatively diversified industrial sector, yet mostly concentrated in low value-added segments. BiH's participation in global value chains is focused mainly in assembling components imported from the EU, necessitating firms to upgrade as well as to expand its global value chain participation in other skill-intensive sectors.

46. To accelerate growth, increase competitiveness and create better jobs, BiH needs to remove impediments for businesses to tap into domestic and regional markets. Despite efforts during the previous CPF to ease business procedures there is still an absence of fully streamlined, transparent, and efficient procedures for businesses, in particular for business registration and exit. Also, there are limited programs for firms to receive targeted support to equip themselves with better knowledge and capacity to upgrade and innovate. Current policies and government programs in BiH need to encourage productivity-improving technologies in key potential sectors for private-sector-led growth. Foreign Direct Investment (FDI) that focuses on technological upgrading and innovation can spur the productivity of firms and create preconditions for higher value chain integration. During the CPF, the WBG will use an improved understanding of the structural policies necessary to remove existing constraints to private sector growth particularly in manufacturing industries. Building on previous engagements, the WBG will support investments and institutional and regulatory reforms to improve financial sector resilience and financial intermediation, including preparing the financial sector for green financing, increase agriculture and manufacturing (such as metal, machinery and automotive) value chain development and productivity improvements to enhance diversification and competitiveness among private enterprises.

47. To support enterprise recovery and growth in the aftermath of the COVID-19 pandemic the Bank will provide access to finance for MSMEs, particularly in lagging regions, with a portion of financing reserved for underserved MSMEs, including women led-MSMEs. To deepen and diversify the financial sector, the Bank will support the relevant agencies and authorities to strengthen the regulatory framework and fundamentals, such as NPL resolution capabilities, and propose financial infrastructure improvements in order to be prepared for Single Euro Payments Area (SEPA) accessibility and further development of non-bank financial institutions serving as an alternative to bank financing. Reforms of the development banks should continue as they allow for increased soundness of the financial sector in BiH by allowing the development banks to play a critical complementary role to the private commercial banks in supporting economic recovery post COVID-19. Finally, the rising issue of financial risks stemming from climate change should be taken seriously and tackled as soon as possible.

48. In the face of the post COVID-19 recovery and geopolitical risks, IFC will leverage conventional and innovative lending and advisory instruments to support the financial sector build resilience. IFC will work both with domestic and regional/global sponsors, with a particular focus on underserved segments. Also, IFC will aim to further develop the financial sector, including MFIs, in key areas such as digital transformation, sustainable finance and Environmental, Social and Governance (ESG) standards, strengthening agri-finance, and NPL resolution. Through advisory support IFC will seek to improve regulatory framework to strengthen insolvency practices and to develop non-bank financial sector (NBFS). MIGA will assist private sector banks via its capital optimization product to accelerate new lending with a strong focus on inclusive and green recovery at a time of increased pressure due to the impacts of the COVID-19 pandemic. As the economy recovers from the COVID-19 pandemic, MIGA's capital optimization guarantee is expected to complement operations by the Bank and the IFC and further support improved access to finance, with a focus on inclusive and green recovery, including to MSMEs.

49. IFC activities in BiH will aim at promoting higher value added, export-oriented industries and removing barriers to investment. To reduce cost and cut the red tape for businesses IFC will continue to support operationalization of online business registry. In the real sector, IFC will explore potential sectors for engagement utilizing both investment and advisory tools to create opportunities for greater private sector activity. This will entail identifying and targeting key market players that can create significant development impact, in particular on job creation and sustainability. Utilizing change in markets' dynamics, IFC will develop manufacturers' match-making platforms and supply chain development initiatives, hence facilitating better private sector integration into regional and global value chains. Aiming

to enhance digital connectivity, IFC will seek to support fixed broad band expansion plans while also actively exploring opportunities for investment in ICT companies. Finally, IFC will encourage better business performance through stronger environmental, social, and corporate governance standards.

50. To increase farm productivity and support enterprise development, the Bank will support investments in agriculture and forestry sectors. The Bank's investments will promote private sector driven value chain development, productivity improvements and agricultural technology transfer, improving agricultural water management, including adoption of pressurized irrigation systems, and improving market access for smallholder farmers. Support will be provided to leverage private sector investments into green and effective value chain development and productive partnerships between producers and agri-businesses in various agriculture sub-sectors. Efforts will be made to encourage female farmers participation in access to agriculture assets, services and technologies. Modernizing and upgrading farming will help strengthen BiH's export-oriented segments in the agriculture, boost export revenues, and contribute to the creation of new jobs in the rural areas. To enhance the performance of wood processing enterprises the Bank will provide technical, market information and skill development to wood processing enterprises to enhance their production and sales.

CPF Objective 2: Increased inclusive market relevant employability

51. Jobs are the main concern of the population in BiH, and growth has not translated into more or better jobs. The labor force has been shrinking over the last three years while double-digit unemployment, very high inactivity rates, out-migration, and aging persist. A large share of unemployed lack the skills for existing vacancies or works informally. High youth unemployment and lack of economic opportunities may exacerbate youth emigration. In addition, BiH has one of the lowest rates of female participation in the labor market in the region and a disproportionately large share of highly educated women are unemployed.

52. The Bank will continue to aim at facilitating job seekers' entry into formal private sector employment by financing active labor market programs (ALMPs), strengthening job intermediation and promoting return to the labor market in a post-pandemic context with particular focus on disadvantaged groups. This is a continuation of the previous CPF, with lessons learned from ongoing activities, and a more focused approach to address supply side constraints to increase the employability of specific disadvantaged groups through dedicated ALMPs in which they are placed. All jobseekers will benefit from the continued improvements in labor market monitoring and improved information on job opportunities and labor market prospects. There will be strong focus on female jobseekers as women make up to 57.6 percent of the registered unemployed and 46 percent of low skilled workers, respectively.

53. The energy transition in coal regions will impact not only workers directly engaged in mining operations and along the coal supply chain, but also workers with indirect connections to coal activity, such as retail, restaurants, and recreation service providers to coal miners and their families. In this context, government planning will be essential to mitigate the negative effects on livelihoods and the sustainability of local economies. Although income support can address immediate and short-term needs, longer-term interventions are needed to help workers move into alternative employment and to create an environment conducive to business development, entrepreneurship, and private job creation. Potential Bank support will include a focus on increasing workers' capacity to qualify for jobs in new sectors (e.g., through upskilling and reskilling efforts) and on stimulating private sector labor demand and local business development (e.g., through wage subsidies, entrepreneurship and/or matching grant programs, and more generally through investment incentives aligned with strategic national and local priorities).

HLO 2: Increased key public services outcomes

54. Improving quality and efficiency of basic public services in a sustainable way is critical for improvement of BiH's human capital outcomes. Deficiencies in the healthcare system have become more prominent, undermining not only the quality of services provided to the population, but also BiH's fiscal sustainability. While gender gaps in accessing education and health are nearly closed, lack of access to care facilities for children and elderly adults limit the ability of women to participate actively in the economy. In addition, vulnerable and marginalized groups such as Roma have limited basic services and economic opportunities. Despite significant investments in basic infrastructure service delivery, the quality of these services provided through SOEs at the local level are poor with a high degree of dissatisfaction from citizens. The operational and financial sustainability of key utilities are seriously affecting the quality, supply and efficiency of basic services such as in health, education, water and sanitation.

55. The WBG program will support HLO 2 by focusing on addressing key constraints to accelerate sustainable service delivery. To achieve improved social outcomes and build resilience the CPF objectives will sustain efficient delivery of critical basic services in health, water and sanitation for greater inclusion of women, youth and vulnerable population. In addition, strengthening operational and financial efficiency of selected public institutions and SOEs will help improve service delivery which is important for improving human capital and a productive workforce in BiH.

CPF Objective 3: Improved quality of health and water services

56. BiH's quality health service delivery is compromised by structural and system inefficiencies, and water supply is still very limited. Even though a high proportion of resources is allocated to health care, inefficiencies in health care spending threatens fiscal sustainability with the system running a deficit caused by poor budget planning and execution. In addition, there are inequities in access to health care due to concentration of hospital services in urban areas and difficulties in staffing rural facilities. To meet the population's health care needs, BiH's limited health care resources must be used as efficiently as possible. In addition, public water and sanitation services need to be improved: Only 58 percent population is connected to the public water supply network, and only 31 percent is connected to the public sewage network. A significant part of the population particularly in rural areas still relies on informal water operators, or self-supply. This high reliance on self-supply (e.g., private wells or springs) could increasingly put local water resources under pressure.

57. The Bank through a comprehensive package of investment, technical assistance and analytics will support systemic reforms and assist government to achieve quality health and water services, particularly for the vulnerable and marginalized population. Healthcare is relatively underfunded but also the quality of services is lower than in other countries that spend less. In healthcare, the Bank's investment will address foundational issues of health system reforms in both entities to tackle twin problems of unsatisfactory healthcare and unsustainable health systems arrears. The program will implement measures for better accountability of the system and discontinuation of accumulation of arrears, restructuring of the hospital activities to improve efficiency of frontline services in the interest of building stronger primary care without compromising service access and quality. Improving quality of care of women, particularly from marginalized communities, will be a distinct focus by engaging women for local action to help improve accountability, improve service provision and address the most important challenges and needs of women. The CPF also anticipates complementary health sector reforms to be supported through potential Development Policy Financing (DPF). The significance of the reforms supported would justify use of sector-focused DPF. In parallel, IFC will explore how best to improve healthcare service delivery and sustainability by partnering with the private sector. Health care reform is

particularly challenging in BiH and using a range of WBG instruments, including DPF, Investment Project Financing (IPF), and IFC, gives this reform the best chance of success.

58. The Bank will support key challenges in the Water Supply and Sanitation (WSS) sector both at the entity and local level. Given the strong linkages between water, health and nutrition outcomes, the Bank is complementing its efforts to improve service delivery in water supply and sanitation program that will help augment capacity of the relevant institutions. The activities will include strengthening the institutional capacity for improved WSS service delivery, improving access to safely managed WSS services, and improving the efficiency of WSS service providers in participating local governments.

CPF Objective 4: Improved performance of selected SOEs and public institutions for better service delivery

59. BiH's complex governance structure and weak mechanisms for intergovernmental cooperation often present challenges to the delivery of effective public services. In BiH, SOEs have a larger footprint than any other Western Balkan countries. They are highly inefficient, loss making, and consume budgetary resources that could be better used in improving public services. Inefficient SOEs cause resource misallocation, which leads to crowding out of the private sector. While significant resources are devoted to public services, the quality of basic services including health, water and sanitation that SOEs provide is poor at the local level with a high degree of dissatisfaction by citizens. BiH has one of the largest public sectors in the region – which accommodates the growth of relatively unproductive expenditures. Moreover, within individual sectors such as health and education there is a need to undertake structural reforms that will improve the efficiency of spending.

60. The WBG will support institutional reforms to strengthen capacities and financial efficiency of selected SOEs and public institutions across sectors. A combination of investment, analytical work and TA will support government policy and implementation of key reforms of SOE governance and management. This will be complemented by activities to strengthen local capacity and promote the governments' ownership of reform agendas for effective, sustainable and transparent SOEs. The Bank will target improvements in SOE governance at the policy level, owner and company level to inform government policy and implementation on various aspects of SOE governance and management. To ensure better fiscal management and provide consistent and transparent macro forecasts, the Bank intends to provide TA support to relevant institutions on macro-modeling, realistic annual borrowing plan, assessment of borrowing needs and issuances, which should help also improve the quality of budget documents and provide decision-makers with tools in policy making. In the transport sector, the WB's investments support improving road connectivity and safety for road users, strengthen capacity for sustainable management of the main road network in FBiH and improve the operational efficiency and financial sustainability of the railways in RS. In the health sector a comprehensive package of support will aim to improve the short- and long-term financial viability and the overall efficiency of the health system. In the water sector, the WB aims to build the sector's institutional capacity for better services at entity and local levels, while creating an incentive framework encouraging the gradual improvement of the WSS service providers toward operational and financial sustainability.

61. IFC will align its activities with the Bank to encourage better SOE sector performance. The Bank's assistance is expected to improve the productivity and performance of SOEs, thereby freeing up resources for private investment. In complementarity with the Bank, IFC will promote improved SOE sector performance and help build in-country capacity for better corporate governance practices through provision of and Governance Advisory services. IFC will continue to support a private sector role in the provision of public services, such as the potential Sarajevo airport concession project. Upgrading and expanding public infrastructure will offer opportunities for further private investments. IFC will also seek to help upgrade the PPP regulatory framework through harmonization of necessary laws and regulations while providing targeted advisory and TA support to relevant institutions for capacity building.

HLO 3: Improved environmental outcomes and climate change resilience

62. Climate-change-related risks in BiH are significant and will amplify development challenges across multiple sectors. Climate change is affecting the country, with agriculture, water, and hydropower being the most vulnerable sectors. More than 3,300 people die prematurely every year in BiH due to poor air quality which negatively impacts the economy (more than 8.2 percent of GDP is lost every year) and contributes to loss of human capital as it influences the decisions of many families to emigrate. Improving forest management in BiH is essential for GHG sequestration and greater resilience to climate impacts. The adaptive capacity for climate change in the forestry sector is still not developed, fire protection techniques are obsolete, and climate change issues are not fully integrated into sectoral strategies. BiH was one of the first countries in the Western Balkans to update its action plan to redouble the efforts on preventing global temperature increases as part of the updated Nationally Determined Contributions (NDCs).

63. The CPF will contribute to HLO 3 by concentrating on building country's resilience to climate shocks and natural events for a green and resilient economy. WBG activities will support government policies and programs for better environmental outcomes and climate change adaptation and mitigation by improving air quality for pollution reduction and better managed natural resources for sustainable green growth. The Bank will also support the decarbonization of the BiH economy by enabling just transitions in coal producing regions. These activities will help reduce vulnerability to natural hazards and climate change, improve food and water security, and increase agriculture productivity and sustainable income streams. The WBG will support government's specific NDC targets into measurable sector specific action plan. For example, the integrated climate-smart agriculture approach in the Bank's investment addresses the interlinked challenges of climate change adaptation and mitigation, and supports BiH on the NDC, the National Adaptation Plan (NAP), and its path for a green transition.

CPF Objective 5: Improved air quality

64. Air pollution is an urgent development concern with widespread health impacts and government recognizes the need to improve air quality and reduce environmental degradation. Almost three-fifths of PM2.5 air pollutant emissions come from residential combustion of firewood and coal, one fifth from power and heating plants, and the remaining fifth from transport, industry, agriculture, and other sources. A necessary requirement to alleviate air pollution in cities is to increase energy efficiency in public and private buildings to manage the increasing energy demand and reduce environmental impacts. Residential, public, and commercial buildings account for approximately half of energy consumption, much of which is wasted because of poor insulation and inefficient heating and lighting.

65. The WBG will support steps to improve BiH's air quality. The Bank will support in improving energy efficiency in public sector buildings, and to support the development and implementation of scalable energy efficiency financing models. A planned investment operation will support policies and regulations at improving urban air quality, addressing air pollution from biomass use in households, promoting green and resource-efficient buildings, supporting active mobility through non-motorized modes, and reducing emissions and air pollution in the transport sector. To promote a just transition to lower carbon economy a planned investment operation will support policies and investments on managing progressive closure and repurposing of thermal power plants and associated coal mines in both the Federation of BiH and RS. IFC will focus on promoting green financial solutions, increasing renewable energy and energy efficiency (RE/EE) investments, and supporting municipalities to promote climate-friendly urban solutions. This will be complemented by the Bank's proposed investment in forestry that will support wood-based biomass energy fuels to small businesses through capacity building and training activities, focusing on the production and storage of the different types of wood fuels. This high-quality

fuel will contribute to improving air quality which is rated among the lowest in the region due to burning of low-quality fuel. MIGA's existing guarantee to Raiffeisen will support new lending in the country, assisting the economic recovery, with a focus on climate finance. Furthermore, MIGA will explore new opportunities to facilitate more climate finance solutions via its political insurance products in close collaboration with the Bank and the IFC.

CPF Objective 6: Improved use of natural resources

66. BiH has significant natural resources, particularly agriculture and forestry, which could be better leveraged for growth and job creation while ensuring their preservation. The development of agriculture is increasingly being affected by the consequence of climate change and will require a green transition to be more resilient. Rises in temperature coupled with changes in rainfall and evaporation, are likely to negatively impact the country's farming zones, the frequency of floods, and soil erosion. Forests and trees can also help mitigate climate change and risks from extreme climate events. They provide protection against floods (by reducing the risk of rock falls, avalanches, and mudslides), natural cooling in urban and peri-urban areas and support climate-smart agriculture through shade tree cropping and fodder production for livestock. Enhancing forest management in public and private forests, will also strengthen the wood-based biomass energy value chain and contribute to air quality improvement. There is a continued need for deepening regional coordination on shared natural resources along the Sava-Drina riparian countries. The region's recent and future exposure to climate change impact and the increasing need to adapt to and mitigate climate change risks further illustrates the urgency of regional coordination—transboundary integrated approaches and activities—among the riparian countries.

67. The Bank will support government's effort towards sustainable use of natural resources to enhance climate resilience. It will support investments in agriculture, forestry and infrastructure improvements to address the climate change-exacerbated risk. The ongoing first phase of the World Bank Sava and Drina Rivers Corridors Integrated Development Program will continue to support the improvement of flood protection and enhance transboundary water cooperation in the Sava and Drina Rivers Corridors. In addition, the Bank through the Agriculture Resilience and Competitiveness Project is supporting climate resilient agriculture through measures for climate adaptation and mitigation by (i) improving seed quality and production to be better adapted to climate change; (ii) increasing farmers' awareness of possible climate change impacts to different geographical areas; and (iii) improving extension service delivery. Building on prior successful engagements in landscape management, the Bank will finance investment in improved management of existing forests, restoration of degraded forests and landscapes and forest protection including re/afforestation, thinning and other improved forest management operations. In addition, the Bank will provide TA to develop a legal and regulatory framework covering forest management and utilization.

Cross-cutting Theme: Closing of Gender Gaps

68. The CPF will pursue activities aimed at closing gender gaps and providing economic opportunities for women and other vulnerable groups across all HLOs and objectives. As highlighted in the SCD Update (FY20), women are faced with limited access to economic opportunities and lose approximately 35 years of productive employment in their lifetime due to limited opportunities in the labor market. Multiple factors limit women's ability to participate in the labor force including the limited availability of affordable, quality childcare or elderly care. Women also face significant barriers to accessing productive assets, to owning property or to having a bank account and there are fewer women entrepreneurs. Women held only about 21 percent of seats in the national parliament in 2018. Finally, just under half of women experienced some form of domestic violence in 2019⁵ Women and other

⁵ <https://www.osce.org/mission-to-bosnia-and-herzegovina/450877>

vulnerable groups are core beneficiaries of the planned CPF activities either as recipients of active labor market programs, support to women led MSMEs or the improved quality of critical basic services in health, or water and sanitation. Gender-disaggregated indicators will help track progress during the CPF period.

3.4 Implementing the FY23-FY27 Country Partnership Framework

3.4.1 Financial Envelope

69. The proposed IBRD Financing under the CPF would be up to US\$750 million. Actual IBRD lending amounts under the CPF will depend on a range of factors, such as country demand and performance, the Bank's financial capacity, demand from other IBRD borrowers, as well as global macroeconomic developments. Annex 3 presents the current IBRD pipeline with projects at various stages of readiness. Despite the political impasse, the project preparations and negotiations were able to continue in FY22, including for the approved Health Systems Improvement Project (P171150), the Agriculture Resilience and Competitiveness Project (P171266) and the Water and Sanitation Services Modernization Project (P168943). Potential projects for the CPF period include the second Employment Support Project (P176895), a Health Sector DPF (175191), a Forest Economy Development Project (P171513), an Air Quality Improvement Project (P176040), an Additional Financing for the Regional Sava and Drina Rivers Corridors Development Program, a Multimodal Transport Project (P177916), a Coal Just Transition Project and a Solid Waste Management Project.

70. The current IBRD Portfolio in BiH consists of nine investment projects with total financing commitments of US\$551.45 million and one regional project in the amount of US\$32.6 million. Despite the complexities of the political setting, the pace of implementation of existing projects has improved, with disbursement rates of 34.6 percent in FY19, 27.5 percent in FY20, and 56.3 percent in FY21.

3.4.2 Managing Program Implementation

71. For the CPF, the Bank envisages an adaptive operational approach for program implementation to achieve a greater impact. Given the chronic challenges of project effectiveness and resource intensive project preparation support the CPF will concentrate on fewer areas for greater selectivity. The Bank will utilize a richer mix of instruments of DPF, results-based financing (IPF with Performance-Based Conditions– PBCs) and IPF with the goal of fewer larger projects. However, the portfolio will be highly flexible to accommodate emerging challenges. To improve the pace of implementation, the Bank will collaborate with the authorities on the use of retroactive financing to help bridge the effectiveness gap. Greater use of Environmental and Social Framework (ESF) tools will be made to engage with stakeholders during the project design phase. With regard to policy reform areas, the WBG's engagement will be tailored to address specific needs and challenges of each entity while remaining compatible with the broader set of actions in play at the state institutional level. This approach is based on the findings from the CLR.

72. A BiH Political Mapping and Scenarios of Engagement exercise will inform the types of engagement and interventions that the Bank can support, under different risk scenarios. This will be based also on the principles of the 2021 Bank Policy on "Development Cooperation and Fragility, Conflict, and Violence (FCV)" that sets forth an operational framework for the Bank's engagements in FCV situations. Table 2 shows the dimensions of how in the BiH context this framework could be applied.

Table 2: BiH Political Mapping and Scenarios

BiH Political and F-V & C Scenarios	FCV Operational Policy - FCV Engagement			
	A. prevention of grievances and tensions from escalating into conflict and violence	B. remaining engaged during situations of crisis to protect human capital, institutions, and development gains	C. supporting transition out of fragility by investing in strengthening resilience and institutions	D. mitigating the spillovers and impacts of FCV
1. Reform-oriented political system and well-functioning coordination at state and entity level	Full implementation of country engagement and operations with focus on key reform areas.	Potential use of additional instruments, including a stronger focus on policy-level support through DPF.	WBG to help build state functions, including SOE reform, to support EU accession.	
2. Protracted disfunction at state and entity level in BiH	WBG continues to design and implement operations but in a manner that avoids exacerbating the FCV context and helps address the drivers of FCV and supports processes and institutions that foster resilience.	WBG to protect development gains through crises, help transition towards stability.	WBG to help strengthen core state functions in BiH, build institutional resilience and the capacity of private sector clients, and focus on inclusion and support for the disadvantaged and vulnerable while emphasizing country ownership and partnership with other development and humanitarian actors.	
3. Incident and escalation to unrest and violence across BiH or between entities		WBG to protect development gains through crises, protect human capital, institutions, and development, help transition towards stability.	WBG to focus on helping BiH to preserve human capital and key economic and social institutions and on mitigating medium-term development impacts.	
4. Conflict		WBG would address the humanitarian crises and emergency based on its comparative advantage, motivated by a robust development rationale and focuses on sustained and long-term engagement.	WBG would engage in activities related to peacebuilding consistent with its mandate and based on a robust development rationale, and in partnership with other stakeholders.	WBG would focus on medium- to long-term development challenges arising from forced displacement, including by addressing the specific vulnerabilities of refugees and internally displaced persons, supporting sustainable economic and social development in host.

73. Citizen engagement will continue as an important tool for the implementation of the CPF program. Meaningful citizen/stakeholder engagement early in the project preparation process, buttressed by significant up-front investments in evidence building, is crucial for successful and timely project implementation. As learned in the CLR, a stronger emphasis on comprehensive citizen engagement (CE) can help overcome the country’s institutional governance and decision-making challenge and build meaningful coalitions among entities and communities. The ESF offers useful tools, such as the stakeholder management plan, to help identify and reach all stakeholders early on and mitigate any potential risks connected with project actions. Some specific actions, further outlined in Annex 6, include: (i) shifting from passive to active CE tools in the BiH portfolio which encourage more dialogue and a state/non-state interface; (ii) strengthening country systems through TA; (iii) linking the implementation of CE activities to more open and frequent reporting of results; and (iv) taking corrective actions on projects facing challenges in implementation, and to ensure inclusion in CE processes. An additional emphasis over the CPF period will be to enhance the inclusion of women and other vulnerable groups in planned CE activities, e.g., in the health and water sectors. Poverty and Social Impact Analysis (PSIA) of reforms will also be considered over the CPF period.

74. IFC’s interventions will aim to support a shift of the country’s growth model from public-led to private-led, from consumption to investment, and from domestic to external (the Three Shifts), particularly through fostering competitiveness, connectivity, and climate resilience. Outputs and impact from IFC’s activities will be conditional on the likelihood of reforms being implemented, as a result of the IBRD-led policy dialogue and supporting operations. The EU accession agenda (Economic-Investment Plan, Green Deal), increased emergency created by COVID-19 and strong alignment between multilateral and bilateral development partners are key accelerators for reforms. Also supporting and leveraging other key influencing partners, IFC will push for reforms on SOEs, PPPs, and Energy Transition, as well as NBFS legal and regulatory improvements. If successful, these will result in possible impactful transactions with strong demonstration effect, that would help open-up new markets (e.g., Sarajevo airport PPP, and Telco privatization). With key reforms unlikely to happen in the short term, IFC baseline program in BiH will consist of opportunistic investments in the Financial, TMT, Retail, Light Manufacturing, Mining, and Agribusiness spaces, whose size will depend on the country’s progress made in attracting fresh investment. Cost-benefit analysis and potential impact will drive IFC’s market creation agenda, which will have to be designed and delivered predominantly in the context of regional/ sub-regional platforms in Agriculture, Green Financing, Renewables, Manufacturing Value Chains, Digital Financial Services.

75. MIGA’s engagement in the financial sector is expected to free up capital for improved access to finance in BiH. MIGA guarantees will reduce the regulatory risk-weighting applied to Raiffeisen mandatory reserves at the consolidated level, freeing up capital for their subsidiaries in BiH. This freed-up capital will enable increased SME lending and increased climate finance lending. As part of the COVID-19 response strategy, MIGA guarantees are expected to contribute to mitigating the adverse impact of the pandemic on SMEs, thereby supporting a green and inclusive recovery. MIGA will continue to explore opportunities to scale up its guarantees in strategic sectors of the economy.

IV. MANAGING RISKS TO THE CPF PROGRAM

76. The overall residual risk to achieving the proposed program objectives is assessed as substantial. Using the WBG Systematic Operations Risk-Rating Tool (SORT), five risk categories are rated as substantial and one as high.

77. Political and governance risks are high. The complex political structure and weak mechanisms for inter-government cooperation pose a high risk to the proposed program. The current political tensions exacerbate the traditional political impediments and challenges in decision making. Lack of vertical coordination between institutions represents an additional risk. Lack of transparency and accountability is an enduring concern. To mitigate these risks, the WBG will continue to seek widespread consultations across all entities for its engagement. It will remain flexible to respond to shifts in the political economy and to be able to continue to engage. By design, all Bank projects, while supporting activities within the remit of the entity-level ministries and institutions, at the same time provide support to state level institutions for activities that have been agreed in detail with all entities. Importantly, the Bank will not implement any projects where all entities do not have a strong ownership of the project. The Political Mapping and Scenarios of Engagement exercise will inform the types of engagement and interventions that the Bank can support, under different risk scenarios related to any changes in the political situation. In addition, as further outlined above, the Bank will encourage citizen engagement in its projects and work closely with other development partners to encourage BiH’s entities to work together.

78. Macroeconomic risks are substantial. The pace of growth of the economy is too sluggish to create the living standards to which the population aspires, and the country’s growth model remains unsustainable. BiH also continues to face an unprecedented risk to its macroeconomic stability from the

economic slowdown triggered by COVID-19 and the war in Ukraine. This could be worsened if a large number of people, fearing joblessness, decide to emigrate. Despite some rebalancing in the past few years, economic policies still discourage private initiative and investment, and the economy continues to look inward. At the same time, governments in both entities are in a relatively good fiscal position (compared to previous years) and have acted quickly to redirect resources to maintain liquidity and economic activity. A large part of the focus of this CPF is directly or indirectly aimed at mitigating these risks and the WBG will use, in cooperation with the IMF, its convening power, TA and financial support to engage in a continuous dialogue on the need for economic reforms.

79. Risks related to sector strategies and policies are substantial. The planned support to ambitious reform efforts, e.g., in the health sector, can be challenged by the uneven pace in which sectoral reforms and policies are being implemented across entities. To mitigate the risk of weak sector strategies and policies between entities, the Bank will work closely with the relevant authorities to ensure that well-defined and relevant sectoral priorities are being articulated and adopted.

80. Risks related to institutional capacity and sustainability are substantial. BiH’s implementation arrangements are always complex since they reflect the country’s complex institutional set up. Institutional arrangements in FBiH can be particularly difficult because of the need for federation authorities to liaise effectively with cantonal counterparts. To mitigate these risks, the Bank will build on the experience and lessons learned during the successful implementation of other projects and will use, as much as possible, existing, and experienced implementation units.

81. Fiduciary risks are rated substantial. Projects’ complex governance structures in BiH usually translate into challenges regarding financial management (FM) and procurement responsibilities and capacities. The Bank will mitigate these risks by building on its experience in strengthening fiduciary capacities across projects.

82. Environmental and social risks are substantial. The potential nature of some subprojects in either the water or agriculture sectors might involve potential needs for resettlement, have high stakeholder complexity and significant impact on the policy and institutional environment. Main social risks could be associated with potential permanent land acquisition, grants and vulnerable groups, and labor issues. While BiH’s legal framework for social and environmental issues is adequate, implementation remains an issue in both entities. The Bank will mitigate these risks through the full application of its ESF and due diligence in project preparation. In addition, the CPF will seek to implement a more systematic approach to building stronger institutional capacity regarding social issues covered by the Environmental and Social Standard (ESS)2 on labor and working conditions, and ESS5 on land acquisition, restrictions on land use and involuntary resettlement.

Table 3: Risks to the BiH CPF FY23-FY27 Program

Risk Category	Rating
Political and Governance	High
Macroeconomic	Substantial
Sector Strategies and Policies	Substantial
Technical Design of Program	Moderate
Institutional Capacity for Implementation and Sustainability	Substantial
Fiduciary	Substantial
Environment and Social	Substantial
Stakeholders	Moderate
Overall	Substantial

Annex 1: CPF Results Matrix (FY23-FY27)

High Level Outcome 1 (HLO 1): Increased inclusive private sector employment		
This HLO is aligned with previous CPF FY16-FY20 Focus Area 2 (creating conditions for accelerated private sector growth). Based on the findings from the SCD update and the lessons learned from the CLR, continuation of this HLO is crucial for tackling some of BiH's key development challenges.		
High-level Outcome Indicators	Data source	Current value
Employment to population ratio age 15+ (total)	World Development Indicators (ILO Estimate)	35.2 % (2019)
Employment to population ratio 15+ (female)	World Development Indicators (ILO Estimate)	26.7% (2019)
Labor Force Participation ages 15-64 (total)	World Development Indicators (ILO Estimate)	57.7% (2019)
Labor Force Participation ages 15-64 (female)	World Development Indicators (ILO Estimate)	46.7% (2019)
Increase in score and ranking in Global Competitiveness Index (GCI)	World Economic Forum-Global Competitiveness Report 2019	Score 54.7/ranking of 92 out of 141 countries
<p>Rationale: BiH's recent growth has not translated into more or better jobs, and unemployment is a major concern. The unemployment rate fell from 18.4 percent in 2018 to 15.7 percent in 2019, as employment rose from 34.3 percent to 35.5 percent, though the activity rate was unchanged. However, the labor market still suffers from high structural unemployment, and the falling unemployment rate partly reflects the country's aging and shrinking workforce. Youth unemployment is one of the highest (39 percent) in the region with lack of economic opportunities may exacerbate youth emigration and skill mismatches in the labor market. Long term unemployment is also a concern, where seven out of ten unemployed youth looked for jobs more than a year, and women have limited economic opportunities. Job creation has been minimal, and COVID-19 now threatens loss of a significant share of existing jobs, especially in the services industry. Low labor force participation and high unemployment in part is the result of marked skill mismatches in the labor market, due to low-quality education that does not meet employers' needs. A large share of the labor force is active in the informal sector. The overall private sector is small and uncompetitive, often hampered by a difficult business environment, a shrinking labor force, and infrastructure deficiencies. SCD identifies that BiH must move from inward looking to an export driven economy with reduced footprint of the state and SOEs in the economy. Unleashing the potential of the private sector will require government to change its focus from regulating and controlling firms to encouraging their growth.</p> <p>Lessons learned and new knowledge at the program level: The SCD identifies additional knowledge and data gaps required to better inform priorities and policy options. To better understand trends in and obstacles to rebalancing toward private sector-led, export-oriented growth, better and more regularly available data on firm performance, including employment, will be needed.</p> <p>WBG engagement: The CPF will contribute to HLO 1 by addressing shortcomings in supply of and demand for jobs and labor market deficiencies. The CPF objectives will focus on removing barriers to trade and investments, supporting firms, especially MSMEs, to access finance, and on improving competitiveness in key sectors such as agriculture, manufacturing, and services, and strengthening value chain linkages as major contributor to private sector growth. CPF will also aim to strengthen connectivity by leveraging private sector investments in economic and urban infrastructure, through PPPs.</p> <p>SDGs associated: HLO 1 relates to SDG8 (Decent Work and Economic Growth), SDG5 (Gender Equality), and SDG9 (Industry Innovation and Infrastructure).</p>		

CPF Objective 1: Increased private sector led growth

This objective is a continuation from the previous CPF FY16-FY20 objective on supporting a competitive business environment, trade and connectivity, and access to finance. An additional focus during the CPF FY23-FY27 period will be on increasing the competitiveness of agriculture.

Rationale: The business enabling environment in BiH remains challenging, undermining the private sector to be competitive both in domestic and international market. BiH is one of the least competitive economies in the Western Balkans and worst performer on a range of indicators, such as days and cost required to start a business (Global Competitiveness Index-GCI). Inefficient SOEs cause resource misallocation leading to crowding out of the private sector. According to the IMF, up to 3 percent of GDP is forgone in potential income annually through SOEs' inefficiencies. Access to finance has been a major obstacle for the development of the MSMEs, particularly for smaller enterprises and underserved segments, even prior to the COVID-19 crisis. Nearly one out of four MSMEs are in need of financing, with demand being particularly high for smaller enterprises and in certain sectors. Female-led enterprises show lower use of bank accounts and face constraints in access to assets like land, required as a collateral by financial institutions, in accessing start-up capital, financial products and services. Commercial banks are reluctant to expand their lending activity to MSMEs due to increased risk aversion and asset quality concerns. Credit growth has been sluggish (3.2 percent annually in 2009-2019 vs 6.4 percent in the Western Balkans) while Nonbank Financial Institutions (NBFIs) sector is underdeveloped with 12 percent of the total financial assets. The government current policy and related support programs in BiH need to address and encourage productivity-improving technologies in key potential sectors for private-sector-led growth. Higher value-added FDI focusing on technological upgrading and innovation of firms can spur productivity and create preconditions for higher value chain integration of BiH firms and export focus production. Weak connectivity undermines private sector competitiveness with poor road infrastructure and high gap in air transport infrastructure compared to Western Balkans peers (infra gap at 90 percent of the EU level in BiH vs 70-80 percent in other WeBs). Agriculture, especially agri-food sector, is the most important manufacturing industry in BiH, leading in terms of turnover (23 percent of total manufacturing turnover) and employment, as well as in its geographic footprint in rural areas. Despite its importance and comparative advantages, the sector is operating below potential due to land fragmentation, low productivity, and low competitiveness. Furthermore, weak compliance and underdeveloped mechanisms and services related to ensuring food safety standards also limit the competitiveness of BiH's range of agri-food products.

Lessons learned and new knowledge at the program level: The SCD update emphasizes that BiH needs a competitive environment for private sector to grow and play a greater role in meeting the country's aspirations. Based on findings from the CLR, access to finance continues to be a major bottleneck to develop enterprises, particularly microenterprises, businesses working in sectors with specific needs, such as agriculture, and female-led enterprises. Especially, women entrepreneurs in BiH face constraints in access to land, which is traditionally the collateral required by financial institutions, and are perceived to be disadvantaged in their ability to raise startup capital.

WBG ongoing and planned support: The WBG will use an improved understanding of the structural policies necessary to remove existing constraints to private sector growth, particularly in manufacturing industries, and raise the growth potential of the economy. Building on previous engagements, the WBG will support investments and institutional and regulatory reforms to improve financial sector resilience and financial intermediation, including preparing the financial sector for green financing, increase agriculture and manufacturing (such as metal, machinery and automotive) value chain development and productivity improvements to enhance diversification and competitiveness among private enterprises. The World Bank's ongoing investment operation will support access to long term financing to MSMEs that are affected by the COVID-19 pandemic, in particular MSMEs in the lagging regions, and are part of the vulnerable and underserved segments. It also supports the redesign of government support programs aimed at helping firms adjust to the post COVID-19 world through the adoption of appropriate technology and digitalization, thereby increasing their resilience. IFC will continue leveraging its Advisory and Upstream resources to help remove barriers to investments while seeking to invest in the real and financial sectors with a focus on (i) promoting higher value added, export-oriented industries, (ii) improving connectivity and integration into regional and global value chains, and (iii) facilitating the flow of much needed finance to MSMEs, and underserved segments of the economy, including agribusinesses, women-entrepreneurs, and micro enterprises. IFC will help support the flow of credit to the real economy throughout the COVID recovery phase, providing term financing to crisis-affected but otherwise

solvent firms. As the economy recovers from the COVID-19 pandemic, MIGA's guarantees are expected to improve financial inclusion and access to finance for SMEs. To increase agriculture productivity and rural incomes, the Bank support will promote strengthening technical and managerial capacity of smallholder farmers in the farming and agri-business sectors. Matching grants will be provided to leverage private sector investments into green and effective value chain development and productive partnerships between producers and agri-businesses (processors and aggregators) in various agriculture sub-sectors. The Bank will provide matching grants, technical assistance and skills development to wood processing enterprises to enhance their production and sales.

key risks and mitigation: The combination of adverse global and the deteriorating macroeconomic situation could undermine financial sector stability. There are risks that agricultural reforms will slow down, reducing the rates of economic return from investing in agricultural public goods. These risks will be mitigated by focusing on strengthening the delivery of selected services, which would bring about positive outcomes even in the slow-reform environment.

CPF Objective Indicators (COI)	Supplementary Progress Indicators (SPI)	WBG Program
<p>COI: 1.1. Number of firms in vulnerable segments⁶ received financing through Participatory Financial Institutions (PFI) Baseline: (2020): 0; Target (2027): 60 (<i>o/w women inclusive firm 30</i>) Source: BiH Firm Recovery and Support Project (P174604)</p> <p>COI: 1.2. Percentage of participating firms (wood processing enterprises) demonstrating efficiency and innovation improvements Baseline (2021): 0 %; Target (2027): TBD in the PLR Source: Forestry Economy Development Project (P171513)</p> <p>COI: 1.3. Percentage of targeted Aggregators increases in sales of agriculture products⁷ Baseline (2020): 0 %; Target (2027): 50% Source: Agriculture Resilience and Competitiveness Project (P171266)</p> <p>COI 1.4 Number of MSMEs and farmers reached with Agri finance Risk Sharing Facility and wood processing support Baseline (2022):0; Target (2027): 260 MSMEs⁸ and 800 farmers Source: IFC intervention</p>	<p>SPI 1.1. Sales of agricultural produce from farmers supported by the aggregators (Metric ton) Baseline (2020): 0; Target (2025): 25,000 (MT) Source: Agriculture Resilience and Competitiveness Project (P171266)</p> <p>SPI 1.2 Number of recommended laws / regulations / amendments / codes enacted, or government policies adopted (ESG) Baseline: 0 (2022); Target (2026): 1</p> <p>SPI 1.3 Number of firms that benefit from reformed registration requirements (LIFE) Baseline (2022): 600; Target (2026): 1500 Source: IFC intervention</p> <p>SPI 1.4 Number of FIs which benefited from the training program and developed a digital roadmap/strategy:</p>	<p>Financing Ongoing: Agriculture Resilience and Competitiveness Project (P171266) BiH Firm Recovery and Support Project (P174604) IFC - DARP SPV Global AGM (P37035) IFC - DARP NPL EOS II (P44378) IFC - SSL Bosnia IV (P37515) IFC - CIMOS TMD (P26693) MIGA - RBI capital optimization guarantees</p> <p>Financing Pipeline: Forestry Economy Development Project (P171513) IFC - Opportunistic Investments in agribusiness, forestry, retail, light manufacturing, business process outsourcing</p> <p>ASA Ongoing/Pipeline: DG Near Financial Sector Deepening in Western Balkans (P169885) BiH Covid-19 Recovery Support for the Financial Sector (P177448) Bosnia and Herzegovina Country Economic Memorandum (P178645) FinSAC TA on Green Finance and NPL Operational Plans (P143745) Western Balkan's Common Regional Market Initiative (P178854)</p>

⁶ Vulnerable Segments apply to women-inclusive firm, young enterprises and enterprises in lagging regions.

⁷ This indicator measures increased competitiveness of agri-food and local production on domestic and export markets through sales growth, including volume and value added.

⁸ 200 MSME from IFC and 60 MSME from WB wood processing support through Forestry and Economic Development Project (P171513).

<p>COI 1.5 Volume of NPLs resolved (DARP) Baseline: (2022): US\$190 million); Target: (2026): US\$370 million Source: IFC intervention</p>	<p>Baseline (2022): 0; Target (2024): 2 Source: IFC intervention</p>	<p>Unleashing the Potential of Innovative Start-ups and SMEs in the Western Balkans: Investment Readiness Program 2.0 (P163168) Climate Support Facility Whole of Economy Program (pipeline) Western Balkans Poverty & Equity Program Road to Europe Program of Accounting Reform and Institutional Strengthening for Small and Medium Enterprises (P171527) Western Balkans Pension Advisory Services and Analytics FY2021 (P175000) IFC - Agribusiness Risk Sharing Facility (WBIF) IFC - Debt Resolution and Business Exit – DBRE (603649) IFC - Local Investor Friendly Environment/Digitalization – LIFE (#600904) IFC - Integrated ESG to unlock investments (P602281) IFC - DIGILAB (#604205) IFC Western Balkans Light Manufacturing Value Chains (#607166)</p>
<p>CPF Objective 2: Increased inclusive market relevant employability</p>		
<p>This objective is a continuation of the previous CPF FY16-FY20 objective on improving labor market flexibility and social protection with a stronger focus on enhanced inclusion of women, youth and disadvantaged groups in the labor market.</p>		
<p>Rationale: Despite consistent increases in employment since 2015, the unemployment levels in BiH remained high prior to the COVID-19 crisis and are expected to persist at double digit levels. The labor market still suffers from high structural unemployment with a large share of unemployed not being qualified for existing vacancies or working informally. The falling unemployment rate also partly reflects the country’s aging and shrinking workforce. Job creation has been minimal, and COVID-19 now threatens loss of a significant share of existing jobs, especially in the services industry despite some economic recovery in 2021. Government recognizes the importance of providing opportunities for especially youth and women which each face limited labor market opportunities. At the same time, the public sector and SOEs account for approximately one-third of employment in BiH—approximately 10 percentage points higher than in the EU. Among other things, increasing the participation in the labor force requires better performing active labor market programs to help unemployed people find jobs and enabling women to be economically active.</p>		
<p>Lessons learned and new knowledge at the program level: As highlighted in the CLR, due to the effects from the COVID-19 pandemic, targets in the previous CPF FY16-FY20 on the creation of new and sustained real sector jobs were not achieved and growth continued to be undermined by limited job creation in the private sector. Nevertheless, through the BiH Employment Support Program, more than 55,000 job seekers were placed with private sector employers. According to the CLR, incentivizing job creation and labor market participation requires reducing the mismatch between labor demand and supply. Tax reform, social assistance reform, and the delinking of health and unemployment insurance are critical to integrate the less employable and improve the targeting of social assistance and active labor market policies. Reforming the labor market, enhancing social protection delivery, and reducing the cost of labor will help BiH citizens find work, in particular women and young people.</p>		

WBG's ongoing and planned support: The WBG through investment lending operations and technical assistance will promote formal private sector employment and improve employment outcomes for jobseekers by mitigating human capital losses due to unemployment. To address short- and long-term job opportunities, the WB supports Public Employment Services (PES) in implementing short-term active and passive labor market programs (which is part of the COVID-19 recovery response), as well as improving the cost-effectiveness of the services delivered to jobseekers by better design, better outreach, and intermediation. Young and disadvantaged jobseekers are placed in the labor market through ALMPs, which incentivize firms to hire and train them. The focus on disadvantaged groups maximizes the benefits to the poor and the vulnerable. There will be strong focus on female jobseekers as women make up 57.6 percent of the registered unemployed and 86.4 percent of low skilled respectively.

Key risks and mitigation: BiH also continue to face an unprecedented risk to its macroeconomic stability from the economic slowdown triggered by COVID-19 and the war in Ukraine. This could be worsened if large numbers of people, fearing joblessness, decide to emigrate. These risks will be mitigated by focusing on improving targeted social assistance and active labor market policies.

CPF Objective Indicators (COI)	Supplementary Progress Indicators (SPI)	WBG Program
<p>COI 2.1. Number of registered job seekers who remain employed 12 months after the completion of the Active Labor Market Program Baseline (2022): 0; Target (2026): 10,651 (o/w women 4,793) Source: P176895</p> <p>COI 2.2. Percent of newly unemployed placed in ALMP who remain employed 12 months after completion of ALMP program (COVID-Recovery) Baseline (2021): 0% ; Target: 65% (o/w female 65%) (2026) Source: P176895</p>	<p>SPI 2.1. Number of registered youth and disadvantaged job seekers placed in jobs upon completion of Active Labor Market Program (ALMP) Baseline (2021): 0; Target (2025): 4,472 (o/w women 2,012) Source: P176895</p> <p>SPI 2.2: Number of vulnerable jobseekers benefitting from active labor market measures Baseline (2021): 0; Target (2025): 13,750 (o/w women 6,188) (2025) Source: P176895</p>	<p>Financing Ongoing: Developing Private Employment Services in Bosnia and Herzegovina (P166848 TF)</p> <p>Financing Pipeline: Employment Support Project 2 (P176895)</p> <p>ASA Ongoing/Pipeline: Bosnia and Herzegovina Public Sector Employment and Labor markets (P167738) Western Balkans SPJ Situational Analyses (P176230) Bosnia and Herzegovina Country Economic Memorandum (P178645)</p>

High Level Outcome 2 (HLO 2): Increased key public services outcomes

This HLO is a continuation of the Focus Area 1: Increasing Public Sector Efficiency and Effectiveness of the previous CPF FY16-FY20 but with a stronger emphasize on service delivery for health and water, as well as stronger focus on the financial sustainability of key SOEs.

High-level Outcome Indicators	Data source	Current value
Global Health Security Index	Global Health Security Index (GHS rank) (http://www.ghsindex.org)	Index Score: 35.4; Rank: 96/195 (2021)
Percent of population using safely managed drinking water services (%)	World Development Indicators	88.8% (2020)
Percent of population using safely managed sanitation	World Development Indicators	40.3% (2018)

services (%)		
<p>Rationale: Demographic trends of aging population and high outward migration have created a greater sense of urgency to develop opportunities and improve quality of life in BiH. Migration of highly skilled young workers has important implications for BiH's already low productivity. Moreover, an aging population may harm the labor market, public spending priorities, and fiscal sustainability. In addition to the loss stemming from demographic trends, deficiencies in healthcare and education significantly undermine the potential for people in BiH to have healthy, productive lives. The education system fails to equip students with market relevant skills which further contributes to high levels of inactivity. Lack of access to care facilities for children and elderly adults limit the ability of women to participate actively in the economy. Deficiencies in the healthcare system have become more prominent, undermining not only the quality of services provided to the population, but also BiH's fiscal sustainability. In addition, operational and financial sustainability of key utilities are seriously affecting the quality, supply and efficiency in key basic services such as in health, education, water and sanitation.</p> <p>Lessons Learned and new knowledge at the program level: SCD update identified knowledge gaps to better understand the effect on economic performance and fiscal sustainability of demographic trends on BiH, more information and analysis will be needed on migration and the aging of the population. Improving the knowledge base by developing a system to track immigration and emigration and regularly analyzing the effect of demographic change on delivery of basic services (e.g., fewer schools and more healthcare for elderly adults) and its fiscal effect will help fill these knowledge gaps.</p> <p>WBG engagement: The WBG will address key gaps in service delivery for improved social outcomes with a stronger focus on promoting quality and efficiency of health care services; providing better access to water and sanitation services for the vulnerable population and improving performance of key SOEs for better service delivery. The WBG engagement will have greater inclusion of youth, women, and vulnerable population. The CPF will not address education quality or services although the SCD identified it as a priority due to insufficient client demand and the fact that other development partners are already engaged in education.</p> <p>SDGs associated: SDG2 (Zero Hunger), SDG3 (Good Health and Well-being), SDG4 (Quality Education), SDG5 (Gender Equality), SDG6 (Clean Water and Sanitation), and SDG10 (Reducing Inequality).</p>		
<p>CPF Objective 3: Improved quality of health and water services</p>		
<p>This is a continuation of the previous CPF objective on improved public service delivery but more concentrated focus on improving quality and efficiency of services in health and water.</p>		
<p>Rationale: Improving efficiency in health and water services is critical to improve labor productivity and human capital development. Health outcomes in BiH are in line with Western Balkan countries but lag substantially behind EU states. The main public health challenge in BiH is reducing non-communicable diseases (NCDs) which are estimated to account for 80 percent of the country's annual deaths and dominate the overall burden of disease and disability. Even though a high proportion of resources is allocated to health care, low spending per capita paired with spending inefficiencies and poor management of available resources threatens fiscal sustainability and impacts the quality of services. Service delivery is not adapted to respond to the burden of NCDs and is hospital-centric with gaps in satisfaction with care received. The healthcare system also faces significant pressures from the ongoing COVID-19 pandemic. Public access to water services is limited with only 58 percent population is connected to the public water supply network, and only 31 percent is connected to the public sewage network. In rural areas only 20 percent of the population being covered by systems managed by public WUs. Hence, the rural population relies on services provided by local (informal) operators (16 percent) or on piped self-supply system (56 percent). This high reliance on self-supply (e.g., private wells or springs) could increasingly put local water resources under pressure. Improved water supply and wastewater services are key to avoid compounding the effects of the COVID-19 crisis in BiH.</p>		

Lessons Learned and new knowledge at the program level: WB has a repository of experience and lessons learned in the implementation of previous health sector engagement identifies the importance of ensuring a well-defined and commonly owned long-term vision of the health sector reform, to protect against ‘scale-back and drift’ in future project activities and objectives that can occur when addressing problems of the level of complexity found in BiH. In a recently-finalized health sector functional review, critical bottlenecks to quality and efficiency were identified, and have informed the design of a complementary program of work that includes new investment lending, proposed development policy financing, and grant-funded technical assistance.

WBG’s ongoing and planned support: The WB will support health reforms to improve quality of health care services and financial sustainability of BiH’s health care systems. Recently approved Health Systems Improvement Project and a complementary multi-donor trust funded activities will support quality and efficiency improvements for front line services, alongside the flexible financing needed to stop the accumulation of health sector arrears without compromising service access and quality. Crucially, the project will construct a network of incentives, both financial and non-financial, positive and negative, short- and long-term, in the areas of FM and service quality, thereby laying the foundations for longer-term and more challenging reforms in the country. The CPF also anticipates that complementary health sector reforms will be supported through a possible DPF, including measures to implement reforms that will reduce health sector arrears. Improving the quality of care for women will also be a distinct focus of Bank’s engagement, particularly women from marginalized communities. The objective is also being supported by the ongoing Emergency COVID-19 Project including other grant funded activities that aim to prevent, detect, and respond to the threat posed by the COVID-19 pandemic and future long-term preparedness to public health. In water sector, the WB program of activities will address the key challenges of the WSS sector both at the Entity and local level by strengthening the institutional capacity at entity and local level for improved WSS service delivery; improving access to safely managed WSS services and improving the efficiency of WSS service providers in participating local governments.

Key risks and mitigation: Fragmented and decentralized governance structure and political instability could undermine the implementation of reforms agenda to strengthen sector governance. In addition, weak institutional capacity further amplified by restrictions caused by the COVID-19 crisis can further regress progress in achieving CPF objectives. The Bank will mitigate these by supporting actions to clarify institutional roles and responsibilities and by working closely with the PIUs to monitor progress and advice on implementation, including through transfer of know-how and best practices. The Bank will also use its convening power and work closely with other development partners to ensure political support and facilitate engagement with counterparts. In addition, macroeconomic risk is substantial, as the economic slowdown is triggered by high energy prices, war in Ukraine and prolonged COVID-19 and, therefore, further external resources may be required.

CPF Objective Indicators (COI)	Supplementary Progress Indicators (SPI)	WBG Program
<p>COI. 3.1: Percentage of health care providers demonstrating quality gains through a defined set of indicators that are publicly disclosed Baseline (2021): 0% (2021); Target (2027): 95% Source: Bosnia and Herzegovina Health Systems Improvement Project (P171150)</p> <p>COI. 3.2: Number of people provided with access to safely managed water and sanitation services Water: Baseline (2021): 0; Target (2027): 165,000 (o/w female 82,500)</p>	<p>SPI. 3.1: Percentage of health care providers that have established and disclosed an annual, representative, patient satisfaction consistent with international benchmarks Baseline (2021): 0%; Target (2024): 50% Source: P175191</p> <p>SPI. 3.2: Number of water utilities prepared new or updated business plan Baseline (2021): 0; Target (2024): 9 Source: P168943</p>	<p>Financing Ongoing: BiH Water and Sanitation Services Modernization Project (P168943) Bosnia and Herzegovina Health Systems Improvement Project (P171150)</p> <p>Financing Pipeline: BiH Health Sector Development Policy Financing (P175191) IFC – Opportunistic Private General Hospital</p> <p>ASA Ongoing/Pipeline: Support to Public Sector Management Reform in Bosnia and Herzegovina (P161587) Bosnia and Herzegovina Functional Review of the Health</p>

<p>Sanitation: Baseline (2021): 0; Target (2027): 35,000 (o/w female 17,500) Source: BiH Water and Sanitation Services Modernization Project (P168943)</p> <p>COI 3.3. Number of additional patients benefiting from improved private health care services Baseline (2022): 0; Target (2027): > 36,000 (patients served per annum) Source: IFC -ASA Hospital (#606877)</p>		<p>System Performance (P167607) IFC—ASA Hospital (#606877)</p>
<p>CPF Objective 4: Improved performance of selected SOEs and public institutions for better service delivery</p>		
<p>This objective merges the previous two objectives on improving management and efficiency of public finances and strengthening the governance and reduce the fiscal burden of state-owned enterprises. It also encompasses the previous objective on upgrading economic infrastructure, which has been discontinued, by highlighting one core area of the Bank’s engagement in the transport sector with a strong focus on SOE reform.</p>		
<p>Rationale: Complex and fragmented institutional structure has reduced the quality of governance; the efficiency and accountability of the public sector and the efficacy of policies. SOEs are highly inefficient, consume budgetary resources that could be better used in improving public services, have an aggregate negative effect on the economy, and crowd out the private sector. Citizen satisfaction with service delivery is low, and public investment is insufficient; money is being spent on a high public wage bill, large transfers to inefficient SOEs, and social programs that have a limited effect on poverty. A difficult set of reforms will be necessary to create a more efficient, more effective public sector.</p>		
<p>Lessons Learned and new knowledge at the Program Level: A programmatic ASA will support SOE sector modernization in BiH building on the previous ASA will support in design and implementation of key reforms to improve the SOE sector governance through evidence-based advice, technical assistance, and capacity building. For the water sector, one lesson learned for the new CPF was to promote operations that will be putting a strong focus on institutions, policies, and regulations at the entity level which will create and foster an environment where utilities can effectively improve their services to existing customers and expand their operation to other service areas.</p>		
<p>WBG’s ongoing and planned support: The WBG through a combination of investment, analytical and technical assistance will support government key reforms for improvements in SOE sector governance at the policy and cross cutting institutional level as well as in key sectors and institutions. For the cross-cutting SOE sector and company level governance strengthening reforms, a pipeline investment operation is expected to be developed during the CPF period. In transport ongoing investment will support upgrade transport infrastructure by improving road connectivity and safety road users, strengthen the companies’ corporate governance and capacity for sustainable management of the main road network in FBiH and improve the operational efficiency and financial sustainability of the railways in Republika Srpska. In health sector a comprehensive package of support will be provided to improve short- and long-term financial viability of health system. The WB’s investment will support policy and regulatory frameworks to advance water sector reform to promote sustainable service delivery.</p>		
<p>Key risks and mitigation: Fragmented and decentralized governance structure and political instability could undermine the implementation of reforms agenda to strengthen SOE sector governance. In addition, weak institutional capacity further amplified by restrictions caused by the COVID-19 crisis can further regress progress in achieving CPF objectives. The Bank will mitigate these by working closely with the sector ministries to monitor progress and advice on implementation, including through transfer of know-how and best practices.</p>		

CPF Objective Indicators (COI)	Supplementary Progress Indicators (SPI)	WBG Program
<p>COI 4.1: Percentage of health care providers achieving a debt ratio⁹ less than or equal to 0.5 at the end of the financial year Baseline (2021): 20%; Target (2027): 95% Source: Bosnia and Herzegovina Health Systems Improvement Project (P171150)</p> <p>COI 4.2: Percentage of water utilities achieving the agreed threshold score for their operational key performance indicators as agreed in the utility operational plan Baseline (2021): 0% ; Target (2027): 70% Source: BiH Water and Sanitation Services Modernization Project (P168943)</p> <p>COI 4.3 Increased Operational Efficiency (Number of passengers benefiting from improved processing times), PPP Airport Baseline: (2019): 1.1 million Target: (2027) 1.72 million Source: IFC CTA Sarajevo Airport PPP (605574)</p>	<p>SPI 4.1: Number of new service agreements between Local Governments (LGs) and Water Utilities (WUs) developed and signed Baseline (2021): 0; Target (2025): 8 Source: P168943</p> <p>SPI 4.2: Entity-level SOE Oversight Coordination Units established and collecting financial data from all companies under their legal mandate, at least once-annually Baseline (2021): No; Target (2025): Yes Source: P176285</p>	<p>Financing Ongoing: Real Estate Registration Project (P128950) Federation Road Sector Modernization (P152406) RS Railways Restructuring Project (P161122) BiH Water and Sanitation Services Modernization Project (P168943) Bosnia and Herzegovina Health Systems Improvement Project (P171150)</p> <p>Financing Pipeline: BiH Health Sector Development Policy Financing (P175191)</p> <p>ASA Ongoing/Pipeline: BiH SOE Sector Modernization Programmatic ASA (P175006) Better, effective, sustainable and transparent State-owned Enterprises (P176285 TF) Support to Public Sector Management Reform in Bosnia and Herzegovina (P161587) Bosnia and Herzegovina Functional Review of the Health System Performance (P167607) IFC - CTA Sarajevo Airport PPP (#605574)</p>
High Level Outcome 3 (HLO 3): Improved environmental outcomes and climate change resilience		
<p>This HLO is a continuation from the previous CPF FY16-FY20 Focus Area 3 on building resilience to natural shocks. It has been refocused given the crucial impact of climate change on BiH and the WBG's focus on supporting BiH on the climate change agenda.</p>		
Higher Level Outcome Indicators	Data Source	Current Value
PM2.5 air pollution mean annual exposure (micrograms per cubic meter)	World Development Indicators	27.7 (2017)
Adjusted savings: particulate emission damage (% of GNI)	World Development Indicators	0.38 (2019)
Forest Area (% of land area)	World Development Indicators	42.73 (2020)

⁹ Debt ratio= total liabilities/total assets

Rationale: Climate-change-related risks in BiH—mainly droughts, flash floods, landslides, and increasing temperatures—are significant and will amplify development challenges across multiple sectors. Climate change is affecting the country, with agriculture, water, and hydropower being the most vulnerable sectors. The contribution of agriculture and forestry, two traditionally significant sectors in the economy, to growth and employment has been decreasing, and they produce products with limited value added. Air pollution is reducing living standards, health, and productivity especially for the bottom 40 percent. More than 3,300 people die prematurely every year in BiH due to poor air quality which negatively impacts the economy (more than 8.2 percent of GDP is lost every year) and contributes to loss of human capital as it influences the decisions of many families to emigrate. Reducing the carbon footprint is a major challenge for the country. BiH is one of the first countries in the Western Balkans to update its action plan to redouble the efforts on preventing global temperature increases as part of the updated Nationally Determined Contributions (NDCs), requested by the Paris Agreement ahead of the UN Climate Change Conference (COP26). As a signatory to the Sofia Declaration on the Green Agenda for the Western Balkans, BiH has committed to working towards the 2050 target of a carbon-neutral continent together with the EU. In October 2020, the European Commission announced, “An Economic and Investment Plan for the Western Balkans” and Guidelines for Implementation of the Green Agenda for the Western Balkans, which support the transition to climate-neutrality according to the principles of Just Transition for All, which stipulates that a successful low-carbon transition must be socially just and inclusive. The country increased its carbon reduction goals in key sectors and is planning a significant decarbonization of the country by investing in the power sector. Concurrent to this will require investments in the coal-dependent regions with interventions spanning regional economic diversification, labor, environmental remediation and repurposing of former mining lands, and social protection and inclusion.

Lessons learned and new knowledge at the program level: The SCD update identifies the negative impacts of climate change on BiH with agriculture, water, and hydropower being the most vulnerable sectors. At the same time, pollution is reducing living standards, and affects peoples’ health, and productivity. In addition, extreme natural events such as severe floods in 2014 highlighted the exposure of BiH with an enormous cost to the population. According to the CLR, good progress was made under the previous CPF to build resilience and to prevent the degradation of natural resources. But efforts need to continue to build resilience from natural shocks as a multidimensional and multisectoral effort starting with raising awareness of key stakeholders and civil society on disaster risk management.

WBG engagement: The CPF will contribute to HLO 3 on better environmental outcomes and climate change resilience. The engagement entails scaling up the coordination and implementation mechanisms in reducing air pollution, which in turn will enable more actions in addressing root causes of air pollution in BiH, particularly from residential heating and urban transport. The engagement also entails supporting the decarbonization of BiH economy, enabling by just transitions in coal regions. The HLO 3 will also complement HLO 1 and HLO 2 by adapting to climate change and improving country’s capacity to manage natural resources will also help the future work force and well-being of people. MIGA capital optimization guarantee will support increased access to finance, with a portion of the freed-up capital being allocated toward climate finance activities.

SDG Associated: SDG2 (Zero Hunger), SDG3 (Good Health and Well-being), SDG7 (Affordable and Clean Energy), SDG11 (Sustainable Cities and Communities), and SDG13 (Climate Action).

CPF Objective 5: Improved air quality

This is a new objective based on the government’s demand and the WB’s experience of supporting air quality improvement activities and projects in other ECA countries aimed at effectively reducing air pollution to safer levels in a relatively short time through strong policy and investment actions.

Rationale: Government recognizes the need to improve air quality and reduce environmental degradation and promote a transition to lower-carbon economy. 5 BiH cities are among the Europe’s 10 cities with the worst PM2.5 concentration levels. Almost three-fifths of PM2.5 air pollutant emissions come from residential combustion of firewood and coal, one fifth from power and heating plants, and the remaining fifth from transport, industry, agriculture, and other sources. BiH’s energy mix is suboptimal as the second most coal-intensive country in Europe. The potential for cleaner, cost-effective renewable energy remains largely untapped, despite the rising RE trend in

the region. Higher level air pollution adversely affects health and economic opportunities. A necessary requirement to alleviate air pollution in cities is to increase energy efficiency in public and private buildings. Heating is the largest source of emissions, especially residential heating. Much energy consumption is wasted because of poor insulation and inefficient heating and lighting. Increasing energy efficiency can help manage the increasing demand and reduce environmental effects. Residential, public, and commercial buildings account for approximately half of energy consumption, much of which is wasted because of poor insulation and inefficient heating and lighting.

Lessons learned and new knowledge at the program level: This engagement will build on lessons from the ongoing energy efficiency operation and the planned Air Quality Improvement Project and the Just Transition in Coal Regions Project. While the first focuses on improving energy efficiency in public sector buildings, and to support the development and implementation of scalable energy efficiency financing models, the planned projects will build on the first engagement to also support policies, regulations and implementation mechanisms at improving urban air quality and promoting a just transition low carbon economy.

WBG’s ongoing and planned support: The CPF will support government’s effort to improve country’s air pollution and as well as investment in infrastructure to address climate change exacerbated risk. The ongoing WB investment and analytical work will support to improve energy efficiency (EE) in public sector buildings, including development and implementation of scalable EE financing models. To improve air quality a planned investment operation will support policies and regulations at improving urban air quality, addressing air pollution from biomass use in households, promoting green and resource-efficient buildings, supporting active mobility through non-motorized modes, and reducing emissions and air pollution in the transport sector. To promote a just transition to lower-carbon economy, a planned investment operation will support policies and investments on managing progressive closure and repurposing of thermal power plants and associated coal mines in both the Federation of BiH and the Republika Srpska. Actions will not focus solely on the technical closures but on the need to reorient entire coal regions on new, and greener, economic pathways. IFC’s sequenced interventions in the RE sector have been successful in attracting private investment for small-scale projects. From 2010 to 2013, IFC focused on harmonizing the complex regulatory framework for RE, leading eventually to the adoption of key laws in the sector. In the second stage, IFC organized firm-level workshops for local and international developers while continuing, in parallel, to build capacity among policy makers. In the third stage, IFC supported local banks in building internal capacity, especially in project finance, and provided direct RE credit lines. Going forward, IFC will seek to support green transition efforts through work with financial institutions, investment in energy efficiency projects, and opportunistic engagement in energy-efficient municipal infrastructure as well as in RE generation. IFC will also leverage its regional Upstream and AS to identify investment opportunities in the urban infrastructure and the potential for distributed generation.

Key risks and mitigation: Key risks are related to the fragmented governance structure and associated decentralized implementation arrangements, as well as limited implementation capacity of the sector ministries. On the mitigation front, the WBG will remain flexible and adjust the program and instruments to emerging priorities that recognize political developments, new challenges and institutional capacity constraints.

CPF Objective Indicators (COI)	Supplementary Progress Indicators (SPI)	WBG Program
<p>COI 5.1: lifetime energy savings in public buildings Baseline (2020): 683,419; Target (2025): 1,322,527 MWh Source: P143580</p> <p>COI 5.2: Communities supported in a transition away from coal Baseline (2021): 0; Target (2027): 4 Source: P176040</p>	<p>SPI 5.1: Lifetime GHG savings (metric ton) Baseline (2021): 257,476 MT; Target: (2025) 504,653 MT Source: P143580</p> <p>SPI 5.2: Coordination and implementation mechanisms for air quality management in FBiH and cantonal governments developed Baseline (2020): No Mechanisms; Target (2024): First Mechanism Developed</p>	<p>Financing Ongoing: Energy Efficiency Project and Additional Financing (P143580) Agriculture Resilience and Competitiveness Project (P171266) IFC – UniCredit BiH Renewable Energy (#35774)</p> <p>Financing Pipeline: Air Quality Improvement Project (P176040) Forestry Economy Development Project (P171513) IFC—New energy facilities and investments in infrastructure</p>

	Source: P176040	linked to RE, subject to reforms being enacted IFC—Green Buildings with EDGE support IFC—Distributed Generation market analysis in ECA ASA Ongoing/Pipeline: Just Transition in Coal Regions Road Map for BiH (P171194) – ongoing with early-stage discussions with the EC on a Phase 2 WB6 Energy Transition (P169389) IFC Advisory - Urban mobility in the Western Balkans (<i>with IBRD</i>) (605811) IFC Advisory - Electric Mobility Europe and Central Asia Phase 1 and 2 (606645) IFC Upstream - Eco Industrial Parks in Western Balkans (607033) WBIF funding
CPF Objective 6: Improved use of natural resources		
This objective is the continuation from the previous CPF FY16-FY20 which focused on preventing the degradation of natural resources and building resilience.		
<p>Rationale: The development of agriculture sector is increasingly being affected by the consequence of climate change and will require a green transition to be more resilient. Rises in temperature coupled with changes in rainfall and evaporation, are likely to negatively impact the country’s farming zones in Mediterranean areas and in the Northern regions by increasing the duration of dry periods, the frequency of floods, and soil erosion. Forests and trees can also help mitigate climate change and risks from extreme climate events. There is a continued need for deepening regional coordination on shared natural resources along the Sava-Dina riparian countries.</p>		
<p>Lessons learned and new knowledge at the program level: This engagement area will build on the experience of previous and ongoing operations focused on solid waste management, flood protection and sustainable land management to deepen the WBG’s engagements.</p>		
<p>WBG’s Ongoing and Planned Support: The Sava River Basin has considerable untapped potential as an enabler of economic growth, regional connectivity, resilience to climate change risks, social cohesion, and job creation. The ongoing first phase of the World Bank Sava and Drina Rivers Corridors Integrated Development Program will continue to support the improvement of flood protection and enhance transboundary water cooperation in the Sava and Drina Rivers Corridors. In addition, the World Bank’s planned investment intend to support climate resilient agriculture through measures for climate adaptation and mitigation including utilization of improved seed varieties that are adapted to climate change, combined with diversification through agroforestry, increasing farmers’ awareness of climate change impacts to different geographical areas and improving extension service delivery. Building on prior successful engagements in landscape management, the Bank will finance investment in improved management of existing forests, restoration of degraded forests and forest protection including re/afforestation, thinning and other improved forest management operations.</p>		
<p>Key risks and mitigation: Key risks are related to the fragmented governance structure and associated decentralized implementation arrangements, as well as limited implementation capacity of the sector ministries. The Bank will mitigate these by working closely with the sector ministries to monitor progress and advice on</p>		

implementation, including through transfer of know-how and best practices. The PLR will also provide a good vehicle for changing course should the program diverge from its expected course.

CPF Objective Indicators (COI)	Supplementary Progress Indicators (SPI)	WBG Program
<p>COI 6.1: People protected from 1 in 100-year flood event in the Sava and Drina River Basins Baseline (2021): 0; Target (2027): 200,000 (<i>o/w female 110,000</i>) Source: P168862</p> <p>COI 6.2: Land area under sustainable landscape management practices (ha) Baseline (2021) 0: TBD; Target (2027): 9000 Source: P171513</p> <p>COI 6.3: Farmers adopting improved agricultural technology Baseline (2022): 0; Target (2027): 3000 (<i>o/w female 1000</i>) Source: P171266</p>	<p>SPI 6.1: Length of embankments or dykes constructed or rehabilitated Baseline (2021): 0; Target (2025): 20 km Source: P168862</p>	<p>Financing Ongoing: Western Balkans: Sava and Drina Rivers Corridors Integrated Development Program (P168862) Agriculture Resilience and Competitiveness Project (P171266)</p> <p>Financing Pipeline: Forestry Economy Development Project (P171513)</p>

Annex 2: World Bank Group Completion and Learning Review (CLR)

Completion and Learning Review of the Country Partnership Framework for Bosnia and Herzegovina for the period FY16-FY20

Date of the Country Partnership Framework for Bosnia and Herzegovina for the period FY16–FY20: December 15, 2015 (Report No. 99616-BA)

Date of the Performance and Learning Review of the Country Partnership Framework for Bosnia and Herzegovina for the period FY16–FY20: January 30, 2019 (Report No. 130043-BA)

Period Covered by the Completion and Learning Review: July 2016 – December 2020

I. INTRODUCTION

1. This Completion and Learning Review (CLR) assesses the design and implementation of the World Bank Group (WBG) Bosnia and Herzegovina (BiH) Country Partnership Framework (CPF) for FY16–FY20¹⁰ (Report No. 99616-BA), discussed by the Board on December 15, 2015, and evaluates lessons learned to inform the development of the next CPF for FY23-FY27. The FY16-FY20 CPF was built around three focus areas: (1) increasing public sector efficiency and effectiveness; (2) creating conditions for accelerated private sector growth; and (3) building resilience to natural shocks. The Performance and Learning Review (PLR) (Report No. 130043-BA, January 30, 2019) proposed a stronger focus on addressing systemic deficiencies and a more holistic approach to stimulating growth and jobs. The overall development outcome of the CPF is rated as *Moderately Satisfactory*, and the overall performance of the WBG is rated as *Good*.

2. BiH has a complex political system, with decision power and accountability split across multiple government levels (with three presidents, numerous parliaments, and more than 180 ministers) and divided largely across ethnic lines. This complexity, together with persistent divisive rhetoric, contributed to reducing incentives for reforms and impeding the articulation of nationwide development strategies. Nearly three years after general elections, a formal government has still not been formed in one of the country's two entities (the Federation of Bosnia and Herzegovina, or FBH).

3. The objectives of the CPF were closely aligned with the government's medium-term Reform Agenda for 2015–18.¹¹ This Reform Agenda, which remained highly relevant throughout the CPF timeline, focused on six high-level outcomes: (i) fiscal sustainability and consolidation, (ii) business climate and competitiveness, (iii) labor market reform, (iv) social welfare and pension system reform, (v) the rule of law and good governance, and (vi) public administration reform. The Reform Agenda represented a broad consensus among all levels of government on key priorities for achieving a more sustainable growth path for the country and was reflected in the intended transformational nature of the CPF program.

4. While the implementation of the Reform Agenda was strong during the first year of CPF implementation—with advances on fiscal sustainability, business climate, and labor market reform—it stalled ahead of general elections in October 2018 and has remained slow since then. At first, delays

¹⁰ The delivery of the CLR has been aligned with that of the new CPF for FY23-FY27. The preparation of the new CPF was postponed by one year due to the COVID-19 pandemic.

¹¹ The Reform Agenda was adopted in July 2015 by the BiH Council of Ministers, and by the governments of the constituent entities, the Federation of Bosnia and Herzegovina (FBH) and Republika Srpska (RS), as well as the self-governing Brčko District. See <https://europa.ba/wp-content/uploads/2015/09/Reform-Agenda-BiH.pdf> for details. The Reform Agenda reflects the recommendations that emerged from the Compact for Growth and Jobs, an outline of key necessary reforms developed by the Forum for Prosperity and Jobs in May 2014. The WBG made an important contribution to this process through its analysis and priority setting in the 2015 Systematic Country Diagnostic.

were brought about by a prolonged government formation process in the FBH and at the BiH state level. Although there were signs of a resolution to the political standstill by late 2019 and early 2020, providing a potential window for renewing the reform impetus through endorsement of the “Joint Socio-Economic Reforms for the Period 2020–2022,” the overall political environment was not conducive to reforms. This stagnation had a strong negative impact on the WBG’s program implementation and on achievement of CPF Objectives under the CPF Focus Areas 1 and 2 and led to the government’s reduced interest in development policy financing (DPF). The discussion in the CPF flagged this risk and noted that in case the country’s reform agenda goes off track, the WBG would not be able to provide the full scope of planned support, in particular budget support for catalytic policy change. Consequently, the program reverted from the high-risk high reward scenario to the one where the WBG remained actively engaged in BiH through investment lending, advisory services and analytics (ASA), and policy dialogue in key sectors.

5. Macroeconomic stability has been maintained since 2015, facilitated largely by the currency board and prospects for membership in the European Union (EU). Despite real income growth at around 3 percent per year since 2015, per-capita gross domestic product (GDP) continues to hover at around one-third of the EU27¹² average. Fiscal surpluses, meanwhile, ranged between 2 and 3 percent of GDP over the six years prior to the COVID-19 pandemic. These surpluses helped rein in current account deficits, which have fallen under 4 percent, on average, since 2015. The external shortfall was financed largely by net inflows of foreign direct investment (FDI), mainly into the foreign-owned banking sector, which remained stable during the pandemic.

6. The pandemic has imposed significant costs on BiH’s economy, as real output declined by 3.2 percent in 2020, although a full recovery to the 2019 real income level was achieved in 2021. With an estimated growth rate of 6.5 percent, real GDP bounced back strongly in 2021, driven by a strong rebound in net exports of goods, as well as by recovery in tourism and transport. The latest consolidated data estimate a 0.5 percent of GDP fiscal surplus in 2021, up from a deficit of 1.8 percent in 2020.

I. PROGRESS TOWARD CPF DEVELOPMENT OUTCOMES

7. Overall progress toward achieving the CPF development outcomes is rated as *Moderately Satisfactory*. The majority of CPF objectives were achieved or mostly achieved. Good progress was seen in reducing fiscal spending on pensions and outpatient drugs under focus area 1; strengthening the business-enabling environment and renewable energy capacity under focus area 2; and introducing sustainable forestry management practices, wastewater management, and delivering goods and services in flood-affected and flood-prone areas under focus area 3. Across all three focus areas, the CPF defined 20 CPF Objective Indicators in support of eight CPF Objectives. At the PLR stage, one indicator was replaced, one was revised, and one new indicator was introduced, yielding a total of 21 CPF Objective Indicators. Of these 21 indicators, 38 percent were fully achieved, 38 percent were mostly or partially achieved, and around 24 percent were not achieved (Annex 1).

8. The last three months of the original CPF period (FY16–20) were marked by the outbreak of the COVID-19 pandemic. Although this initially introduced significant challenges, especially on the implementation of physical works due to lockdown measures, it did not significantly affect the implementation of ongoing projects. The WBG responded promptly to the pandemic, providing implementation support to the BiH portfolio via virtual means. To enable a rapid response to the pandemic, some projects were redesigned or restructured.

¹² EU27 refers to European Union member countries

Focus Area 1: Increasing Public Sector Efficiency and Effectiveness

Moderately Satisfactory

9. Progress toward public sector efficiency and effectiveness outcomes was generally positive, with five of seven CPF Objective Indicators achieved or mostly achieved. Under this focus area, the CPF aimed to improve the management and efficiency of public finances, strengthen the governance of state-owned enterprises (SOEs) and reduce their fiscal burden, and improve public service delivery in areas such as health and sanitation.

Objective 1a: Improve management and efficiency of public finances. Not achieved.

10. Key steps were taken to strengthen the management of public assets and liabilities in BiH, supported by a DPF and a strong ASA program. To address the accumulation of arrears and improve their accounting, and as a prior action for the DPF, the FBH introduced reporting requirements on arrears for FBH budget users in January 2016. The WBG provided technical assistance (TA) in 2019 to introduce a systematic approach to debt sustainability and expenditure arrears recording, including the use of a web-based database application for collecting and analyzing the debt data in FBH. The purchase of the necessary software was planned for 2020 but was postponed due to COVID-19. In Republika Srpska (RS), a system was set up for regular reporting on accumulated liabilities in the public health sector, and data collection now occurs on a regular basis. In 2019, the WBG provided TA to help RS develop a proposal for and costing of software for an automated data web-based reporting system. Despite significant progress in arrears monitoring, there is still a need to strengthen the costing of investments and adherence to the framework.

11. Initial progress in reducing general government pension expenditures as a share of GDP was derailed by COVID-19. The Pension and Disability Insurance Law in FBH, adopted by parliament in February 2018 and implemented since March 2018, was designed to strengthen the link between benefits and contributions and improve long-run pension system adequacy, while maintaining fiscal sustainability. These efforts resulted in a pension surplus¹³ of 0.4 percent of GDP in 2018 and 0.5 percent in 2019. In 2020, pension spending jumped to 10.3 percent of GDP due to COVID-19 measures, and a deficit emerged. Pension expenditures are expected to have fallen below 10 percent in 2021 and by one percentage point of GDP over the four years thereafter.

Objective 1b: Strengthen the governance and reduce the fiscal burden of SOEs. Mostly achieved.

12. Targeted reductions in financing transfers to the pension system in FBH were exceeded, although the pandemic has eroded some of the significant gains. In 2019, the required transfer dropped to 0.4 percent of GDP, well below the targeted level of 1.1 percent of GDP. Owing to the effects of COVID-19, transfers are estimated to have doubled again to 0.8 percent of GDP in 2020. Nevertheless, this target was achieved.

13. While good progress has been made in improving the financial sustainability of the public rail company, RS Railways, the CPF has been less successful in reducing the overall fiscal burden of SOEs. Recognizing the fiscal and social risks and obstacles to privatization and restructuring posed by SOE arrears, including on pension contributions, a series of development policy loans (DPLs), including on SOE reform, was included in the original CPF pipeline. After initial steps were taken, however, the FBH government's commitment to this agenda weakened ahead of the 2018 election. In response, the PLR revised the CPF results framework, accordingly, introducing a new indicator related to RS Railways

¹³ Pension surplus is a difference between pension revenues (pension contributions + mandatory pension allocations in the central budget) and pension expenditures (all pension benefits, including pension benefits for which financing is provided in the central budget).

restructuring only. To that end, the WBG has helped reduce the budgetary burden of SOEs in the RS by providing financing for restructuring the RS Railways. As of December 2019, the company's working ratio had dropped from 1.7 to 1.2, well within reach of achieving the target of 1.0. At the same time, WBG analytical work, including a SOE Diagnostic Note and a Policy Note on Railways Modernization, helped to improve transparency and better management of SOEs, paving the way for better-informed policy.

Objective 1c: Improve public service delivery. Mostly achieved.

14. Targets for aligning tobacco excise taxes with EU standards have been mostly achieved. The CPF recognized that public spending on health was high relative to GDP, that many health outcomes were poor (particularly with regard to noncommunicable diseases, owing in part to high tobacco consumption), and that there was a need to strengthen the financial sustainability of the health system. The inclusion of a target on aligning tobacco excise taxes aimed at a dual impact: reducing health risks caused by tobacco consumption, while enabling health service improvements by bringing in additional revenues to the sector. As of January 2018, the minimal excise duty has risen from EUR51.0 to EUR66.4 per 1,000 cigarettes, against a revised target of EUR75.0 per 1,000 cigarettes.

15. Targets aimed at reducing spending on outpatient drugs have been mostly achieved. The Rulebook on Pharmaceuticals was approved in November 2016, leading to a reduction in outpatient¹⁴ sales from KM72 million in 2015 to KM67 million in 2017. Overall Health Insurance Fund spending has dropped by 9 percent, supported by efforts through the BiH Public Finances DPL to increase public sector efficiency and effectiveness and to lower fiscal pressures over the medium term. The Public Finances DPL, however, included only one prior action related to drugs delivery, addressing only the first steps in a fragmented and poorly regulated pharmaceutical market by implementing and updating a rulebook to regulate maximum wholesale prices for medication in BiH.

16. The significant improvements in wastewater collection and treatment services foreseen in the CPF have been achieved. The treatment of collected wastewater across the BiH exceeded the CPF target of 30 percent, with 43.7 percent of wastewater treated in 2020 (compared to 3 percent at the start of the CPF period). The BiH Statistics Office reports that, of 118,250,000 m³ in wastewater collected in 2020, 51,784,000 m³ was treated. The WBG supported these efforts through the Sarajevo Wastewater Project, which financed investments in the rehabilitation of wastewater infrastructure in the Sarajevo Canton, and the Global Environment Facility (GEF) Water Quality Protection Project, which helped with the rehabilitation and construction of four wastewater treatment plants: Odžak, Trnovo, Mostar, and Živinice. Though construction was completed and tested in 2017, the Mostar wastewater treatment plant is still not operational.

Focus Area 2: Creating Conditions for Accelerated Private Sector Growth

Moderately Satisfactory

17. Progress toward private sector growth outcomes was mixed; out of nine CPF Objective Indicators, four were achieved or mostly achieved, two partially achieved, and three not achieved. Under this focus area, the CPF aimed to help create conditions conducive to private sector growth and investment by supporting a competitive business environment, expanding access to finance, and improving labor market flexibility and social protection. It also aimed at upgrading economic infrastructure in the roads and energy sectors, including renewable energy. To maximize developmental impact under this focus area, the International Finance Corporation (IFC) has collaborated closely with the World Bank and external development partners to implement its cascade approach, deployed a strong programmatic advisory

¹⁴ An outpatient is someone who receives treatment at a hospital but does not spend the night there.

program to pursue upstream reforms to improve the BiH's investment climate, and provided some financing in the real and financial sectors.

Objective 2a: Support a competitive business environment and access to finance. Mostly achieved.

18. Good progress has been made in improving the BiH's business environment. The country's Distance to the Frontier score of 65.4 in Doing Business 2020 exceeded the CPF target of 63. Improvements to the business environment and competitiveness were underpinned by the country's Reform Agenda and the corresponding activities under the CPF program. BiH advanced substantially in the areas of trading across borders and resolving insolvency and made partial progress in improving indicators on starting a business and dealing with construction permits.¹⁵

19. IFC supported initiatives to strengthen BiH's investment environment and attract FDI. The Local Investment-Friendly Environment (LIFE) Project assisted the authorities in improving business registration legislation, simplifying procedures, and enabling digital transformation. In RS and the Brčko District, integrated online business registration systems are fully operational, while FBH has adopted a long-term implementation plan for the interoperability framework but lagged in completing the necessary legislation. The project also supported the RS government in piloting an e-construction permitting system. IFC's Western Balkans Regional Investment Policy and Promotion Project (WB IPP) supported efforts to boost investment and attract FDI through improved investment promotion services, while IFC's ECA Corporate Governance (CG) Project assisted in improving the SOE corporate governance practices across a set of regional economies, in coordination with the World Bank, while also supporting improved corporate governance in the private sector. As a result, client companies secured approximately US\$9 million in new investments.

20. IFC's advisory program helped improve frameworks for trade, leading to efficiency and gains in trade processes. The Europe and Central Asia Trade Facilitation Support Program helped establish a National Trade Facilitation Committee—a mechanism for public-private dialogue in line with the World Trade Organization and the Central European Free Trade Agreement (CEFTA) requirements. The project enabled capacity building and knowledge exchange across customs authorities to streamline trade, resulting in direct compliance cost savings of US\$12.61 million and a 46.6 percent reduction in indirect costs for businesses. Over 10,000 new firms benefitted from simplified procedures. Additionally, IFC's Investment Climate and Access to Markets Project (ICAM) provided assistance on achieving international accreditation of local laboratories and easing quality control of wood products, yielding US\$2.5 million in private sector savings.

21. IFC's Debt Resolution and Business Exit Project (DRBE), assisted the government of BiH in developing a stronger insolvency framework. The project assisted the BiH's entity-level governments to enact six Laws and 20 subsequent bylaws. As reported by the Commercial Courts of RS, proposed interventions resulted in the resolution of 430 insolvency cases worth US\$277.2 million in liabilities and US\$220.0 million in recovery to creditors. Moreover, 2,724 jobs in RS were saved through the successful restructuring of seven companies. This was complemented by efforts to increase efficiency at the institutional level, shortening bankruptcy proceedings from 47 months to 13 months, on average, and increasing the number of solved cases by 71 percent. The project supported 97 capacity building events and certification of 65 insolvency practitioners in line with the new Insolvency Law.

22. CPF targets on new and sustained real sector jobs were not achieved. Growth in BiH continues to be undermined by limited job creation in the private sector. Private sector employment generation has been

¹⁵ The indicators reflect reform and changes only in the capital; therefore, although recognized partially due to reduced fees in Sarajevo, the overall aim of establishing systems in Brčko District and RS was not achieved.

limited, resulting in high unemployment (at 15.7 percent overall and at an even higher 33.8 percent among young people in 2019).¹⁶

23. With the aim of strengthening financial oversight and safety nets, significant improvements were achieved in the areas of bank supervision and resolution. The CPF supported the development of a new bank resolution framework to adequately equip the authorities to ensure the effective and prudential operation and governance of banks in BiH. The new framework was enacted based on recommendations of the 2015 World Bank–International Monetary Fund (IMF) Financial Sector Assessment Program, with support from the World Bank’s Banking Sector Strengthening Project, TA from the WBG’s Financial Sector Advisory Center, and the United Kingdom (UK). These reforms contributed significantly to the European Commission’s implementing decision on the equivalence of the supervisory and regulatory requirements of BiH credit institutions.

24. As part of its response to the COVID-19 pandemic, the WBG restructured two banking sector projects, allowing for continued access to finance for affected enterprises. First, in the second half of the year 2020, the authorities requested a restructuring of the Banking Sector Strengthening Project to support an expansion of the development financing framework to allow for the launch of a temporary partial credit guarantee (PCG) scheme providing financing to affected enterprises. The project helped the authorities to set up an appropriate framework for such emergency mechanisms. The restructuring also ensured the inclusion of an additional reform step in the operationalization of the new Supervisory Review and Evaluation Process methodology, as well as the adoption of the strategic statements for the entity development banks. Second, the activity on Improving Governance and Business Model of Development Banks, financed through the UK’s Good Governance Fund, was restructured. In addition, the WBG provided advice on measures undertaken by supervisors and governments to alleviate the negative impacts of the pandemic.

25. Some progress was made on extending the reach of financial services to additional enterprises. The CPF targets on increasing the outstanding micro, small, and medium enterprise (MSME) and housing finance portfolios of IFC clients were partially achieved. The outstanding MSME portfolio of IFC client banks increased to US\$124.4 million vis-à-vis the target of US\$124 million. The outstanding housing finance portfolio of IFC client banks grew to US\$116 million at the end of 2019, against a target of US\$147 million. The World Bank’s Enhancing Small and Medium Enterprises Access to Finance Project provided a total of 390 loans totaling US\$157.7 million. The loans were provided to 313 unique small and medium enterprises across economic sectors and operating throughout BiH (as compared to a target of 384 new businesses); of these, 53 had female owners or shareholders (compared to the additional 75 targeted).

26. IFC leveraged regional banks and funds to channel indirect lending to BiH. In 2020, together with third-party co-investors, IFC financed the acquisition from banks of US\$531 million (at face value) in retail and corporate nonperforming loans and real-estate owned properties representing 1,341 credits from 503 borrowers/debtors. Of these, a total face value of US\$141 million (27 percent of US\$531 million) has been resolved, representing 155 credits from 56 borrowers/debtors. Through regional fund platforms (such as the Green Growth Fund and the European Fund for South Eastern Europe V), IFC provided US\$9.2 million in indirect lending for climate mitigation projects and MSME finance. In addition, IFC introduced MIGA to the NLB Group. MIGA subsequently successfully issued a EUR115 million guarantee to NLB Group.

27. IFC’s Microfinance Advisory Services Project, has contributed to the overall stability in the microfinance sector. Project activities helped to reinforce responsible finance and stabilize the sector,

¹⁶ Data from the latest BiH Labor Force Survey, published in 2019. Available at: https://bhas.gov.ba/data/Publikacije/Bilteni/2019/LAB_00_2019_TB_0_HR.pdf

expanding financial literacy and debt counselling services and raising citizen awareness of debts to mitigate effects of over-indebtedness.

28. During the CPF period, MIGA offered capital optimization guarantees to three International Financial Institutions to support access to finance: Raiffeisen Bank International AG (RBI) for the benefit of its subsidiary in BiH (EUR115 million, issued in March 2021); NLB Group for the benefit of its subsidiaries in Banja Luka and Sarajevo (EUR115 million, issued in June 2020); and (iii) ProCredit Group for the benefit of its subsidiary in BiH (EUR18 million, issued in December 2020). MIGA's guarantees aimed to reduce the regulatory risk-weighting applied to the banks' mandatory reserves at the consolidated level, freeing up capital for their subsidiaries in BiH to enhance financial inclusion, access to credit, and climate finance. The guarantees to NLB and ProCredit were subsequently cancelled due to a regulatory change (see Annex 7). The guarantees were underwritten as part of MIGA COVID Response Program to support the continued supply of credit into the economy and lay the foundations for sustained credit growth.

Objective 2b: Improve labor market flexibility and social protection. Not achieved.

29. There was no progress in decreasing the number of inactive persons in the labor market, owing in part to the impact of the pandemic. According to the Labor Force Survey (June 2020), there were 993,000 inactive persons in total, including 353,000 men (a 2 percent increase over the 2014 baseline of 346,000) and 640,000 women (10 percent above the baseline of 580,000). COVID-19 caused substantial damage to the labor market, and although the economic slowdown and consequent loss of jobs and earnings have likely eroded household welfare, the policy measures introduced by the government to protect firms and households prevented a more severe impact on the labor market.

30. The effects of COVID-19 and declining trends in the labor force held back achievement of CPF targets on increasing formal employment in the private sector. Private sector formal employment stands at 368,104, of which 220,989 are women. This represents a decline in private sector employment for both men and women compared to the baseline established at the PLR stage. But through the BiH Employment Support Program, more than 55,000 job seekers have been placed with private sector employers (out of which, on average, 57 percent remained employed 12 months after receiving employment support). All supported job seekers belong to one of the following targeted groups: youth (accounting for around 30 percent of placements), the long-term unemployed, those over the age of 40, and those in disadvantaged groups. In response to COVID-19, the project provided just-in-time support for the placement of the newly unemployed and for the payment of unemployment benefits. These efforts were buttressed by ASA on strengthening employment outcomes, growth, and jobs, and on developing private employment services.

31. Social assistance (SA) is relatively well-targeted with 77 percent of SA spending benefiting the poorest quintile (above the CPF Objective Indicator target) despite some benefits being regressive. The targeting accuracy, that is, the sum of all transfers received by the population in Q1 as a share of the total transfers, is the highest for child allowances and poverty alleviation transfers (81.8 percent and 79 percent, respectively). The outlier in targeting accuracy is the war veterans' allowance, being regressive with low impact on poverty, as 82 percent of the benefits go to the richer quintiles and only 18 percent of the spending benefits go to the poorest. The WBG program helped inform the policy dialogue in BiH on equity and efficiency of social expenditures, with a particular focus on social assistance benefits, through, among others, the BiH Social Expenditure Technical Note Series.

Objective 2c: Upgrade economic infrastructure. Mostly achieved.

32. To bring the BiH economy closer to those of EU and non-EU neighbors, WBG engagement under the CPF supported the government in implementing the EU Connectivity Agenda for the Western Balkans, launched in 2015. This assistance has focused on connecting and building core transport, energy, and digital infrastructure as key drivers of growth and jobs, economic integration, and investment

opportunities. IFC continued to support renewable market consolidation and more strategic engagement of the private sector in infrastructure development.

33. In the roads sector, CPF targets on travel time savings as a measure of connectivity between major economic growth poles were partially achieved. The WBG supported upgrades to critical road segments and road network management in FBH. The Federation Road Sector Modernization Project (FRSMP) helped construct 12.2 kilometers of the M17.3 Neum-Stolac new road along a new alignment, out of a total of 38.13 kilometers (including the new section Entrance to Stolac, added through a June 2021 project restructuring and expected to be completed by the revised closing date of November 2022). This has resulted in travel time savings of 9 percent (against the CPF target of 15 percent). IFC's proposed concession of a Corridor 5C section, that was mandated in 2014, was never completed due to FBH government's lack of consensus of the preferred model of financing. Additionally, in 2020, at the very end of the CPF cycle, IFC received a request from FBH to assist in structuring a sustainable PPP model for FBH airport concessioning. IFC, jointly with EBRD, is still negotiating the optimal collaboration model.

34. In the energy sector, planned increases in lifetime energy savings were achieved. Through the BiH Energy Efficiency Project, 80 public facilities—including 56 schools and 16 hospitals—have been renovated with new façades, windows, lighting, and heating systems. These renovations have yielded significant energy savings, estimated at 641,378 megawatt-hours (MWh) per year, as compared to the CPF target of 650,000. The project was designed to ensure that vulnerable groups were not left behind and has improved conditions for more than 750,000 children, students, patients, teachers, doctors, and nurses. A WBG power sector note on a least-cost power development plan, prepared in FY17, paved the way for the issuance of BiH's first-ever energy strategy for long-term planning in the sector.

35. The CPF target on facilitating additional renewable energy (RE) capacity was achieved. IFC helped create the RE market in the region, ramping up private investments into new RE capacity. Through the Balkans Renewable Energy Program (BREP), IFC facilitated over US\$150 million of private investments into renewable energy plants, of which US\$5.5 million were provided by IFC through energy efficiency and renewable energy (EE/RE) credit lines. These investments resulted in 77.14 megawatts (MW) of new installed capacity (against the CPF outcome target of 50MW) and 277,400 tons per year of greenhouse gas emissions avoided. Programmatic advisory support, provided under BREP and the RE Bosnia Small Hydro Power Study, was instrumental in reducing uncertainties in the RE market and leveraging private sector resources. At the policy level, IFC advised the government on developing its Power Sector Strategy, a new RE Law, the Law on Concessions, and feed-in-tariff harmonization. At the sector and firm level, IFC provided advice on tender preparation, feasibility and concept design for small hydro projects, RE training and workshops, and wind farm development. IFC also provided advisory services and direct financing (US\$4.24 million) to UniCredit BiH to support its lending activities for EE/RE projects, increasing access to finance for households and MSMEs while promoting energy efficiency.

Focus Area 3: Building Resilience to Natural Shocks

Moderately Satisfactory

36. Good progress was made under the CPF to build resilience, with three out of five CPF Objective Indicator targets either achieved or mostly achieved. Under this focus area, the CPF aimed to prevent the degradation of natural resources through improved management of hot spots, expanded waste collection and disposal, and sustainable land management practices, and to build resilience to floods through improved service delivery and capacity building.

Objective 3a: Prevent the degradation of natural resources. Partially achieved.

37. Recognizing the importance of the Waste Management Strategy as the main vehicle for assessing the state of waste management in BiH, the CPF supported the adoption of a plan for managing solid waste hot spots in BiH. This target was partially achieved. A Solid Waste Management Strategy for 2017–26 was adopted by the RS parliament, with support from the WBG’s Second Solid Waste Management Project (SSWP). The WBG prepared a Sector Assessment Report and Reform Outline under the Solid Waste Management Advisory Activity, the only large-scale TA and capacity building activity to ever have been conducted in the waste management sector in BiH. The TA, supported by the Swedish International Development Agency (SIDA), enabled sector dialogue and engagement, assisted with a sector review, offered recommendations and a sector investment plan for integrated development, and provided institutional strengthening to regional landfill operators to improve the long-term sustainability and optimization of landfills.

38. The CPF target on reaching EU standards (65 percent) for the collection and appropriate disposal of solid waste in engineered landfills was not achieved. The SSWP contributed significantly to expanding the availability of the solid waste management system to a large portion of the population, with six regional sanitary landfills (three in RS and three in FBH) operationalized by project closure. The share of collected solid waste disposed of in regional sanitary landfills increased to 78 percent countrywide. The project also contributed to BiH’s official adoption of regional landfilling as the backbone to its solid waste management sector. Nevertheless, the rate of appropriately disposed generated waste did not reach the CPF’s target of 65 percent. In 2020, official statistics show that 334,713 out of 396,200 tons (84 percent) of waste generated in RS and 565,561 out of 611,854 tons (92 percent) of waste generated in FBH was disposed of in landfills. However, these figures do not differentiate between non-sanitary landfills and those that meet minimum EU standards for sanitary landfills. According to available data, about 50 percent of waste in BiH is disposed of at the regional sanitary landfills. The landfills supported by the project experienced problems, e.g., with the regional landfill in Sarajevo, obtaining a “conditional” environmental permit only in April 2020 with the other landfills facing similar challenges.

39. Sustainable land management practices were adopted on 3,525 hectares, surpassing the CPF target of 3,000 hectares. The Sustainable Forestry and Landscape Management Project supported investments in reforestation and restoration of non-forest land (such as pasture or grassland), lands intended for forest service protection, lands available for enhanced production of non-timber forest products, and productive lands benefiting from enhanced or improved fire management or protection. Forest management bodies in both entities have improved their technical capacity through the acquisition of equipment and recruitment of trained professionals. The project supported forest (re)certification in both entities, and BiH now has 1.867 million hectares of forest certified to Forest Stewardship Council standards. This work contributed to climate change mitigation through increased carbon sequestration and contributed to adaptation through improved forest and fire management to boost resilience.

Objective 3b: Build resilience to floods. Mostly achieved.

40. The CPF made significant achievements in supporting the delivery of goods and services to people in flood-affected and flood-prone areas, greatly surpassing established targets. The Floods Emergency Recovery Project focused on the three disaster-affected public service delivery sectors most essential to economic recovery after the floods in 2014: agriculture and rural development, transport, and water and sanitation. The project enabled the purchase of goods urgently needed during the recovery phase, including initial priorities such as fuel, food, agricultural goods, and emergency goods, as well as goods to support logistical and reconstruction needs. The project focused on supporting the rehabilitation of strategic, regional-level public infrastructure (such as transport links, distribution and transmission infrastructure, dikes, and other strategic public infrastructure) and of local-level infrastructure (including water supply schemes and local roads and bridges). Financed activities were required to have proper

technical designs based on “build back better” principles, to secure the long-term sustainability and resilience of rehabilitated infrastructure. Finally, the project provided TA and capacity building to help strengthen disaster resilience in the future. Over 868,000 people benefited from the project’s emergency goods delivery and infrastructure rehabilitation activities, nearly three times the target of 300,000.

41. Targets on strengthening capacity for water resources management were mostly achieved. The Sava and Drina river basins are prone to both dry spells and devastating floods, the latter of which occurred most recently in 2010 and 2014. Yet limited regional coordination and cooperation has posed challenges for water management among Sava-Drina riparian countries, limited also by low capacity and financing constraints. The WBG supported the efforts of BiH, Serbia, and Montenegro to improve integrated management of the Sava and Drina River Basins through the Joint Flood Management in Sava River Basin Advisory Activity and the West Balkans Drina River Basin Management Project. These initiatives worked to reduce the risk of floods, support hydrological simulation and optimization studies, and promote cross-border cooperation. The Sava Flood Forecasting and Warning System has been operational since 2018, and the hydrological model has been updated. The first Sava Flood Risk Management Plan was developed and approved by the five countries in 2019. A Sava River Basin Management Plan, including the Drina sub-basin, was developed according to the requirements of the EU Water Framework Directive, and adopted by FBH in 2016 and RS in 2017. The Drina River Basin Strategic Action Plan has been finalized and was endorsed by all countries in June 2021, while the Study on Hydraulic and Hydrological Models was delivered in April 2021. The CPF target was thus achieved but with a few months’ delay.

Cross-cutting Theme: Inclusion

42. Within the three focus areas, the CPF’s cross-cutting theme of inclusion guided the choice and design of specific interventions to ensure that reforms would be socially sustainable and that vulnerable groups would not be left behind as new opportunities opened up. Progress against this cross-cutting theme was fully successful. Under focus area 2, CPF interventions focused on expanding access to finance for MSMEs succeeded in freeing up resources for small businesses throughout BiH, including those owned by women. In the transport sector, the FBH roads project was designed to cover the entity’s entire territory, rather than select corridors, thus ensuring equitable distribution of services across urban and rural residents. Similarly, policy dialogue on digital development conducted during the CPF period helped shape the line ministry’s thinking on the importance of preparing a broadband access strategy that promotes inclusive access to broadband infrastructure across the country, paying particular attention to the needs of the rural population. Under focus area 3, CPF interventions achieved notable success in expanding the availability of the solid waste management system to a large portion of the population and exceeded expectations in delivering emergency goods and rehabilitating regional and local infrastructure in flood-affected and flood-prone areas.

III. WORLD BANK GROUP PERFORMANCE

43. The WBG’s overall performance in designing and implementing the CPF program is rated *good*. This assessment is based on: (a) the CPF’s alignment with the government’s Reform Agenda; (b) the use of a balanced mix of investment lending, ASA, and TA, underpinned by intensive policy dialogue; (c) the WBG program’s adjustment in the face of a slowdown in reform progress around the general elections in October 2018, as well as WBG’s responsiveness to COVID-19 pandemic crisis (as presented in Box 1/Annex 3); and (d) proactive management and oversight of the portfolio.

Design and Relevance

44. The CPF was designed at a time of broad consensus within BiH and among development partners on the country’s key challenges and development priorities as defined in the Reform Agenda. Taking

advantage of this window of opportunity, the WBG sought to deploy the full range of its knowledge and financing instruments in collaboration with the IMF, EU, and other development partners and help bring transformational change to BiH. Examples of such ASA include dialogue on structural reform and analysis on growth and jobs and on SOE sector modernization.

45. The CPF's focus areas and its cross-cutting theme of social inclusion were fully aligned with the BiH Reform Agenda and remained relevant throughout the CPF period. Consultations at the PLR stage with the Ministry of Finance and Treasury, entity-level ministries of finance, representatives of opposition parties, and civil society confirmed the continued relevance of the CPF design. The choice of instruments was flexible and tailored to the strategic objectives, including a mix of financing, knowledge, and convening services. As the CPF-identified risk of an election-related slowdown in reform momentum materialized, the WBG adjusted its program to focus on investment project financing in areas that had maintained traction and were consistent with the goals of the CPF. This was buttressed by policy dialogue, public outreach, and advisory services to continue advocating for structural reforms and address identified knowledge gaps. The WBG program still achieved many valuable development results in specific areas, despite the inability to play the originally envisioned catalytic role in transforming the country's development trajectory.

46. There were some shortcomings, however, in the design of the CPF results framework, particularly with regard to the selection and formulation of indicators. The framework's design was improved at the PLR stage by introducing baseline and target values not available when the CPF was developed. However, the PLR missed an opportunity to further strengthen the results matrix by revising or replacing indicators that did not sufficiently support the objectives and/or were too narrow to contribute sufficiently to their achievement. For example, the indicator on "adoption of a plan for management of hot spots in BiH" did not sufficiently capture progress toward the objective of "preventing degradation of natural resources," as adoption of a plan does not ensure its implementation. In addition, the CPF did not include gender-disaggregated indicators, although this should have been possible under focus area 2. In some instances, selected indicators were difficult to monitor owing to a lack of clarity in their definition. It would have been useful, therefore, for the CPF results framework to more explicitly define indicators and targets.

Program Implementation

47. In addition to demonstrating successful cross-WBG collaboration, implementation of the CPF has been marked by close and productive cooperation with development partners. The WBG worked closely with the EU on public financial management, public sector management reform, wastewater treatment, solid waste management, and agriculture. The IMF has been a partner in strengthening public finances and support of the government's privatization agenda. The latter together with the UK, Switzerland, and the EU. In the transport, energy, and environment sectors, the WBG continued to collaborate with the European Bank for Reconstruction and Development, European Investment Bank, and the EU. In the health sector, there has been close cooperation with Switzerland, the United Nations Development Program, and the World Health Organization. On water and sanitation services as well as the jobs agenda, the WBG coordinated with Sweden and the US on water and sanitation services. The WBG also made successful efforts to strengthen citizen engagement, including by ramping up active tools for dialogue with civil society and by improving monitoring and reporting mechanisms.

48. WB portfolio performance was sound across the CPF period (Annex 5), with one or two problem projects in each fiscal year. Several implementation challenges arose. First, projects experienced a prolonged path to effectiveness, at 11 months on average, owing to lengthy and layered country procedures for the ratification of loans as well as delays caused by the election cycle. Second, projects requiring land acquisition were also subject to delays, resulting either from complex, burdensome procedures, from a lack of funds for expropriation, or from community opposition due to inadequate

stakeholder consultations at early stages of the project. These factors at times interacted to create difficulties once projects were up and running, as in the case of the Drina Flood Protection Project, which relied on a pre-feasibility study that had been conducted three years before the project reached effectiveness and, thus, did not reflect the socioeconomic changes in the project area. In the case of the

Box 1: Flexibility in Practice—The WBG’s Response to COVID-19 in BiH

In response to the global COVID-19 pandemic, the WBG provided over US\$100 million in additional support (not foreseen under the FY16–20 CPF) to BiH authorities by the end of 2020. The emergency COVID-19 Multiphase Programmatic Approach operation disbursed US\$36.2 million to strengthen the health sector’s response to the pandemic, including enhancing the isolation capacity in hospitals, funding new intensive care beds with ventilators, setting up new laboratories, procuring medical equipment, and providing social assistance to 48,000 households most affected by the pandemic.

To enable this rapid response, some projects were redesigned and restructured. The BiH Employment Support Program was restructured to better support people who lost their jobs due to the pandemic, supporting job placement for the newly unemployed and financing unemployment benefit payments. The Banking Sector Strengthening Project was restructured to support the design and implementation of an emergency credit guarantee scheme. At the same time, the Business Environment Strengthening Project planned by the CPF was canceled and replaced with the Firm Recovery and Support Project (US\$65.3 million, approved in December 2020), which directly supports the recovery of private firms affected by the economic impact of COVID-19 through access to finance and consolidated firm-targeting public support programs.

A new Health Systems Improvement Project has been prepared to strengthen the efficiency and financial sustainability of BiH’s health system and was approved by the Board of Directors in April 2022. This operation, which combines DPF and investment project financing, designs a set of policy actions focusing on managing arrears and improving efficiency in the health sector, together with addressing key health-related environmental issues.

SSWP, a sub-optimal public awareness campaign and insufficient community engagement led to delays brought about by community resistance to planned landfill locations. In all of these cases, the WBG intensified dialogue with the authorities and provided support for clearer, more effective communication with communities, but these efforts did not always bear fruit in time to bring the operations back on track.

49. Proactive portfolio management helped significantly to keep operations on course. This entailed facilitating communication between the technical and decision-making levels of government. In addition, intensive collaboration between the WBG and line ministries yielded satisfactory results. Over a short period of time, for example, this level of partnership succeeded in completely turning around the Irrigation Development Project, moving it from a moderately unsatisfactory rating to surpassing most of its targets.

50. Disbursement performance fluctuated, deteriorating in FY17–FY18 before improving again in FY19–FY20. The WBG’s current BiH portfolio consists of eight investment projects, with a total financing commitment of US\$463.75 million and one regional project in the amount of US\$32.6 million. Despite the complexities of the political setting, the pace of implementation has improved, with disbursement rates of 34.6 percent in FY19, 27.5 percent in FY20, and 56.3 percent in FY21.

51. During the CPF period, nine operations have been assessed by the Independent Evaluation Group (IEG). These included eight investment projects and one DPL (Annex 7). Development outcomes and the WBG performance were assessed as moderately satisfactory or satisfactory in all but one case, which received a moderately unsatisfactory rating.

52. Program risks were managed through flexible adjustments in program design and instrument choice, underpinned by policy dialogue, public outreach, and advisory support. The overall risk to the

CPF Program was rightly assessed as high at the time of the CPF design, as it relied on consistent political commitment to maintain reform momentum during a period of unprecedented agreement among different administrative levels, within society, and in the international community. All of the political and governance risk factors that had undermined previous reform efforts were still in place, including strong vested interests. When the risk of a slowdown in reform momentum materialized, the potential impact of transformational engagements planned under the CPF, such as SOE reform initiatives and a planned health operation, was lessened. The WBG managed this risk by adjusting its program to rely more heavily on investment project financing in areas consistent with the CPF objectives, and on policy dialogue, public outreach, and advisory services to continue advocating for structural reforms.

53. Fiduciary compliance was generally good, although a few capacity-related issues will require increased WBG attention in the next CPF. Procurement capacity in BiH and the quality of procurement documents developed by project implementation units (PIUs) are generally good, with some PIUs having extended experience in implementing the WBG-financed projects. Most projects were rated moderate on procurement risks, but a few projects continue to need enhanced attention on procurement. The RS Railways Restructuring Project was assessed as having substantial procurement risks due to lengthy delays in launching and tendering procurement activities, as a result of management changes, low evaluation capacity among RS Railways staff, and insufficient knowledge of the WBG regulations. The Federation Roads Sector Modernization Program (FRSMP) has seen several delays in the procurement of works due to land acquisition issues and is benefiting from close monitoring of the procurement goods and consultancy services following the identification of minor irregularities in procurement processing. The WBG has provided extensive recommendations on procurement in BiH and training for PIUs on the new procurement framework.

54. Overall compliance with safeguards was mainly satisfactory. Land acquisition issues affected five operations in the portfolio (GEF Water Quality, Drina Flood Protection, Irrigation Development, Floods Emergency Recovery, and FRSMP). The issues were predominantly of a temporary nature, some related to the lengthy expropriation process and the lack of related financial resources, and others caused by the lack of an updated land register to support identification of project-affected persons so as to gain access to land for construction. Despite these challenges, all safeguard requirements were met. The issues around land acquisition in the Drina Flood Protection Project resulted in changes in the route of planned dike in Bijeljina municipality, as consultations with residents and the local municipality yielded no agreement and the client decided to focus on works for which land acquisition issues had been settled. Implementing ministries/agencies in BiH have adequate capacity and dedicated safeguards staff in PIUs. They adequately addressed legacy issues and made significant efforts to minimize negative impacts on private land and assets under FRSMP by being responsive to community and individual requests. Handling of grievances was also adequate and timely. However, delays in the land acquisition process negatively affected the FRSMP implementation. No environmental safeguards issues impeded overall project implementation. The FRSMP is the only Category A project in the portfolio, and under the new environmental and social framework, the Sava Drina Integrated Corridors Project is the only high-risk project.

IV. ALIGNMENT WITH CORPORATE GOALS

55. The CPF's three focus areas were designed to contribute jointly to the WBG's twin goals of eliminating extreme poverty and enhancing shared prosperity by creating jobs and strengthening economic inclusion in BiH. The 2015 Systematic Country Diagnostic (SCD) had concluded that BiH could end poverty and achieve shared prosperity within one or two generations if it rebalanced its development model by unleashing the potential of the private sector while reducing the footprint of the public sector

and shifting from an inward focus on local consumption and imports toward an outward focus on investments, exports, and regional and global market integration.

56. Although economic growth was stable before the pandemic, it remained too low to underpin a path to shared prosperity. Poverty remains a troubling prospect for a significant proportion of the population, and while social assistance has provided some relief, it does not adequately target those most in need. As shown in the most recent 2015 Household Budget Survey, published after the CPF, poverty rose slightly from 15 to 16 percent between 2011 and 2015. The poor are disproportionately concentrated in rural areas, where poverty rates are much higher than in urban areas (19 percent and 12 percent, respectively) and where jobs tend to be scarce and salaries low. Approximately 40 percent of poor rural workers are employed in the agricultural sector, which faces low and declining productivity and competitiveness.

57. Efforts to maximize finance for development have been hampered by limited opportunities for private sector investment in BiH. The CPF has worked to address some of the binding constraints by targeting investments in energy, infrastructure, water, trade, and finance that are essential to strengthening the enabling environment for private sector financing. In the energy sector, the World Bank and IFC have been working to support energy market improvements geared at boosting longer-term energy self-sustainability, especially through increased reliance on renewable sources. IFC has helped draft a new RE legal framework, worked on increasing private sector participation in small-scale projects, and advised financial institutions on strengthening their risk management practices for the sector. The World Bank and IFC have made good progress in developing a Drina River Basin program to systematically create conditions for larger scale RE development, while addressing flood prevention and biodiversity preservation. In addition, the World Bank launched an energy efficiency operation to mobilize commercial solutions over the medium term to scale up financing mechanisms beyond concessional financing.

58. The CPF program boosted the WBG's focus on narrowing gender gaps in BiH. In FY16, the WBG introduced gender tagging to monitor the contribution of WBG-financed operations to closing gaps between men and women in endowments, jobs, assets, voice, and agency, and to better tailor project design to achieve development outcomes. Of six projects approved since FY16, three (FRSMP, the Employment Support Program, and the Energy Efficiency additional financing operation) have adequately analyzed gender gaps and tailored their design and results indicators to address those gaps.

59. Citizen engagement has gradually improved over the CPF period. The country program has reached and maintained 100 percent compliance for citizen engagement reporting, showing credible progress against citizen engagement indicators. As outlined in the PLR, the CPF program has struggled with the quality of citizen engagement, although some noteworthy improvements were achieved in the last year of the CPF cycle. For example, additional financing operations for the Energy Efficiency Project and the Real Estate Registration Project scored highly on all four attributes of citizen engagement. Overall, inclusion of women has improved, and efforts should be made to enhance the inclusion of other vulnerable groups in planned citizen engagement activities.

60. Good progress has been achieved in boosting climate co-benefits. Proposed additional financing operations and new investments in road modernization and water and sanitation services are expected to carry over one-third of climate mitigation or adaptation co-benefits. During FY16–21, average climate co-benefits in IBRD operations in BiH were 45 percent, well above the corporate targets of 28 percent for FY20 and 35 percent for FY21–25. This result was driven by the RS Railways Project and Energy Efficiency additional financing operation in FY18 and FY19, which were assessed at 100 percent climate co-benefits.

V. LESSONS LEARNED

61. Meaningful citizen/stakeholder engagement starting early in the project preparation process, buttressed by significant up-front investments in evidence building, is crucial for successful and timely project implementation. This is particularly important for operations where land acquisition is needed, where there is community sensitivity (as in the solid waste and wastewater sectors), or where there is comprehensive legislation in place that can affect the pace of implementation. Where citizen engagement has not been conducted properly starting from the design phase, there is often a price to be paid later in the form of implementation delays or the need to retrofit changes in project scope, as in the case of the Drina Flood Protection and Second Solid Waste Management projects. Early engagement with citizens can help the project team and its counterparts learn and understand citizen priorities and generate interest and involvement in project activities, ideally leading to collaboration between communities and the authorities that lasts well beyond the project itself. The WBG's new environmental and social framework offers useful tools, such as the stakeholder management plan, to help identify and reach all stakeholders early on and mitigate any potential risks connected with project actions.

62. Special attention should be paid to the selection of results indicators. The review of CPF implementation showed that some results indicators either did not sufficiently support achievement of CPF objectives or were not specified clearly enough to facilitate effective monitoring. In addition to being statistically sound, indicators should be simple and intuitive, so that the country team can meaningfully assess progress and make timely adjustments. The next CPF should select indicators that permit improved monitoring of progress toward strategic objectives, so that course corrections can be identified mid-term and overall achievement assessed at the end of the CPF period.

63. Given chronic challenges with effectiveness delays in BiH projects, tight collaboration is needed well before implementation is set to begin. Given that the ratification process can take time, it is necessary for project teams to make preparatory steps while waiting for the project to become effective. The teams can discuss with relevant counterparts the potential use of retroactive financing to help bridge the effectiveness gap, which can last about 11 months, on average. To that end, teams can work with their counterparts around the public investment cycles in FBH and RS to ensure that funds have been included within the Public Investment Management Information System so that retroactive financing can be requested. This would also enable setting up Project Implementation Units or providing resources for the existing ones. The lesson for the new CPF is to use the effectiveness waiting time to an advantage of an operation and lay the solid ground for the start of implementation.

64. Identifying the policy areas that are of common concern across entities can help look beyond political cycles to the reform tasks ahead, but actions need to be calibrated to the specific needs of each entity. Under the CPF, the Reform Agenda provided the blueprint, while the design of planned DPF and related prior actions operationalized a set of important policy measures that served as a policy anchor for the authorities and an engagement platform for the WBG and other donors. Reform progress differs across entities, however, owing to the country's complex and multilayered constitutional setup and different development needs in each entity. It is, therefore, problematic—and ultimately ineffective—to focus on the same prior actions and outcome targets for each entity. Rather, they need to be tailored, addressing each entity's specific challenges and constraints while remaining compatible with the broader set of actions in play at the state institutional level, where a more concerted effort to build consensus is required.

65. Continued challenges in the operational environment faced by IFC highlight the need to further focus on market creation efforts. IFC's lending volume in BiH has remained below target levels due to a lack of reforms that perpetuated a business climate generally not conducive to investment. In addition,

weak corporate governance and the small size of potential transactions have limited opportunities. Over the past decade, a declining trend in capital flows and FDI has narrowed the scope for IFC to co-invest alongside foreign sponsors. The abundance of subsidized lending by European development finance institutions affected demand for IFC financing, particularly in the financial sector. This context requires significant market creation efforts: focusing the upstream agenda on driving key reforms, while intervening more selectively in specific sectors with high investment potential; leveraging the WBG approach for private sector development; building consensus on institutional arrangements during project preparation and maintaining policy dialogue in the absence of lending; and ensuring coordination across BiH entities and development partners.

66. IFC's sequenced interventions in the RE sector have been successful in attracting private investment for small-scale projects which should be continued during the new CPF. IFC deployed a cascade approach effectively during a long-term, systematic, and multi-pronged engagement. First, IFC focused on harmonizing the complex regulatory framework for RE, leading eventually to the adoption of key laws in the sector. Then, IFC organized firm-level workshops for local and international developers, while continuing parallel support for capacity building among policy makers. In the third stage, IFC supported local banks to build internal capacity, especially for project finance. Implementation of large-scale private projects is still challenging, however, owing mainly to the dominance of public sector risks and incomplete development of the contractual framework.

CLR Annex 1: Status of Bosnia and Herzegovina FY16–FY20 CPF Results Matrix: Summary Table

CPF Objective	Overall CPF Objective Rating	CPF Objective Indicator Ratings			
		Achieved	Mostly Achieved	Partially Achieved	Not Achieved
Focus Area 1: Increasing Public Sector Efficiency and Effectiveness					
<i>Moderately Satisfactory</i>					
Objective 1a. Improve management and efficiency of public finances	Not Achieved			1	1
Objective 1b. Strengthen the governance and reduce the fiscal burden of state-owned enterprises	Mostly Achieved	1	1		
Objective 1c. Improve public service delivery	Mostly Achieved	1	2		
Focus Area 2: Creating Conditions for Accelerated Private Sector Growth					
<i>Moderately Satisfactory</i>					
Objective 2a. Support a competitive business environment and access to finance	Mostly Achieved	1	1		1
Objective 2b. Improve labor market flexibility and social protection	Not Achieved	1			2
Objective 2c. Upgrade economic infrastructure	Mostly Achieved	2		1	
Focus Area 3: Building Resilience to Natural Shocks					
<i>Moderately Satisfactory</i>					
Objective 3a. Prevent the degradation of natural resources	Partially Achieved	1		1	1
Objective 3b. Build resilience to floods	Mostly Achieved	1	1		
Overall Outcome Rating		8	5	3	5
<i>Moderately Satisfactory</i>					
Percentage of outcomes at each rating level		38.0%	23.8%	14.3%	23.8%

CLR Annex 2: Bosnia and Herzegovina FY16–FY20 CPF Results Matrix Evaluation

FOCUS AREA 1: INCREASING PUBLIC SECTOR EFFICIENCY AND EFFECTIVENESS		
CPF Objective 1a: Improve Management and Efficiency of Public Finances		
CPF Objective Indicators	Status at CLR	Lessons learned and suggestions for the new CPF
<p><i>Indicator 1:</i> Public sector arrears are documented, publicly available and updated on a regular basis and the level of such arrears is reduced as a share of GDP. Baseline: No data (2015) Target: Public sector arrears data available and updated on governments' website and level of arrears reduced relative to initial estimates (2020)</p> <p><i>Indicator 2:</i> Reduction in general government pension expenditure as a share of GDP Baseline: 10.4 percent (2015) Target: 9.4 percent (2020)</p>	<p>Partially achieved. Entity governments drafted strategies/ programs on dealing with public sector arrears. Strong reform commitment by newly elected authorities will be required to tackle public sector arrears, particularly in the health sector. FBH introduced arrears reporting requirements for budget users in January 2016, and WBG providing TA to introduce a systematic approach to avoiding and clearing arrears in FBH. Process of collecting arrears data has been launched.¹⁷ RS has set up a system for regular reporting on accumulated liabilities in its public health sector and provided instructions on reporting modalities. Collection of such data occurs on a regular basis. RS is in the process of setting up a web-based reporting system for overall liabilities.¹⁸</p> <p>Not Achieved. New pension law adopted in FBH, entered into force in 2018. Due to COVID-related measures, pension expenditures jumped to 10.3 percent of GDP in 2020 but are expected to drop to the targeted 9.4 percent in 2021 and to continue declining, as expected before the pandemic. Source: Budget of the Federation of Bosnia and Herzegovina, FBH Ministry of Finance (web: https://fbihvlada.gov.ba/bosanski/budzet/)</p>	<p>It is crucial to identify the policy areas that are of common concern to the entities as a way to look beyond the political cycles. In this regard, the WB operations relied on and contributed to advancing a new shared understanding of the need to move forward with structural changes in the field of public finance. The Reform Agenda, endorsed by the BiH Council of Ministers and the entity-level governments of FBH and RS in July 2015, provided the necessary blueprint, while the WB's DPF operation and its prior actions operationalized and put in place a set of important policy measures with the support of the World Bank and other international partners. As a result, the WB's DPF operation became a policy framework anchor for the authorities and an engagement platform for other donors. This was clearly reflected in the Reform Agenda, which provided strong links to the WB operation and the World Bank support in general. Donor coordination on the Rulebook (PA8) and the strong public outreach were also important in generating an additional impetus for change in a difficult and contested area.</p>
CPF Objective 1b: Strengthen the Governance and Reduce the Fiscal Burden of SOEs		

¹⁷ Source for FBH data: http://pufbih.ba/v1/public/upload/files/Copy%20of%20DUG%20PREKO%2050_00000%20KM%20NA%20DAN%2030_09_2020_.pdf
http://pufbih.ba/v1/public/upload/files/DUG%20PREKO%205000000%20KM%20NA%20DAN%2031_12_2020_.pdf
http://pufbih.ba/v1/public/upload/files/DUG%20PREKO%20500000%20KM%20NA%20DAN%2030_09_2021.pdf

¹⁸ Source for RS data: <https://en.poreskaupravars.org/> under Taxpayer debt tab.

CPF Objective Indicators	Status at CLR	Lessons learned and suggestions for the new CPF
<p><i>Indicator 1:</i> Reduction in financing transfer to the pension system in FBH excluding transfers for unpaid past pension contribution. Baseline: 1.3 percent of GDP (2015) Target: 1.1 percent of GDP (2020)</p> <p><i>Indicator 2:</i> Improving financial sustainability of the railways in Republika Srpska by reducing working ratio in Public Company RS Railways. Baseline: RS Railways working ratio 1.7 (2015) Target: 1.0 (2020)</p>	<p>Achieved. In 2019, the required transfer dropped to 0.4 percent of GDP, before rising again to an estimated 0.8 percent in 2020 owing to the COVID-19 pandemic. Source: Budget of the Federation of Bosnia and Herzegovina, FBH Ministry of Finance (web: https://fbihvlada.gov.ba/bosanski/budzet/)</p> <p>Mostly achieved. The working ratio of RS Railways dropped to 1.2 as of December 2020. Source: P161122 - Sequence No: 07 Page#2</p>	<p>While common objectives are important, actions need to be calibrated to the needs of the entities. Due to a complex and multi-layered constitutional setup and different developmental needs in the entities, progress on the reforms differs. It is, therefore, problematic —and ultimately ineffective—to have the same prior actions for each entity. Rather, they need to be calibrated for each entity, addressing the entity-specific challenges and constraints, while being compatible with the broader set of actions at the BiH institutions level, where a more concerted effort to build consensus is required.</p> <p>It is of high importance to find the right approach to deal with a very complex political environment marked by the two entities demonstrating different levels of engagement and trust towards the WB and a number of other stakeholders involved. The teams working on tasks dealing with SOE reforms need to gradually build trust and shape a constructive collaboration by demonstrating a high technical expertise and by building on a continuous dialogue with all the stakeholders. The frequent presence of the task team in the field and regular open communication helps in changing the attitude and at times prevailing skepticism into appreciation of the Bank's role. It is possible to provide tough messages in a calibrated way and once trust with the client has been established.</p>
CPF Objective 1c: Improve Public Service Delivery		
CPF Objective Indicators	Status at CLR	Lessons learned and suggestions for the new CPF
<p><i>Indicator 1:</i> Tobacco excise taxes are aligned with EU standards. Baseline: min. 51 EUR per 1000 cigarettes (2015) Target: min. 75 EUR per 1000 cigarettes (2020)</p> <p><i>Indicator 2:</i> Reduce expenditures on outpatient drugs: Baseline: KM 72 million (2015)</p>	<p>Mostly achieved. As of January 2018, the minimal excise duty has risen to EUR 66.4 per 1,000 cigarettes. Source: Indirect tax administration web site- reporting: http://www.oma.uino.gov.ba/04_oma_bilten.asp?l=h http://www.oma.uino.gov.ba/bilteni/Oma_Bilten_hr_197_198.pdf</p> <p>Mostly achieved. The Rulebook on Pharmaceuticals was approved by the BiH Council of Ministers in November 2016. In response, outpatient sales dropped by 6.9 percent to KM 67 million in 2017. Overall, there has</p>	<p>A focus on the problems relevant to the general public, such as the cost of medicines, paved the way for public engagement as a factor of policy change. The strong donor coordination to push for this important policy reform was a major factor in the adoption of the Rulebook. The media had consulted with the World Bank experts and supported the necessity to adopt the Rulebook to regulate pharmaceutical prices on the BiH market by referring to estimates of annual savings. Indeed, the absence of a state-level Rulebook on the cost of medicines resulted in higher prices; BiH had lost more than 600 million KM over the 2010–15 period. Moreover, the leaders of pensioners associations in BiH, representing about 660,000 people,</p>

<p>Target: 10 percent reduction (2020)</p> <p><i>Indicator 3:</i> Improved services of water and wastewater.</p> <p>Baseline: 3% of collected wastewater is treated (2015)</p> <p>Target: 30% of collected wastewater is treated (2020)</p>	<p>been 9 percent decrease in overall Health Insurance Fund spending. 2017 data/information was shared with the Bank team as per Bank's team request.</p> <p>Achieved. 43.7% of collected wastewater treated. As per BiH Statistics Office the wastewaters amounted to 118,250, 000m³ in 2020, with 87,760,000m³ coming from the households, while the amount of treated water was 51,784,000 m³</p> <p>BIH Statistics</p>	<p>demanded that the BiH CoM pass a Rulebook on pharmaceutical prices, arguing that lower costs would benefit both communities and health funds, and help lower mortality.</p>
FOCUS AREA 2: CREATING CONDITIONS FOR ACCELERATED PRIVATE SECTOR GROWTH		
CPF Objective 2a: Support a Competitive Business Environment and Access to Finance		
CPF Objective Indicators	Status at CLR	Lessons learned and suggestions for the new CPF
<p><i>Indicator 1:</i> Improve <i>Doing Business Distance to Frontier</i></p> <p>Baseline: 60.55 (2015)</p> <p>Target: 63 (2020)</p> <p><i>Indicator 2:</i> New and sustained jobs through real sector investments</p> <p>Total sustained jobs baseline: 950 (existing 2015)</p> <p>Total sustained jobs target: 1700 (existing + new clients 2020)</p> <p>Total new jobs baseline: 0 (existing clients - 2015)</p> <p>Total new jobs target: up to 400 (existing clients 2020)</p> <p><i>Indicator 3:</i> By FY20 at least double outstanding MSME and housing finance of IFC portfolio clients</p>	<p>Achieved. As per <i>Doing Business 2019</i>, BiH's DTF score improved to 63.82 points.</p> <p>Not achieved. No new IFC clients in the real sector. No new IFC clients in the real sector where employment measured. SSL IV is a repeat investment in 2016 with Sisecam Bosnia, already a portfolio client (# of jobs: 507). Cimos Bosnia is a subsidy of an ailing Slovenian parent company (# of Jobs: 552). Of four production facilities, they had to sell three. No actuals are reported in CY16-18 for Bekto Precisa, which is acquired by a German car part manufacturer (# of jobs: 356 as of 2018).</p> <p>Mostly achieved. Actual outstanding MSME portfolio reached target at US\$124.4 million as of 2017 (client exited portfolio).</p>	<p>Efforts to maximize finance for development have been hampered by limited opportunities for private sector development in BiH.</p> <p>Continued challenges in the operational environment highlighted the need to further focus on market creation efforts to help open up investment opportunities in the private sector. The lackluster progress on structural reforms amid dampened reform momentum perpetuated a business climate that is generally not conducive to investment. Weak corporate governance and the small size of potential transactions have limited opportunities to support domestic sponsors.</p> <p>The overall WBG program has worked to address some of the binding constraints by targeting investments in energy, infrastructure, water, trade, and finance that are essential to strengthening the enabling environment for private sector financing. In the energy sector, the World Bank and IFC have been working to support energy market improvements geared at boosting longer-term energy self-sustainability, especially through increased reliance on renewable sources.</p>

<p>MSME outstanding portfolio baseline: US\$ 58 million (2015) MSME outstanding portfolio target: US\$ 124 million (2020)</p> <p>Housing finance outstanding portfolio baseline: US\$ 83 million (2015) Housing finance outstanding portfolio target: US\$ 147 million (2020)</p>	<p>Housing finance outstanding portfolio increased to US\$116 million at end-2019 (client exited portfolio).</p>	
CPF Objective 2b: Improve Labor Market Flexibility and Social Protection		
CPF Objective Indicators	Status at CLR	Lessons learned and suggestions for the new CPF
<p><i>Indicator 1:</i> Decrease the number of inactive persons: men aged 15 to 64, reduce by 10% Baseline: 346,000 (2015) Target: 311,400 (2020) women aged 15 to 64, reduce by 10% Baseline: 580,000 (2015) Target: 522,000 (2020) <i>(Source: LFS)</i></p> <p><i>Indicator 2:</i> Increase in private sector formal employment: men by 10%, Baseline: 390,204 (2015) Target: 441,000 (2020) women by 10%, Baseline: 232,083 (2015) Target: 265,000 (2020) <i>(Source: LFS and administrative data)</i></p> <p><i>Indicator 3:</i> Improve targeting accuracy of last resort social</p>	<p>Not achieved. As per statistical bulletin from the 2nd quarter 2020, the inactive population aged 15 – 64 was 993,000, of whom 353,000 were male and 613,000 were female.</p> <p>Men: 353,000 (2nd Quarter LFS) Women: 640,000 (2nd Quarter LFS) BIH Statistics LFS.pdf</p> <p>Not achieved. Owing in part to economic challenges arising out of the COVID-19 pandemic, formal employment in the private sector has decreased to 368,104, of which 220,989 are women.</p>	<p>Incentivizing job creation and labor market participation requires reducing the mismatch between labor demand and supply. Tax reform, social assistance reform, and the delinking of health and unemployment insurance are critical to integrate the less employable and improve the targeting of social assistance and active labor market policies. Reforming the labor market, enhancing social protection delivery, and reducing the cost of labor will help BiH citizens find work, in particular women and young people. Improving the targeting, coverage, and design of social protection would improve the supply of labor, promote work, and reduce risks of inter-generational poverty transfer. Social protection is currently not well-targeted and designed to integrate the less employable, with a majority share absorbed by only specific population groups and those who are wealthier. At the same time, many people in need do not receive benefits. With many of the poor having larger families, the risk of intergenerational poverty transfer is high. Better targeting of social benefits could help to reduce poverty, promote work and, critically, help reduce inter-generational poverty transfer. Ultimately, the unemployed, many of whom are in the bottom 40 percent in the income distribution, would likely benefit greatly from such a reform.</p>

<p>assistance: percentage of last resort social assistance benefits reaching the poorest quintile. Baseline: 40 percent (2015) Target: 65 percent (2020)</p>	<p>Achieved. Social assistance (SA) is relatively well targeted with 77 percent of SA spending benefitting the poorest quintile despite some benefits being regressive. The targeting accuracy, i.e., the sum of all transfers received by the population in Q1 2018 as a share of the total transfers, is the highest for child allowances and poverty alleviation transfers (81.8 percent and 79 percent, respectively). The outlier in terms of targeting accuracy is the war veterans' allowance being regressive with low impact on poverty, as 82 percent of benefits go to the richer quintiles and only 18 percent of the spending benefits to the poorest quintile. https://imagebank2.worldbank.org/Search/30225690 , page 15</p>	
CPF Objective 2c: Upgrade Economic Infrastructure		
CPF Objective Indicators	Status at CLR	Lessons learned and suggestions for the new CPF
<p><i>Indicator 1:</i> Travel time saving as a measure of connectivity between major economic growth poles. Baseline: 0.0 (2015) Target: 15 percent savings (2020)</p> <p><i>Indicator 2:</i> Increase lifetime energy savings. Baseline: No saving (2015) Target: 650 thousand MWh (2020)</p> <p><i>Indicator 3:</i> Additional Renewable Energy capacity facilitated Baseline: 0 MW (2015) Target: 50 MW (2020)</p>	<p>Partially achieved. Travel time along Neum-Stolac is estimated at 49 minutes as of March 2020, representing a time savings of 9% from the original travel time of 54 minutes.</p> <p>Achieved. 641,378 MWh energy savings as of March 2020.</p> <p>Achieved. 77.14 MW of additional installed capacity facilitated by IFC through the Balkans Renewable Energy Advisory program.</p>	<p>Transport sector has shown high vulnerability of transport infrastructure and need for cross-sector coordination and intervention. Climate resilience of transport infrastructure and disaster risk management is a priority aspect to ensure preservation of transport assets and uninterrupted mobility. It involves a myriad of institutions at state, entity and cantonal level. Having a champion will be an important success factor to secure commitment and to lead the coordinated approach</p> <p>Overall, the institutional, policy and regulatory basis for Energy Efficiency (EE) remains fragmented and will require further improvements to scale-up EE and effectively implement the EE laws. Access to commercial financing by public entities remains constrained. Sustainable financing is needed to have programs which can last beyond donor financing. Public EE financing instruments offered remain limited in their scalability and sustainability.</p>

		<p>Despite notable progress in implementing EE projects, important capacity constraints continue to present a challenge to scaling-up EE improvements.</p> <p>Public campaigns and a good communication strategy are very useful in promoting EE. A combination of tools can be utilized, including website, TV, social media, workshop for kids, and training for staff members.</p> <p>Proactive capacity building for different stakeholders and service providers is necessary for timely implementation.</p> <p>In Renewable Energy (RE) market development projects, ensure alignment of RE sources and technologies to the expertise of local providers identified as targeted beneficiaries.</p> <p>Ensure cooperation and consistency between donors and IFIs active in a region, particularly for market development interventions.</p> <p>The BiH power sector holds significant opportunity to exploit its ability to develop relatively low-cost generation resources, including lignite, hydro and other renewables.</p> <p>BiH should re-focus on hydro and wind development to offset the risks associated with a carbon/emission constrained scenario.</p>
FOCUS AREA 3: BUILDING RESILIENCE TO NATURAL SHOCKS		
CPF Objective 3a: Prevent the Degradation of Natural Resources		
	Status at CLR	Lessons learned and suggestions for the new CPF
<p><i>Indicator 1:</i> Adoption of a plan for management of hot spots in BiH</p> <p>Baseline: No plan for management of hot spots in BiH (2015)</p> <p>Target: Adoption of a plan for management of hot spots in BiH</p>	<p>Partially achieved. RS adopted a Waste Management Strategy for 2017–26. As per the information from the FBH Ministry for Environment and Tourism, FBH is working on the update of its Solid Waste Management Strategy and Plan which is a part of the wider strategy: The Environmental Strategy and Action Plan of Bosnia and Herzegovina 2030+, supported by the Embassy of Sweden, expected to be completed by April 2022.</p> <p>https://www.sei.org/publications/development-of-the-</p>	<p>When dealing with long term protection of natural resources, there are certain elements that need to be in place for the protection mechanisms to be sustainable:</p> <p>There has to be a balance between investment in infrastructure and investment in the strengthening of the enabling environment and efficiency of service provision, (solid waste, wastewater) to avoid a substandard and unsustainable service provision. Previous support to the water and sanitation sector, emphasized infrastructure</p>

<p>in the period covered by the CPF (2020).</p> <p><i>Indicator 2:</i> Collection rate and disposal capacity of engineered landfills expanded to reach minimum EU sector standards Baseline: 50% of generated solid waste appropriately disposed per year (2015) Target: 65% of generated solid waste appropriately disposed per year (2020)</p> <p><i>Indicator 3:</i> Increased area where sustainable land management practices were adopted Baseline: 117 ha (2015) Target: 3000 ha (2020)</p>	<p>environmental-strategy-and-action-plan-of-bosnia-and-herzegovina/</p> <p>Not achieved. In RS, total amount of generated waste in 2020 was 396,200 ton while 334,713 ton was disposed in landfills. RS Institute of Statistics In FBH, 611,854 ton was collected, while 565,561 ton was disposed at landfills. Institute for Statistics FBH However, the official statistics does not offer information which landfills are “sanitary” and meet minimum EU sector standards. According to publicly available resources, the rate of appropriately disposed waste at sanitary landfills as a share of total generated waste in 2020 stood at around 50%. (The ICR Report No: ICRO0004181, p. 37 noted that in 2017 the rate of properly disposed waste at regional landfills was 48%) bijeljina; Banja Luka; Prijeedor; Zvornik; Sarajevo; Zenica Tuzla</p> <p>Achieved. Sustainable land management practices adopted on 3,525 ha. P129961) ICRR FY14, page, #8</p>	<p>investments. The new CPF should promote operations that will be putting a strong focus on institutions, policies, and regulations at the entity level which will create and foster an environment where the utilities can effectively improve their services to existing customers and expand their operation to other service areas.</p> <p>Stakeholder commitment at all levels is necessary to amplify project impact and sustained outcomes. Commitment at the highest level of government down to the citizens is essential for successful project outcome.</p> <p>Sector and institutional reform, and improvement in the sustainability of wastewaters and solid waste service provision are long-term processes that require sustained commitment and support. Adoption and internalization of sector and utility reforms cannot be expected to be achieved in short time; these challenging objectives require substantive and sustained commitment from decision makers, utility managers, and development partners. These efforts might require a span across multiple consecutive CPFs.</p>
CPF Objective 3b: Build Resilience		
Status at CLR		
<p><i>Indicator 1:</i> People in flood affected/prone areas benefiting from goods received and infrastructure rehabilitated with projects' support Baseline: 0 (2015) Target: 300,000 (2020)</p>	<p>Achieved. 868,895 people in flood-protected areas benefited from emergency disaster recovery goods and rehabilitated regional and local infrastructure. Source: P151157 FY14, page#5</p>	<p>Building resilience from natural shocks is a multidimensional and multisectoral effort which starts with raising awareness of key stakeholders and civil society on disaster risk management. This is key to continue building resilience of flood-prone areas and effectively move from a reactive response to a preventive risk management approach. This must be a continuous effort as the risk needs to be considered when planning at different levels. Experience from the Flood Emergency Recovery Project demonstrated that the</p>

<p><i>Indicator 2:</i> Strengthened capacity in water resources management, including flood management, forecasting and warning, in Drina and Sava River basins</p> <p>Baseline: no plans; no forecasting and warning systems, fragmented hydrological models (2015)</p> <p>Target: 2 RBM plans developed and agreed by key counterparts; forecasting and warning system and hydrological model for Sava basin in BiH established (2020)</p>	<p>Mostly achieved. The target was achieved a few months after the end of the CPF period. Sava Flood Forecasting and Early Warning System operational since 2018; hydrological model updated. First Sava Flood Risk Management Plan developed and approved by the five countries of the river basin in 2019. A Sava River Basin Management Plan, including the Drina sub-basin, developed according to the requirements of the EU Water Framework Directive and adopted by FBH in 2016 and RS in 2017. The Drina River Basin Strategic Action Plan is finalized, and Plan has been endorsed by all countries in June 2021, while Study on Hydraulic and Hydrological Models is finalized and delivered to institutions for further usage in April 2021.</p> <p>2019: First Sava Flood Risk Management Plan Source: Flood Risk Management Plan</p> <p>2014: Sava River Basin Management Plan Sava River Basin Management Plan</p> <p>Sava Flood Forecasting and Early Warning System Source: Royal HaskoningDHV</p> <p>Source: International Sava River Basin Commission</p>	<p>budget allocations for disaster risk management at local level are typically used for maintenance of infrastructure. Consulted municipalities in March 2019 (towards the end of the project) stressed the need to continue raising awareness on disaster risk management. Despite catastrophic consequences of the 2014 floods, the consultation process showed that, for example, no specific studies aimed at mapping areas prone to hazards and understanding risk were developed to inform investments and policy reforms or that land use plans have not been updated along with the updates made in flood maps after the 2014 floods. Any future operation related to building resilience in the new CPF should seek efforts to put in place mechanisms that trigger comprehensive reforms aimed at ensuring long-term sustainability of investments.</p>
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CLR Annex 3: The CPF and the Impact of COVID-19 in FY20–FY21

- 1. The pandemic had a sizable impact on the country’s economy in 2020, with a 7.7 percent drop in manufacturing, a 16 percent decline in remittances, and a 65 percent reduction in travel receipts.** Together with a fall of 8.3 percent in the volume of retail sales, real GDP contracted by 3.2 percent in 2020, compared to 2019. These developments caused significant damage to the labor market. As COVID-19 cases remained high through 2020 and early 2021, some restrictions continued. During this period, the employment rate for those 15 years old and older decreased to about 38 percent, while the unemployment rate (for the same age group) increased to 19 percent in the first quarter of 2021, despite a pick-up in real growth. Nevertheless, driven by a surge in exports and robust private consumption, real GDP growth rebounded to 7 percent in the first half of 2021 (year-on-year). An acceleration in manufacturing translated into a surge in exports to neighboring CEFTA countries, and private consumption increased in response to pent-up demand and the impact of delivery apps connecting consumers to goods.
- 2. In response to the pandemic, and not foreseen under the FY16–20 CPF, the WBG provided over US\$100 million in additional support to BiH authorities by the end of 2020.** Specifically, US\$36.2 million was disbursed under the emergency COVID-19 Multiphase Programmatic Approach operation, which strengthened the health care sector’s response by enhancing isolation capacity in hospitals, funding new intensive care beds with ventilators, setting up new laboratories, procuring medical equipment, and providing social assistance to 48,000 households most affected by the pandemic.
- 3. To enable this rapid response to the pandemic, some projects were redesigned and restructured.** The BiH Employment Support Program was restructured to better support people who lost their jobs due to the pandemic by: (i) supporting job placement for the newly unemployed (EUR1.6 million and 3,000 beneficiaries) and (ii) financing unemployment benefit payments (EUR5 million and 6,500 beneficiaries). The Banking Sector Strengthening Project was restructured to support the design and implementation of an emergency credit guarantee scheme. At the same time, the Business Environment Strengthening Project was canceled and replaced with the Firm Recovery and Support Project (US\$65.3 million, approved in December 2020), which directly supports the recovery of private firms negatively affected by the economic impact of COVID-19 through access to finance and consolidated firm-targeting public support programs.
- 4. Finally, to help achieve a more efficient and financially sustainable health system in BiH, a new Health Systems Improvement Project has been prepared to strengthen the efficiency and financial sustainability of BiH’s health system and was approved by the Board of Directors in April 2022.** This operation, which combines DPF and investment project financing, designs a set of policy actions focusing on managing arrears and improving efficiency in the health sector, together with addressing key health-related environmental issues.

CLR Annex 4: IBRD Lending and Actual Deliveries

FY16–FY20 LENDING SUMMARY				
PLANNED (in US\$ millions)		ACTUAL (in US\$ millions)		
FY16	IBRD	FY16	IBRD	TF
Management of Fiscal Resources for Growth	70.0		0.0	0.0
Health Project	50.0			
Federation Road Sector Modernization (P152406)	55.0			
FY17		FY17		
RS Road Sector Modernization	50.0	Public Finances DPL (P149768)	80.0	0.0
BiH Business Environment PforR		Federation Road Sector Modernization (P152406)	64.6	0.0
Employment Support Program (P152347)	60.0	Employment Support Project (P152347)	55.8	0.0
Management of Fiscal Resources for Growth 2	50.0	Banking Sector Strengthening (P158387)	60.0	1.4
	70.0	Reducing Health Risk Factors (160512)		
Sub-total FY16-FY17	405.0	Sub-total FY16-FY17	260.4	1.4
FY18–FY20 indicative program		FY18–FY20 program		
SOE Reform (DPL)		RS Railways Restructuring (P161122)	60.6	
Agri Competitiveness and Institutional Strengthening		Energy Efficiency AF (P143580)	32.0	
Health Sector Improvement Project	345.0	Real Estate Registration AF (P128950)	23.0	
Management of Fiscal Resources for Growth 3		BiH Emergency Covid-19 (173809)	36.2	
SME Support for selected sectors, with IFC		Developing Private Employment Services in BiH (TF072995)		2.7
Disaster Risk Management/Flood Protection				
Financial Sector Stability				
Water and Sanitation Services Modernization (approved in FY23)				
RS Roads Program				
Business Environment Strengthening				
Bosnia and Herzegovina Fiscal DPL				
Energy Efficiency AF (P143580)				
Real Estate Registration AF (P128950)				
Sub-total FY19-FY20	345.0	Sub-total FY19-FY20	151.8	2.7
TOTAL planned	750.0		412.2	4.1

CLR Annex 5: Portfolio Indicators over the CPF FY16-FY20 Period

PORTFOLIO AND DISBURSEMENTS (FY16-FY20)					
Fiscal year (FY)	FY16	FY17	FY18	FY19	FY20
Projects #	10	12	11	9	9
Net Commitments Amt \$m	391.1	755.5	591.1	503.1	461.7
Total Disbursements \$m	182.0	316.0	256.1	251.5	229.3
Total Undisbursed Balance \$m	169.6	363.3	306.7	229.8	219.4
Disbursements in FY \$m	92.5	52.4	122.6	105.5	61.1
Disbursement Ratio	22.8	29.1	11.0	34.6	27.5
IBRD Disb in FY	52.3	4.9	93.5	80.0	38.7
IDA Disb in FY	40.3	47.5	29.1	25.5	22.4
Comm IP/DO	75.7	40.0	24.0	62.3	0.0
IBRD Net Cmt Amt	106.2	478.7	333.0	273.0	331.6
IDA Net Cmt Amt	281.1	245.1	245.1	230.1	130.1
Flg Slow Disb	3	1	2	2	2
PORTFOLIO RISKINESS (FY16-FY20)					
Fiscal year (FY)	FY16	FY17	FY18	FY19	FY20
# Prob Projects	2	1	1	2	0
Problem Project %	28.6	10.0	11.1	25.0	0
Potential Problem Project #	1.0	0	1.0	0	0
Project at Risk #	3.0	1.0	2.0	2.0	0
Project at Risk %	42.9	10.0	22.2	25.0	0
Commitments at Risk \$m	110.7	40.0	64.0	62.3	0
Commitments at Risk %	36.8	7.8	13.6	15.5	0
Proact Projects	1.0	2.0	1.0	1.0	2.0
IEG RATINGS (FY16-FY20)					
Fiscal year (FY)	FY16	FY17	FY18	FY19	FY20
No. of Projects Evaluated by IEG	3	3	2	2	1
Outcome % Satisfactory	66.7	66.7	100.0	100.0	100.0
ICR Quality Sat %	66.7	100.0	100.0	100.0	100.0
Net Disconnect	33.3	0.0	0.0	0.0	0.0
Bank Performance at Entry % Sat	66.7	66.7	50.0	100.0	100.0
Bank Performance at Supervision %	100.0	66.7	100.0	100.0	100.0
% Substantial or Better M&E Quality	66.7	66.7	50.0	50.0	0.0
Borrower Overall Performance % Sat	66.7	100.0	100.0	0.0	0.0

CLR Annex 6: IFC's Committed and Outstanding Portfolio over the CPF FY16-FY20 Period

IFC's total committed portfolio in BiH amounts US\$10.5 million as of end-2021, with a total of 3 private sector clients in the financial sector and general manufacturing. In addition, in July 2019, IFC provided US\$54 million in acquisition financing for the portfolio of nonperforming loans of Heta Asset Resolution, through the Distressed Assets Recovery Program Global Joint Venture, in partnership with Apollo Capital Management. Since the start of the COVID-19 pandemic, IFC has provided an additional US\$100 million to its long-term client, ProCredit Bank, to support SMEs' response to the economic downturn in selected countries, including Bosnia and Herzegovina.

IFC priorities in BiH include improvements in the investment climate and business environment overall, and in manufacturing, agribusiness, and infrastructure sectors in particular, as well as efforts to manage climate change. IFC will also continue to focus on supporting private sector participation in infrastructure development in airports, roads, health, and renewable energy. The main challenges to direct IFC investments in BiH have been a lack of progress on key structural reforms, low levels of foreign direct investment, a weak corporate sector, limited size of transactions, abundance of subsidized lending by European development finance institutions, and high liquidity in the local banking sector. On the advisory front, IFC made important strides to offset some of these challenges, most notably through improvements in the insolvency framework and online business registration.

Statement of IFC's Committed and Outstanding Portfolio (US\$ millions) as of December 31, 2021

Commitment Fiscal Year	Institution Short Name	LN Cmt'd - IFC	LN Repayment - IFC	ET Cmt'd - IFC	QL + QE Cmt'd - IFC	GT Cmt'd - IFC	RM Cmt'd - IFC	ALL Cmt'd - IFC	ALL Cmt'd - Part	LN Out - IFC	ET Out - IFC	QL + QE Out - IFC	GT Out - IFC	RM Out - IFC	ALL Out - IFC	ALL Out - Part
2008/2017	Cimos Bosnia	0	0	0	8.16	0	0	8.16	0	0	0	8.16	0	0	8.16	0
2011/2007/2016 /2013	Sisecam Bosnia	1.10	76.62	0	0	0	0	1.10	0	1.10	0	0	0	0	1.10	0
2016	UniCredit Mostar	0.76	10.84	0	0	0	0.50	1.26	0	0.76	0	0	0	0.12	0.88	0
Grand Total:		1.87	87.45	0	8.16	0	0.50	10.53	0	1.87	0	8.16	0	0.12	10.14	0

CLR Annex 7: MIGA Exposure over the CPF FY16-FY20 Period

As of May 2022, MIGA’s gross exposure in Bosnia and Herzegovina stood at EUR115 million, equivalent to US\$123 million, in support of one project in the financial sector. The capital optimization guarantee of EUR115 million, issued in March 2021 and expiring in March 2024, provided by MIGA covered equity investments by Raiffeisen Bank International AG (RBI) in its subsidiary in BiH. The guarantee to RBI was intended to reduce the risk of their reserve assets and free up capacity in support of new lending, including to SMEs and climate finance.

During the CPF FY16-FY20 period, MIGA also issued three new capital optimization guarantees, which were subsequently cancelled due to regulatory changes. These were: (i) NLB Banka a.d., Banja Luka of EUR64.1 million, issued in June 2020; (ii) NLB Banka d.d., Sarajevo of EUR50.7 million, issued in June 2020; and (iii) ProCredit of EUR18.05million, issued in December 2020. The decision of NLB and ProCredit to cancel the guarantees was due to EU regulatory changes affecting the banks’ capital management, which came into effect in Q4 2021.

The guarantees that were underwritten by MIGA during the CPF FY16-FY20 period, including those that were cancelled, were part of MIGA’s COVID-19 Response Program to support the continued supply of credit to the economy and to lay the foundation for sustained credit growth.

MIGA Exposure – May 2022

Project name	Effective date	Expiration date	Investor	Sector	Gross exposure (US\$ million)
Raiffeisen BANK d.d.	03/31/2021	03/30/2024	Raiffeisen Bank International AG	Financial	123
					123

CLR Annex 8: IEG Assessment of Projects Closed during the CPF FY16-FY20 Period

Project ID	Project Name	Closing FY	Outcome	Quality of Supervision	Bank Performance
P085112	QUALITY PROTECT (GEF)	FY17	Moderately Unsatisfactory	Moderately Unsatisfactory	Moderately Unsatisfactory
P090675	Sarajevo Wastewater Project	FY17	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory
P111780	Enhancing SME Access to Finance	FY17	Satisfactory	Moderately Satisfactory	Moderately Satisfactory
P146740	Business Environment Development Policy	FY17	Satisfactory	Satisfactory	Satisfactory
P107998	Second Solid Waste Management	FY18	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory
P149768	Bosnia and Herzegovina: Public Finances DPL	FY18	Satisfactory	Satisfactory	Satisfactory
P129961	Sustainable Forest and Landscape Management Project	FY19	Moderately Satisfactory	Satisfactory	Moderately Satisfactory
P151157	BiH Floods Emergency Recovery Project	FY19	Satisfactory	Satisfactory	Satisfactory
P115954	Irrigation Development Project	FY20	Satisfactory	Moderately Satisfactory	Moderately Satisfactory
P128950	REAL ESTATE REGISTRATION PROJECT	FY20	Moderately Satisfactory	Moderately Satisfactory	Moderately Satisfactory

CLR Annex 9: ASA Completed under the CPF FY16-FY20

Task ID	Task Name	ACS - FY
P167582	BiH Functional Review of Education Service Delivery	2020
P167496 P160487	Strengthening Legislative Scrutiny of Audit Reports in the WB (SAFE TF)	2020
P166374	Improving Governance and Business Model of Development Banks	2020
P165780	Western Balkans Urban Partnership Program (UPP)	2020
P165643	Commercial Justice TA in BiH	2020
P165531	Western Balkans Competitiveness TA Program	2020
P164191	Strength. integration of disaster risk management and climate resilience in WB	2020
P161975	Informing Justice Policy Dialogue in the Western Balkans	2020
P161212	Western Balkans Regular Economic Report	2016-20
P167010	Western Balkans Urbanization Review	2019
P166430	Regional Air Quality Management - Western Balkans	2019
P165793	Exploring the Potential of Agriculture in the Western Balkans	2019
P165641	Western Balkans - Intermodal Connectivity	2019
P165618	WBS Diversification of Financial Markets	2019
P165530	KTF: Western Balkans - Strengthening Fiscal Institutions to Build Resilience	2019
P164519	Western Balkans poverty program FY18-19	2019
P163348	Enhancing climate resilience in transport in the Western Balkans	2019
P162776	Balkans Digital Highway	2019
P162533	Mainstreaming disaster risk management into road network management	2019
P162181	BiH: Solid Waste Management AA	2019
P161788	Regional Roma Survey in the Western Balkans and Turkey	2019
P161034	Digital Balkans	2019
P160419	Internal Audit Training of Trainers (IA ToT) Program	2019
P160112	Supporting the effective reintegration of (Roma) Returnees in the WB	2019
P156209	LGBT exclusion - data collection	2019
P155754	Capacity Building for Medium Term Fiscal Planning and Forecasting in BiH	2019
P153325	Joint Flood Management in Sava River Basin	2019
P148325	Sector Study on Biomass-based Heating in the Western Balkans	2019
P147928	EU-REPARIS (Road to Europe - Program of Accounting Reform and Inst. Strength.)	2019
P144969	Promoting Gender Equality Western Balkans	2019
P166551	A Regional Program for Integrated Dev. of the Sava and Drina River Corridor	2018
P165794	BiH Social Expenditure Technical Note Series	2018
P165698	Western Balkans Education Engagement	2018
P165103	Western Balkans Pension Technical Assistance FY2018	2018
P164996	Western Balkans Gender FY18	2018
P164744	Macro-Modelling TA Bosnia and Herzegovina	2018
P163639	Bosnia and Herzegovina Debt Management Reform Plan 2017	2018
P161510	Western Balkans Regional Health Engagement and Health Sector Arrears Study	2018
P158166	BiH Financial Sector Strengthening	2018
P147105	Support to Water Resources Management in Drina River Basin	2018

P143126	South East Europe Gas Power Consortium	2018
P133231	Directions for the energy sector in the Western Balkans	2018
P164533	Western Balkans Regional Economic Integration Notes	2017
P161577	Western Balkans Gender Program FY17	2017
P161519	Bosnia and Herzegovina Follow-up MTDS	2017
P161193	Debt Sustainability Analysis using MAC DSA	2017
P159722	Western Balkans SCD Synthesis	2017
P158357	Agriculture for Jobs and Growth in the Western Balkans	2017
P161512 P151957	Western Balkans Pension Technical Assistance FY2017	2016-17
P159365	Wage Bill Management TA	2016
P158343	Climate Resilient and Green Growth	2016
P157105	Debt Management Reform Plan, FBH	2016
P156789	Debt Sustainability Analysis	2016
P155965	JIT- Bosnia and Herzegovina Subnational MTDS Follow Up	2016
P154817	Compact for Growth Bosnia and Herzegovina	2016
P150589	Bosnia and Herzegovina FSAP	2016
P143125	Updating Regional Transport Study -REBIS	2016
P132666	Western Balkans Poverty Assessment	2015

Annex 3: Operations Portfolio (IBRD)

(as of May 31, 2022 in US\$ million)

Closed Projects	78
IBRD/IDA*	
Total Disbursed (Active)	236.11
of which has been repaid(1)	7.62
Total Disbursed (Closed)	2,388.22
of which has been repaid	909.19
Total Disbursed (Active + Closed)	2,624.33
of which has been repaid	916.81

<u>Active Projects</u>		<u>Last ISR</u>		<u>Fiscal Year</u>	<u>Original Amount in US\$ Millions</u>				<u>Difference Between Expected and Actual Disbursements^a</u>	
<u>Project ID</u>	<u>Project Name</u>	<u>Supervision Rating</u>	<u>Development Objectives</u>		<u>Implementation Progress</u>	<u>IBRD</u>	<u>IDA</u>	<u>Cancel.</u>	<u>Undisb.</u>	<u>Orig.</u>
P171266	Ag Resilience & Competitiveness Project	#	#	2022	68.5	0.0	0.0	68.5	0.0	0.0
P173809	BiH COVID-19 loan	S	S	2020	36.2	0.0	0.0	0.0	-3.3	-3.9
P174604	BiH Firm Recovery and Support Project	S	S	2021	65.3	0.0	0.0	59.3	13.0	0.0
P171150	BiH Health Systems Improvement IPF	#	#	2022	75.0	0.0	0.0	75.0	0.0	0.0
P168943	BiH WSS Modernization Project	S	S	2022	60.9	0.0	0.0	60.9	0.9	0.0
P143580	Energy Efficiency Project	MS	MS	2014	32.0	32.0	0.0	11.7	-16.8	8.8
P152406	Federation Road Sector Modernization	MS	MS	2017	64.6	0.0	0.0	17.7	11.0	7.2
P128950	Real Estate Registration Project	S	S	2013	22.4	34.1	0.1	14.0	-6.3	9.5
P161122	Republika Srpska Railways Restructuring	S	MS	2018	60.6	0.0	0.0	10.4	11.8	5.7
Overall Result					485.5	66.1	0.1	317.5	10.3	27.2

* Disbursement data is updated at the end of the first week of the month.

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

Annex 4: FY23-FY27 IBRD Pipeline

FY	Project	IBRD (US\$m)
FY23	Employment Support Project 2 (P176895)Health Sector Reform DPF 1 (P175191)	45
	Forest Economy Development Project (P171513)	75
	Multimodal Transport Project (P177916)	50
	Air Quality Improvement (P176040)	50
	AF Sava Drina Integrated Corridors Project	50
		40
FY24	Health Sector Reform DPF 2	75
	Coal Just Transition Project	TBC
	Solid Waste Management Project	TBC
FY25	TBC	TBC
FY26	TBC	TBC
FY27	TBC	TBC
FY23-FY27 Total		385

Annex 5: MIGA Exposure

Project name	Effective date	Expiration date	Investor	Sector	Gross exposure (US\$ million)
Raiffeisen BANK d.d.	03/31/2021	03/30/2024	Raiffeisen Bank International AG	Financial	132
					132

As of May 2022

Annex 6: Selected Economic Indicators 2020-2024

BOSNIA AND HERZEGOVINA	2019	2020	2021^e	2022^f	2023^f	2024^f
Real GDP growth (percent)	2.8	-3.1	7.1	2.7	3.1	3.5
<i>Composition (percentage points):</i>						
Consumption	-	-	4.9	2.4	2.8	3.1
Investment	-	-	1.0	-0.3	0.7	0.5
Net exports	-	-	1.2	0.6	-0.3	-0.1
Exports	-	-	14.2	3.8	3.2	3.8
Imports (-)	-	-	13.0	3.1	3.5	3.9
Consumer price inflation (percent, period average)	0.6	-1.1	2.0	6.5	2.3	0.5
Public revenues (percent of GDP)	42.6	42.2	42.3	40.5	40.4	40.5
Public expenditures (percent of GDP)	40.6	44.0	44.8	41.7	40.2	39.4
<i>Of which:</i>						
Wage bill (percent of GDP)	10.6	11.5	11.2	10.7	10.3	10.2
Social benefits (percent of GDP)	14.8	20.0	19.8	18.2	17.9	17.7
Capital expenditures (percent of GDP)	2.9	3.2	3.7	3.5	3.0	2.7
Fiscal balance (percent of GDP)	1.9	-1.8	-2.5	-1.2	0.2	1.1
Primary fiscal balance (percent of GDP)	2.6	-1.1	1.7	-0.4	1.1	2.1
Public debt (percent of GDP)	32.8	36.6	34.4	33.2	34.0	35.3
Public and publicly guaranteed debt (percent of GDP)	34.5	38.8	36.6	35.1	36.0	37.5
<i>Of which: External (percent of GDP)</i>	28.4	30.8	28.8	27.4	27.8	28.4
Goods exports (percent of GDP)	28.8	27.5	34.1	34.1	34.5	36.2
Goods imports (percent of GDP)	51.4	45.9	53.3	54.6	54.9	57.2
Net services exports (percent of GDP)	7.9	4.4	6.9	7.6	7.8	8.4
Trade balance (percent of GDP)	-14.7	-14.0	-12.3	-12.8	-12.5	-12.6
Net remittance inflows (percent of GDP)	8.5	7.4	8.2	7.7	7.4	7.6
Current account balance (percent of GDP)	-2.9	-3.9	-2.3	-3.2	-3.0	-2.6
Net foreign direct investment inflows (percent of GDP)	1.5	1.7	2.1	2.0	1.9	2.0
External debt (percent of GDP)	65.6	70.7	65.7	61.5	60.1	58.7
Real private credit growth (percent, period average)	5.2	1.3	-0.3	-	-	-
Nonperforming loans (percent of gross loans, end of period)	7.4	6.1	-	-	-	-
Unemployment rate (percent, period average)	15.7	15.9	-	-	-	-
Youth unemployment rate (percent, period average)	33.8	36.6	-	-	-	-
Labor force participation rate (percent, period average)	42.1	47.7	-	-	-	-
GDP per capita, PPP (current international \$)	13,775	13,424	14,110	14,710	15,260	15,800

Source: BiH Agency for Statistics, Central Bank of BiH, Global Fiscal Framework 2020-2023, WBG Staff estimates

Annex 7: Citizen Engagement

1. Bosnia and Herzegovina (BiH) is at an early stage of public administration reform. Some progress was made by adopting the action plan on public administration reform as well as strategies on public financial management at all levels of government. However, the legal framework on public consultations needs to be improved and consistently applied. The legislative framework does not fully establish standards for monitoring and reporting on key government planning 13 documents at each level of government, hampering public scrutiny over government work. Beyond legislative measures, more efforts are needed to raise awareness on various forms of consultation with the public, and to strengthen the technical capacities at all levels of government to regularly use them.

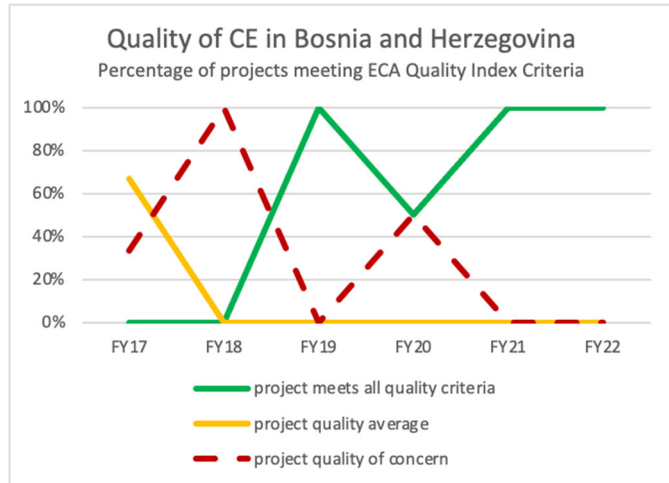
2. Although, international organizations have attempted to encourage citizen participation through educating local communities, NGOs and local governments, citizens' confidence and motivation to participate is low, and it is generally agreed that the context for citizen engagement in BiH has worsened over the last decade. The BiH Council of Ministers finally approved in 2019 the first action plan for implementation of the Open Government Partnership (OPG) for the period 2019-2021 which built on strategic documents such as the BiH Reform Agenda 2015-2018 and the BiH Strategic Framework for Continuing Public Administration Reform 2018-2020. The plan had seven promising commitments, including the adoption of the Open Contracting Data Standard for the state-level public procurement online platform, improving state-level public consultation procedures online that promote the wider participation of civil society and allowing for more transparent state-level budget plans and spending. The progress on the plan is yet to be evaluated. However, the government missed the deadline of December 31, 2021, to submit a new Action Plan for subsequent years.

3. Citizens' trust in government management has been undermined by several corruption scandals during COVID 19 pandemic over the public procurement of medical supplies, with one leading to the indictment of the sitting FBiH prime minister. Some measures introduced in the entities were criticized as a misuse of the pandemic aimed at limiting freedom of expressions and were partly revoked. BiH has reached all time high ranking 110 of the least corrupt nation out of 180 countries, according to the 2021 Corruption Perceptions Index reported by Transparency International. This is in comparison of having record lowest corruption score of 70 in 2003.

- Citizens continue to feel powerless to influence developments that affect their day-to-day lives, contributing to low levels of public interest in participating in governance.
- Low trust of citizens in government has been exacerbated by corruption scandals
- While limited civil society activism has grown in relation to specific service sectors and access issues (for example, specific health needs of sick children, or people living with disability), CSOs are rarely consulted by authorities during the course of policy formulation and also lack the coordinated platforms to engage

4. To address some of the systemic challenges, WB is providing support to BiH authorities aiming to improve transparency and accountability of the health systems. This tailored package of technical assistance (under [Strengthening Transparency and Accountability of Health Systems in Bosnia and Herzegovina P175779](#)) aims to support the BiH authorities to design and pilot effective citizen engagement mechanisms, and develop policy options for strengthening fiscal and procurement practices, as a foundation for the improved transparency and accountability of the health systems. The activity is part of the World Bank's broader support to the Federation of BiH (FBiH) and Republika Srpska (RS) governments to improve the quality and efficiency of health care.

5. Since 2014, when the Citizen Engagement (CE) corporate requirements were introduced at the WBG, efforts were stepped up to embed CE in all IPFs in the BiH portfolio. While the country has reached 100 percent compliance for CE, the portfolio has struggled with the quality and with the level of implementation of genuine mechanisms in a number of projects given the complex BiH context. The ECA CE team has been tracking the quality of citizen engagement at design, measuring and ranking projects according to four criteria – whether the citizen engagement encourages an interface between citizens and the govt/service



providers and is pro-active (depth), whether it is frequent and timely throughout the project (frequency), whether the process allows for feedback on any project issue by any citizen (openness) and lastly, whether the project offers citizens the opportunity to provide feedback through multiple relevant channels (opportunity.) In BiH the quality of CE has significantly increased in FY19. Looking at it from an improvement perspective (following the green line in the graph below) in FY18, 0% and in FY19, 100 percent of projects included citizen engagement activity that met all the quality criteria, this slightly decreased to 50 percent of projects in FY20, and reached again 100 percent quality in FY21 and FY22.

6. During the CPF FY23-FY27 period, specific actions are planned to strengthen the implementation of CE and to support country systems and to ensure genuine improvement by: (i) shifting from passive to active CE tools in the BiH portfolio which encourage more dialogue and a state/non-state interface. This will be done under the CE Platform under the BiH Air Quality Improvement Project (P176040); (ii) strengthening country systems through technical assistance developed under the Strengthening Transparency and Accountability of Health Systems in Bosnia and Herzegovina (P175779) ; (iii) linking the implementation of CE activities to more open and frequent reporting of results; and (iv) taking corrective actions on projects facing challenges in implementation, and to ensure inclusion in CE processes.

Citizen Engagement Roadmap

