

Data Sheet

USAID Mission:	Bosnia and Herzegovina
Program Title:	Economic Restructuring
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	168-0130
Proposed FY 2004 Obligation:	\$8,226,000 AEEB
Prior Year Unobligated:	\$3,660,000 AEEB
Proposed FY 2005 Obligation:	\$9,000,000 AEEB
Year of Initial Obligation:	FY 2001
Year of Final Obligation:	FY 2008

Summary: USAID is working to ensure development of a vibrant private sector-led economic growth through: 1) continuing economic policy reform to create a legal and regulatory environment that enables business entry, development, and investment; 2) developing and strengthening the financial intermediaries needed to ensure that SMEs have adequate access to financing; and, 3) strengthening the capacity of SME managers and owners to operate and compete in the global economy. In addition, USAID is assisting the BiH Government in becoming fiscally responsible by improving transparency and accountability of budget formulation and execution and streamlining tax administration, which will contribute to creating a stable macroeconomic environment in which SMEs can flourish.

Inputs, Outputs, Activities:

FY 2004 Program:

Cluster Competitiveness: (\$2,826,000 AEEB, \$3,660,000 AEEB carryover). The Cluster Competitiveness Activity (CCA) will develop competitiveness of the agribusiness, wood processing, and tourism industries by forging a strategic partnership between the public, private, and civil societies in order to remove obstacles to enterprise development, which will lead to jobs, investment, and economic growth. CCA will also provide technical assistance and financing to firms in the targeted industries. Implementer is to be determined.

Commercial Law Reform (\$1,400,000 AEEB). Effective collateral and bankruptcy systems, successful WTO accession, and streamlined judicial processes are critical to stimulating investment and lending in BiH. These core elements of economic growth will build the foundation for more efficient and predictable business practices in which credit and investment can be made with fewer systemic obstacles. The activity will train stakeholders in the new bankruptcy, collateral, and civil procedure laws; conduct pilot bankruptcy cases; streamline court administration (in conjunction with other donors); and provide direct technical assistance to the Ministry of Foreign Trade. Principal contractor is Chemonics.

Mobilizing Capital for SME's (\$3,000,000 AEEB). USAID will develop alternative sources of long-term financing for SMEs through introduction of primary mortgage and leasing markets. The key to success for development of these markets is a reliable secured transaction regime in real estate and moveable properties. Improving and facilitating the process by which real estate or moveable properties are owned, bought and sold, leased, developed, financed, and transferred encourages private investment, generates jobs, and fosters economic growth. This activity will address issues of securing titles, developing brokers and credit bureaus, improving the appraisal of real property, and fostering mechanisms for mortgage lending and leasing. Implementer is to be determined.

Energy Sector Restructuring (\$1,000,000 AEEB). In FY 2004, USAID will continue, in cooperation with World Bank and other donors, to work on restructuring of the national energy sector in order to make it competitive and more transparent under a modern energy regulatory framework. FY 2004 funds will be used to provide consultation and professional assistance to the State and Entity Ministries for Energy in the formation of the Transmission Company, and Independent System Operator, including registering and

licensing. The process of restructuring the electricity sector is of crucial importance for privatization of the sector and the integration of Bosnia and Herzegovina into the European Union. Principal contractors are Pierce Atwood Attorneys and PA Consulting.

FY 2005 Program:

The following activities are expected to be incrementally funded with FY 2005 AEEB funds:

Cluster Competitiveness Activity (\$2,600,000 AEEB). USAID will continue to develop public-private partnerships to foster development of the agribusiness, added-value wood, and tourism industries.

Mobilizing Capital for SME's (\$3,000,000 AEEB). By developing a lending environment for SMEs through primary mortgage and leasing markets, USAID will improve the process of the sale of real estate and movable properties.

Commercial Law Reform (\$1,400,000 AEEB). In the second year of this project, pilot bankruptcy cases will be conducted in order to test the effectiveness of new court procedures and laws.

Development Credit Authority (\$1,000,000 AEEB). USAID will enter into agreements with strong local banks by securing 50% of the principal of loans issued by banks with their own funds; the ultimate goal is to provide SMEs with long-term financing.

Energy Sector Restructuring (\$1,000,000 AEEB). USAID will continue to restructure the national energy sector. USAID will continue to work in FY 2005 with the international donors who are part of the Power III consortium to strengthen the State Regulatory Commission and to set up the Single Transmission Company and the Independent Systems Operator. This will include the training of the regulators as well as drafting of additional legislation, rules, and regulations.

Performance and Results: USAID's work on developing private sector-led economic growth through its CGBIP and Business Finance Project (BF) has significantly contributed to the development of a vibrant and sound banking sector and generated new jobs. The seven-year long BF activity, which is drawing to a close, is directly responsible for introducing modern banking into BiH, creating over 15,000 new jobs, and protecting 30,000 existing jobs. The total deposits in the banking system have grown to \$3 billion in FY 2003 from \$2.5 billion in FY 2002, while outstanding loans have grown to \$2.4 billion in FY 2003 from \$1.9 billion in FY 2002. Further work by USAID in developing a stable macroeconomic environment included assisting the BiH Government in becoming fiscally responsible by improving transparency and accountability of budget formulation. Execution and streamlining tax administration produced significant results in FY 2003 as well: a surplus of \$20 million in the State and entity budgets; and an 8% increase in tax revenues. The financial management information system is now operational in the State, both entities, and six of the ten federation cantons.

USAID's overall efforts in creating a stable macroeconomic environment have supported BiH's improved ranking on the Wall Street Journal's Heritage Foundation Economic Freedom listing. BiH is currently ranked 139th, compared to 1998 when it ranked 150th. (Total countries ranked are 156. BiH was not ranked in 1997). By the conclusion of the program, the private sector share of GDP will reach 40%.