

DONOR COORDINATION FORUM

MINUTES OF MEETING, MARCH 13TH, 2012

Participants

Mr. Florian Burkhardt, Head of Economic Department, German Embassy (**Meeting Co-Chair**)

Donor/IFIs representatives:

H.E. Ms. Ulrike Maria Knotz, Ambassador, German Embassy
Ms. Jasenka Nina Stjepanovic, German Embassy
Ms. Bianca Maier, German Embassy
Ms. Alma Pašalic, German Embassy
Ms. Jutta Zinnel, GIZ
Ms. Alexandra Hilbig, GIZ
Ms. Livia Manthey, GIZ
Mr. Stephan Leudesdorff, KfW
Ms. Theresa Klinaes KfW
Ms. Anabel Abreu, World Bank
Mr. Damir Cosic, World Bank
Ms. Leila Fetahagic, Embassy of the Kingdom of the Netherlands
Ms. Jantine van Bakel, Embassy of the Kingdom of the Netherlands
Mr. Allan Reed, USAID
Ms. Aler Grubbs, USAID
Ms. Ela Challenger, USAID
Ms. Erin Kotheimer, US Embassy
Ms. Deborah Bernlohr, US Embassy
Mr. Ruysseveldt Peter, UNDP
Mr. Zelimir Mijic, UNDP
Ms. Amira Omanovic, ADC
Ms. Catherine Constant, French Embassy
Mr. Pelle Persson, Swedish Embassy
Mr. Libor Krkoska, EBRD
Mr. Jun Hirashima, Embassy of Japan /JICA
Mr. Yoshiaki Makino, Embassy of Japan
Mr. Slavomir Goga, Embassy of the Czech Republic
Ms. Normela-Hodzic Zijadic, EU Delegation
Ms. Simone Geiger, Embassy of Swiss Confederation/SDC

Government representatives:

Ms. Dusanka Basta, BiH MoFT/SCIA (**Meeting Co-Chair**)
Ms. Edina Topcagic, BiH MoFT/SCIA
Ms. Zeljka Boljanovic, BiH MoFT/SCIA
Mr. Igor Blagojevic, BiH MoFT/SCIA
Mr. Ibrahim Omerbasic, BiH MoFT/SCIA
Mr. Ivica Mestrovic, BiH MoFT/SCIA
Ms. Bruna Kjuder, BiH MoFT/SCIA
Ms. Jasmina Salihagic, BiH MoFT/SCIA
Ms. Manuela Stjepanovic, BiH MoFT/SCIA
Ms. Sladjana Lalovic, BiH MoFT/SCIA
Mr. Miroљjub Kronic, BiH MoFT
Ms. Biljana Dakic-Djurovic, BiH MoFT
Ms. Jasna Vukasovic, FBiH Ministry of Finance
Mr. Midhat Dzemic, Directorate for European Integration BiH
Ms. Aneta Raic, PARCO

MoFT project staff in attendance:

Ms. Amra Omerbasic, DME Coordinator
Ms. Samra Muminovic, DME Research Assistant

Meeting Agenda

- Welcome and Opening Remarks
- German Embassy presentation „German Development Cooperation in Bosnia and Herzegovina”
- GIZ presentation „German Technical Cooperation in Bosnia and Herzegovina”
- GIZ presentation „Regional Cooperation”
- KfW presentation „German Financial Cooperation in Bosnia and Herzegovina”
- The World Bank „Introduction and Short Presentation”
- The World Bank presentation „Public Expenditure and Institutional Review “
- Tour de table

AD1: Welcome and Opening Remarks

H.E. Ms. Knotz, Ambassador of Germany to Bosnia and Herzegovina, opened the meeting by welcoming all attendees to the 1st meeting of the DCF in 2012 and thanked the BiH Ministry of Finance and Treasury for organising the meeting.

H.E. Ms. Knotz underlined the importance of donor coordination in BiH, due to numerous players and the very varied donor landscape and the necessity to have an approximate map of the donor landscape in BiH.

Germany and BiH have been very close partners from the beginning of the diplomatic relations in 1994, since when Germany has strongly supported BiH politically and financially. Implementation agencies (GIZ, KfW) had conducted hundreds of projects on behalf of the Federal Government. The overarching goal of the cooperation is the integration of BiH in the European Union. Support is mainly focused on the three following areas: 1) support of the democracy, civil society and public administration; 2) economic reforms and development of an advanced market economy in the financial sector; 3) improvement of infrastructure in the area of water management, energy efficiency and renewable energies. Besides the official development cooperation, there are many other organizations that are supporting the social and economic development, like foundations Konrad Adenauer, Friedrich Ebert, Heinrich Boll, Friedrich Naumann and NGO's such as Caritas, Help, and dozens of private initiatives of German citizens supporting the country in many areas.

H.E. Ms. Knotz introduced her colleagues, Mr. Florian Burkhardt, Head of Economic Department, German Embassy; Ms. Jutta Zinnel, Regional Director for GIZ; Alexandra Hilbig, manager of the Open Regional Fund (GIZ) and Mr. Stephan Leudesdorff, from KfW office in Sarajevo, to present German activities in Bosnia and Herzegovina.

Ms. Dusanka Basta welcomed all attendees on behalf of the BiH Ministry of Finance and Treasury. She noted that this meeting is the first meeting in 2012, after the promotion of the Donor Mapping Report (DMR) in December 2011, hoping that they all enjoyed the DMR and found it useful. She welcomed new DCF members, Ms. Abreu, Mr. Krkoska and Mr. Hirashima and wished them a successful and fruitful future cooperation. Ms. Basta then invited Mr. Florian Burkhardt to deliver his presentation.

AD2: German Embassy presentation “German Development Cooperation in Bosnia and Herzegovina”

Mr. Florian Burkhardt, Head of Economic Department, German Embassy, noted that his department is in charge of commercial affairs, business promotion and the coordination of the bilateral development cooperation. The German development cooperation consists of variety of means and channels. The most significant part is the official bilateral development cooperation, working on behalf of the German Federal Ministry for Economic Cooperation and Development. The Embassy also implements some activities such as small scale projects funded by the civil sector. Independent organizations such as Institute for International Cooperation of the German Adult Education Association, NGOs and private initiatives of German citizens are also present in BiH.

The bilateral development cooperation is conducted on the basis of annual meetings, where the focal areas for support are defined. The development cooperation includes the technical cooperation implemented by GIZ, and financial cooperation implemented by KfW. The German Embassy also directly supports projects that previously were organized by the Stability Pact for SE Europe and later transferred into the Regional Cooperation Council (RCC), whereby Federal Foreign Ministry provides support to the projects that serve the objectives of the Stability Pact.

The German Embassy is also funding very small-scale projects, solving the basic needs of deprived groups in the country, in cooperation with the local partner organizations. More information in this regard could be found on the web site of the Embassy. For more detailed information, please see the attached presentation.

AD3: GIZ presentation “German Technical Cooperation in Bosnia and Herzegovina”

Ms. Jutta Zinnel briefly introduced GIZ as organization integrated from German Development Service (DED), GTZ and inWent, with head offices in Bonn and Eschborn. GIZ objective and task is to support the international cooperation for sustainable development and to promote international education. As a federal government enterprise they support German Government in achieving its development goals, but they also work with and for other bilateral and multilateral organizations and donors like DEZA, EU etc.

The main highlights of the presentation were:

- GIZ operates in 130 countries worldwide
- GIZ employs more than 17,000 staff
- GIZ maintains offices in all countries in SE Europe: Croatia, Serbia, Montenegro, Macedonia, Kosovo, Albania and BiH

- GIZ is present in BiH since 1995 with the overall turnover of €130 million
- BiH current bilateral portfolio for 2011/2012 is between €5,2 million to €6,0 million
- Priority areas are Sustainable Economic Development and Democracy, Civil Society and Public Administration
- Current regional portfolio priorities are: Foreign Trade, Legal Reform, Energy Efficiency, Municipal Services under the focus of joining EU, with increasing turnover expected for 2012 amounting to €9,7 million

Afterwards, Ms. Zinnel gave detailed presentation of all bilateral programmes in BiH. For more detailed information please see the attached presentation.

AD4: GIZ presentation “Regional cooperation”

Ms. Alexandra Hilbig, the ORF manager, presented the regional projects and activities and introduced their new innovative instrument - Open Regional Funds (ORF) for SEE, with headquarters in Sarajevo. The ORF programme consists of 4 sectors funds operating in former Yugoslavia countries (plus Albania) with volume of approx. €30 million. Programme implementation started in late 2006. ORF is engaged through regional efforts and initiatives, with consulting services, training and knowledge management and to a low extent with financing means. The thematic structure of ORF includes Energy efficiency sector, Foreign trade promotion sector, Legal reform sector and Modernization of municipal services sector.

She noted that they work on sub-projects which require at least 3 involved countries and maximum duration of 2 years. All of them work under one goal, the promotion of regional cooperation and the protocol for the countries in their EU accession process, where this structure provides a high flexibility and the possibility to respond quickly to the need of their partners. For more detailed information about ORF sectors please see the attached presentation.

AD5: KfW presentation “German Financial Cooperation in Bosnia and Herzegovina”

Mr. Stephan Leudesdorff presented the financial cooperation between Germany and BiH. German financial cooperation funds are used for financing long term projects. KfW is 100% government holding founded in 1948, in order to channel Marshall Plan funds into the German economy. Currently, KfW is the promotion bank of German economy as well as economies of transition and developing countries, with representative offices in 60 countries worldwide. It is ranked with AAA rating from all major rating agencies, and last week KfW was ranked by the Global Finance Magazine as the most secure bank in the world.

The KfW's focal areas in BiH are: Financial sector, Energy Sector and Municipal Infrastructure. The funding sources for financial cooperation in BiH primarily come from the budget funds of the Federal Republic of Germany and from KfW own funds. Those funds are mostly blended and create so-called soft loans. The KfW sometimes participates in funding EU schemes, in particular IPA funds, but also in other bilateral sources (together with Swiss, Austrian and Danish Governments). Three sectors (energy, water/waste water and financial sector) are represented in the largest volume of donor/grant commitments. Until today, within the framework of financial cooperation, KfW has ongoing projects with the total committed loans and grant volume of €250 million. For more detailed information see the attached presentation.

Mr. Leudesdorff then thanked the MoFT for the excellent cooperation in the last years and expressed special thanks to the Assistant Minister, Mr. Kronic and his team for the cooperation.

AD6: World Bank “Introduction and Short Presentation”

Ms. Anabel Abreu briefly presented the findings of the recent Public Expenditure Review, which she considered to be very informative and useful for the policy makers and also for the development partners in their dialogue with the government.

The Report illustrates the urgent need for taking some reforms in the area of pensions, wages, social transfers in order to improve the efficiency of public spending.

Ms. Abreu then invited Mr. Damir Cosic, Senior Economist and co-author of the Report, to deliver his presentation.

AD7: World Bank presentation „Public Expenditure and Institutional Review”

Mr. Cosic informed that this Report is done in most of the countries of WB operation. The Report is a systematic review of government sectoral spending as well as the institutional setup of the country. In addition to lending money, the World Bank also provides reports and services, usually free of charge as a part of their overall country system strategy. He

mentioned that BiH is going through deep challenges such as delayed establishment of the governments at all levels. Not agreed basic fiscal policy parameters, means that without structural reforms the country could accelerate towards more unsustainable position.

In terms of improvement of public expenditure and revenue system in BiH, the Report presents four key challenges: improving fiscal policy management through the Fiscal Council institution; reducing the magnitude of tax burden (especially on labour); reshaping current expenditures (pensions, social transfers, public wages); and improving efficiency of spending (health care and education). For more detailed information about this Report please see the attached presentation.

Mr. Burkhardt thanked for the presentation and invited the attendees to ask the questions.

Mr. Pelle Persson noted that the presentation showed quite surprising figures, asking if there were any responses from the political side. He asked if there is an analysis that reveals what kind of conditionality that are introduced by IMF and World Bank need to be incorporated through the PAR programme.

Mr. Cosic answered that there has not been a formal reaction of any kind, but WB intends to open discussions regarding the observed sectors from the Report.

Ms. Anabel Abreu commented that the findings of this Report are in many areas similar to the last Report from 2006. She advised (in case the donors consider these findings useful) they should use them for discussions with the different stakeholders and support the government to make the country fiscally sustainable.

Ms. Aler Grubbs thanked for a great, very interesting and eye-opening report and asking about reaction from the decision makers and the government side, in terms of engaging in a dialogue, and to what degree have any of these challenges been incorporated into conditions precedent for the World Bank or the IMF.

Mr. Cosic replied that the pension strategy reform, the public sector wages and the conditionality for targeting of cash transfers are the part of the WB public expenditure reform programmes. However, since there has been a delay in government establishment, it remains to be seen to what extent the government will engage with the World Bank in the future on this.

Ms. Basta commented that this was a really great Report, important for MoFT, since it tries to expand and strengthen the management of public investments. It is very good to see that this Report recognised public investments coordination and management as one of the preconditions for better policy and public finance management. MoFT and Entity MoFs are currently jointly working to strengthen investment management. It is important to deal in line with the development strategies, from making the decision which projects will be financed, through project implementation follow up, financial monitoring and project evaluation (the whole project cycle). She added that the coordination and management of public investment are of crucial importance for the sustainable development.

AD8: Tour de table

EBRD: Mr. Krkoska informed the DCF that in the last three years EBRD has significantly expanded their activities in Central and Eastern Europe, from about €6 billion per year to over €9 billion in 400 projects. The EBRD portfolio covers about 75% of private and 25% public sector, while in BiH, 75% of investments were in public and 25% in private sector. Public sector is dominated by transport, road rehabilitation, railways and airport. Currently, EBRD has approved about €1,3 billion, with €900 million active portfolio. EBRD had problems with implementation of the projects in the past, but progress has been made, particularly in the road sector. EBRD will continue to finance infrastructure, and they expect financing of Dobož-Banja Luka motorway will be approved by the end of March 2012. EBRD will also provide a small loan for the municipal sector in Capljina. In the future EBRD will focus on provisions for the private sector and it will soon start financing of €15 million in total for a new renewable generation in the field of the private sector projects. Giving the amount of the KfW soft loans, it is not expected that EBRD will provide any sovereign financing for the energy sector. However, EBRD is also willing to provide financing on commercial basis for state-owned distribution and generating companies.

Czech Republic: Mr. Slavomir Goga noted that in the last couple of months the Czech Republic concentrated on small local projects, which are going to be realised in the course of this year. Ten project financing agreements have been signed and the Czech Republic selected about 20 students for scholarships for studying in the Czech Republic. Currently, the Czech Republic is preparing to update the DCF database with new projects.

Sweden/Sida: Swedish development cooperation allocates about €20 million per year through four-year strategy for BiH. Half of those funds are not committed or agreed yet. Sida has 14 ongoing agreements in the areas of democracy, human rights, public sector reform, economic growth and environment. In some new areas, Sida is looking into cooperation with financial institutions to provide technical assistance, particularly in the municipal infrastructure, solid waste, waste water

treatment, with the EBRD, EIB and the World Bank. In the area of economic growth, Sida is looking into a couple of new projects to boost SMEs development. It is also looking into preparation of further support to the judicial sector.

Japan/JICA: Mr. Hirashima Jun introduced himself and presented the updated information about JICA activities. Currently, JICA is implementing technical cooperation project in Srebrenica for rural and agricultural development; providing support for upgrading IT education; funds to Ugljevik Thermal Power Plant in RS for installing of desulphurization plant (approx. €120 million). In order to strengthen the tourism sub-sector in BiH, JICA plans to start international tourism corridor development, in the middle of this year. In regard to assistance in the energy sector, JICA dispatched basic data collections and study team for further cooperation throughout the country.

Austria/ADC: ADC is currently in its phasing out stage. There are no new projects coming along, but there are few major projects which will be financed until 2014. Dealing with adult education, ADC has established Centre for Social Professions in Banja Luka. Together with Switzerland and Sweden, ADC is also financing the Project for Financial Instrument for the Implementation of the Gender Action Plan. Furthermore, ADC supports diverse institutional strengthening and capacity building projects with institutions at the state-level in the sectors of Public Administration and Education.

Switzerland: Ms. Simone Geiger reported that Switzerland is currently planning a new cooperation strategy for BiH, until 2016. Switzerland will probably remain in its current sectors (Rule of Law, Democracy, Economy and Employment, Infrastructure and Health) and is increasing its financial commitments to BiH, with financial envelope of €15 million to €20 million per year, for the next four years.

EU Delegation: Ms. Normela Hodzic-Zijadic informed that EU Delegation has been engaged in its regular IPA programming, for the remaining two years of the IPA instrument, for 2012 and 2013. The financial envelope for these two years is around €211 million. The identification phase of the IPA programming process has been started and finalised in March. Last week, National IPA Coordinator/DEI Director submitted the national package of IPA for both years, comprising of 17 Project Identification Fiches (PIF, as stand alone project) and 2 Sector Identification Fiche (SIF as sector based projects). The main sectors covered by IPA instrument for 2012 and 2013 are Justice and Home Affairs, PAR, Private Sector Development, Transport, as well as Social Development and Acquis related areas.

USAID: Mr. Allan Reed asserted that USAID has received approval from Washington for a new Country Development Cooperation Strategy for the next five years, from 2012-2016. The goal of the programme is to continue to support BiH as a more stable country, closer to Euro-Atlantic Integration. The Strategy continues to provide support to the two main sectors that USAID has been involved during the past few years, which are: Democracy Governance, where USAID is looking towards supporting more functional institutions and actors that meet citizens' needs and Economic Growth, where USAID is looking to support competitive and market-oriented economy. In designing and implementing these programmes, there are four cross-cutting initiatives: interethnic reconciliation, women's empowerment, youth and anti-corruption. USAID's envelope during this five-year period is around USD 125 million. USAID will soon launch a new USAID web-site that is more user-friendly. USAID has provided a number of copies of the Strategy for the DCF members.

USAID has laid out assumptions in regard to socio-political landscape in BiH that should be in place in order for to achieve goals defined with the Strategy as well as risks that could happen, such as smaller donor landscape in BiH. This Strategy contributes to broader set of the world-wide reforms that have been set out by the USAID Forward Agenda which comprises of seven main items (Implementation and Procurement Reform; Talent Management; Rebuilding Policy Capacity; Strengthening Monitoring and Evaluation; Rebuilding Budget Management; Science and Technology; as well as Innovation).

France: France is currently working in the Education sector. A new French college has just been opened in Sarajevo. Furthermore, working with higher education institutions in BiH it has awarded 10 new grants for students to study in France. In regard to the French week on sustainable development, similar event will be organized in BiH. It also cooperates with NGOs and is trying to get their partners. France would also like to participate in the justice sector in case if twinning programmes are launched in this field.

Next Meeting

Mr. Florian Burkhardt, on behalf of the German Embassy, thanked the attendees for their active participation and contributions and informed the DCF that the next meeting will be chaired by another donor. Mr. Burkhardt then closed the meeting.

Ms. Basta also thanked the DCF members for attending the meeting and invited all attendees to a buffet lunch. The meeting was closed at 12:40.

SCIA, March 2012