

DONOR COORDINATION FORUM

MINUTES OF MEETING ON 12 MAY 2009

Participants

Donor Coordination Forum:

Mr. Marko Mantovanelli, World Bank (**Meeting Chair**)

Ms. Christine McNab, UN Resident Coordinator
Mr. Boris Iarochévitch, EC
Ms. Dominika Skubida, EC
Mr. Gus Mackay, DFID
Ms. Ruvejda Aliefendic, DFID
Mr. Richard Moreton, DFID ACE Project
Mr. Steve Williams, DFID ACE Project
Mr. Eugene Gurenko, World Bank
Mr. Efrem Radev, RCC
Ms. Riny Bus, Embassy of the Kingdom of the Netherlands
Ms. Leila Fetahagic, Embassy of the Kingdom of the Netherlands
Mr. Silvano Tabbo, Italian Development Cooperation
Ms. Francesca Cerri, Italian Development Cooperation
Mr. Giulio Moreno, EBRD
Mr. Josip Polic, EBRD
Mr. Csaba Felegyhazi, Hungarian Embassy
Ms. Cristina Gutierrez, AECID, Spanish Cooperation
Mr. Gilles Kraemer, French Embassy
Ms. Dzelila Hadzovic, KfW
Mr. Armin Sirco, UNDP
Ms. Nicola Nixon, UNDP
Ms. Gyongyver Jakab, UNDP
Mr. Aris Seferovic, UN Resident Coordinator's Office
Mr. Almir Tanovic, CIDA
Mr. Gunther Zimmer, ADA/ADC
Mr. Thomas Ruegg, Swiss Cooperation
Ms. Kazuyo Hashimoto, JICA
Ms. Anne-Claire Dufay, UNICEF
Mr. Naveed Hussain, UNHCR
Mr. Jesse Bernstein, UNHCR
Mr. Scott Pohl
Ms. Aneta Raic, PARCO
Ms. Amira Rahmorst, USAID
Mr. Gregg Wittala, USAID
Ms. Ela Challenger, USAID
Ms. Susan Falatko, US Embassy
Mr. Anders Hedlund, SIDA
Mr. Goran Tinjic, World Bank

Government participants:

H.E. Mr. Dragan Vrankic, Minister of Finance and Treasury of BiH

Mr. Mario Nenadic, Assistant Minister of Human Rights and Refugees BiH
Ms. Nermina Dzepar-Ganibegovic, Ministry of Human Rights and Refugees BiH
Ms. Ljerka Maric, Directorate for Economic Planning BiH
Ms. Miroslava Vidosavljevic, Directorate for European Integration BiH
Ms. Zara Halilovic, Directorate for European Integration BiH
Ms. Edina Topcagic, Sector for Coordination of International Economic Aid, Ministry of Finance and Treasury BiH
Ms. Dusanka Basta, Sector for Coordination of International Economic Aid, Ministry of Finance and Treasury BiH
Mr. Miroљjub Kronic, Ministry of Finance and Treasury BiH
Mr. Petar Kraljevic, Ministry of Finance and Treasury BiH

Agenda

- Welcome and Opening Remarks: Mr. Marko Mantovanelli, World Bank Country Manager, 5 min.
- Global Economic Crisis, its Impact in BiH and Response by the BiH Authorities: H.E. Mr. Dragan Vrankic, Minister of Finance and Treasury of BiH, Mr. Marko Mantovanelli, World Bank Country Manager, 20-25 min.
The Effects of the Financial Crisis at the Local Level in BiH: Presentation by Ms. Nicola Nixon, Head of the Research and Development Unit, UNDP
- SEE Disaster Risk Insurance Facility - RCC and World Bank: Presentation by Mr. Eugene Gurenko, World Bank Lead Insurance and Risk Management Specialist, 15-20 min.
- Review of the Situation and Needs in the Implementation of Annex VII of DPA - Revised Strategy: Presentation by Mr. Mario Nenadic, Assistant Minister, Ministry of Human Rights and Refugees BiH, 15-20 min.
- Agency Updates, Comments and Suggestions.
- Miscellaneous

Introduction

The meeting was opened by the Meeting Chair highlighting that this is the second DCF meeting organized by the Sector for Coordination of International Economic Aid (SCIA) within the BiH Ministry of Finance and Treasury (BiH MOFT) in its new roll of the DCF Secretariat. The Meeting Chair on behalf of the World Bank in BiH expressed its pleasure to be able to chair the DCF meeting today and gratitude for the participation of the Minister of Treasury and Finance BiH in today's meeting. In the closing remarks the Meeting Chair provided a brief overview of the proposed agenda of today's meeting, and after no additional agenda points were suggested by the meeting participants, the Meeting Chair invited the Minister of Treasury and Finance BiH to start with the first agenda point and address the participants.

Global Economic Crisis, its Impact in BiH and Response by the BiH Authorities

The Minister of Finance and Treasury BiH welcomed the participants to the meeting and expressed his gratitude to the World Bank for chairing today's meeting. He emphasized that this is the continuation of the rotation tradition of the DCF meetings chairing, and the commitment was expressed that the SCIA will continue with its attempts to meet the expectations as the DCF Secretariat. The Minister proceeded to provide some valuable information on the impact of the global economic crisis in BiH and Region and the measures the BiH authorities are introducing in order to mitigate the crisis. The presentation mainly focused on the IMF projections for growth globally, regionally and locally, export-import trends as well as the recent assessment of the industrial production, measures introduced by the BiH authorities and next steps and recommendations. The key information include:

- The latest IMF assessments indicate that the global growth in 2008 was 3.2%, and the projection for 2009 is 1.3%, which represents the first decrease of the global economy since the World War II;

- According to the current IMF projection, the development countries will grow at the rate of 1.6% after the 6.0% growth in 2008;
- It is projected that the GDP in BiH will fall 3.0%, in Croatia 3.5%, in Serbia 2.0%, in Macedonia 2.0% and in Montenegro 2.7%;
- IMF currently forecasts that the world economy should moderately recover in 2010 with the growth of 1.9%;
- Published indicators for the last 5 months point out that the economic crisis is very much evident in BiH, although the data collected for the month of March somewhat better meaning the fall of economic activities has been slowed down to some extent;
- The total import fell down by 25% in the first 2009 quarter compared to the first 2008 quarter. The total export also fell down by 21% in first 2009 quarter compared to the first 2008 quarter. The negative trend of the foreign trade was primarily caused by the decrease of the global stock prices of mass consumption and decrease of economic strength of the countries to which BiH is exporting as well as decrease of purchasing possibility in BiH;
- The industrial production in FBiH fell by 15% in the period January-February 2009 compared to the same period last year. The indicators show a slight increase of 7% in March, which is still considerably lower than March 2008; RS indicators also show decrease in the industrial production in spite of the positive effect produced by the production in the oil refinery;
- Number of unemployed in FBiH increased by 8,000 between November 2008 and March 2009, and 6,100 in RS during the same period;
- Council of Ministers BiH adopted 16 measures for mitigating the negative effects of the global economic crisis whose information will be available to the interested donors.
- Council of Ministers introduced the measure of regular fiscal coordination through the BiH Fiscal Council and encourages the entities to harmonize legislations in all sectors especially in direct taxation.
- Next steps and recommendations include development of a Framework for Coordinated Plan of Measures adopted at all government levels and on the basis of state and entities' measures. The coordinated plan of measures is not expected to be very detailed but it should provide the basis for development of a detailed Action Plan for each level of government with concrete financial implications, deadlines and responsibilities. The Framework for Coordinated Plan of Measures would be adopted by the BiH Fiscal Council and would also serve as the basis for Global Framework of Fiscal Policies for the period 2010 - 2012, which should be adopted by the BiH Fiscal Council by the end of May as the prerequisite for the IMF arrangement with BiH.

The Meeting Chair thanked the Minister for the very valuable overview of the current status of the economic crisis in BiH and measures the BiH authorities are undertaking. The Meeting Chair emphasized that the economic crisis is impacting the entire country and not only one entity, and therefore, it is important to construct a joint response to the crisis. The Meeting Chair congratulated the Minister of Finance and Treasury BiH and the Council of Ministers BiH for successfully coordinating the BiH response to the global economic crisis, which among other results ensured the credibility of the banking sector in BiH, vital for combating the economic crisis. It was emphasized that the BiH measures require support of all multilateral bi bilateral donors in BiH, and that each government should introduce its own measures.

In relations to the current IMF negotiations, the Meeting Chair commented that the IMF has provided a framework, but it will be critical that this framework is implemented. Measures will have to be introduced and adequately implemented, which will not be easy considering that some of the measures will not be popular, however, the opportunity presented should not be missed. The Meeting Chair also pointed out the need to look beyond the mid-term 3-year projection. The IMF arrangement is not affecting the capital investments, and therefore, the accelerated implementation of the approved funds and programmes of the

international community is required in order to meet the elevated financial needs. The DCF was informed that the World Bank and European Commission were approached to look into possibilities of supporting the BiH measures, and since the World Bank and European Commission support does induce certain costs, the plea was made to the DCF to provide grant opportunities to the BiH authorities, where possible. Coordinated support to the BiH Government is needed more than ever in order to maximize the benefits of decreasing financial support.

In the follow up discussion, the UN Resident Coordinator emphasized that the UN Country Team in BiH has mobilized around additional \$20 million in grants in 2008 for the development support especially for job creation at the local level, which are still pending the formal approval of the BiH Government without which the funds cannot be operational. The UN Resident Coordinator asked the Minister of Finance and Treasury BiH to help accelerate the approving process of the mobilized funds and programmes in order to start their implementation and contribute to mitigation of the economic crisis in BiH.

The Minister of Finance and Treasury BiH pointed out that he and the Ministry are aware of this issue, which is the standardized approving process in BiH in line with the constitutional arrangements in BiH and cannot be addressed through the DCF. However, the Minister commented that the Ministry is doing everything it can to accelerate these processes and will continue with its effort in order to contribute the strengthening of the international support in BiH.

The UN Resident Coordinator introduced the next sub-topic within the agenda point, the Effects of the Financial Crisis at the Local Level in BiH, emphasizing that this is not a scientific research but rather an anecdotal review from the local level in light of the measures and activities being introduced at the macro-level. The research was conducted through the local consultations between project managers and local partners (municipal and CSOs) about their perception of the effects of the global economic crisis. UNDP provided presentation of the research, which covered 16 municipalities, focusing on the impact of the crisis on the local private sector, on the local public sector, evidence of the broader social impact, perception of longer-term opportunities and level of municipal monitoring of the economic and/or social impact.

For more detailed information, please see the attached presentation.

In the follow up discussion, UNHCR made the reference to the displaced persons and refugees in the context of the negative impact of the economic crisis in BiH. It pointed out to the increasingly difficult situation of this particular group of people, who are increasingly approaching public institutions according to the information from the field. In the light of the ongoing economic crisis, the protection of the most vulnerable groups is crucial, and the situation of displaced persons and refugees in BiH is becoming increasingly vulnerable.

SEE Disaster Risk Insurance Facility - RCC and World Bank

The Meeting Chair introduced the next subject of the meeting by making a reference to the recent earthquake in Italy pointing out the challenges of rebuilding the destroyed houses in the absence of the insurance coverage. The region of Southeastern Europe is likewise prone to natural disasters and the insurance coverage for these situations is also lacking.

The Minister of Finance and Treasury BiH used the opportunity to emphasize the importance of this issue, which has also been addressed within the Council of Ministers BiH discussing the needs for joining the RCC and benefits from this partnership. It is especially helpful that this is a regional initiative which strengthens regional cooperation and capacities to deal with damages of potential natural disasters. In order to be eligible for the benefits of the regional insurance coverage, BiH would need to join the initiative and the RCC, which prescribes certain obligations and financial commitments.

The Meeting Chair added that each participating country would be obliged to initially purchase equities in the public company, which would be gradually transferred into private sector. In case of BiH, the purchasing obligation would amount to \$2.7 million, the resources the BiH Government currently lacks in light of the ongoing economic crisis and the IMF prescribed savings. Therefore, the DCF is asked to support the BiH Government in joining this initiative.

World Bank provided a presentation on this initiative focusing on the overall context, current situation in the insurance sector in BiH, potential economic losses through natural disasters and possible solutions and response through the regional initiative.

For more detailed information, please see the attached presentation.

In the follow up discussion, it was confirmed that the figure of \$2.7 million would be a one-time contribution, and the World Bank will follow up individually on the potential interest in the next period.

Review of the Situation and Needs in the Implementation of Annex VII of DPA - Revised Strategy

The Ministry of Human Right and Refugees BiH together with UNHCR prepared a presentation on the proposed revised strategy for the implementation of Annex VII of DPA as a follow up on the last DCF meeting. The presentation concentrated on providing an overview of the results reached so far, the process of revising the strategy, current situation in BiH, investments into the return sector, estimate for intervention needs, conclusions of the Council of Ministers and Parliament of BiH and the next planned steps.

For more detailed information, please see the attached presentation.

Agency Updates, Comments and Suggestions

AECID-Spanish Embassy informed the DCF that the new Master Plan for AECID 2009-2013, which was finalized in February does not include BiH. This decision indicates phasing out process for AECID, however, the Spain will continue providing support to BiH through Spanish Embassy. The ongoing assistance include the approved \$20 million from the global UNDP/Spain MDG Achievement Fund and \$25 million macro-credits support.

Italian Development Cooperation informed the DCF Secretariat of the new director, Mr. Silvano Tabbo, who expressed his appreciation for the DCF Secretariat role the SCIA and the Ministry of Finance and Treasury are providing. Support to the Donor Mapping Exercise was also provided. Italian Development Cooperation also informed the DCF of the new operational approach which will also include soft loans in addition to the ongoing \$20 million grant support for 30 projects implemented through international organization, Italian NGOs and Italian Development Cooperation. The soft loans will be primarily targeting sectors such as transport, SMEs development, water and sanitation. It is expected that the exact figures will be finalized very soon and then discussed with BiH counterparts.

DFID informed the DCF that a first draft of the DFID Graduation strategy has now been prepared. DFID is keen to share this early draft with government and donor partners. We would very much welcome comments and suggestions for inclusion into the final document. DFID BiH needs to finalise the strategy for approval by the DFID Senior Management by end June 2009. Strengthening Public Expenditure Management 3 project: now formally approved and the implementation phase has commenced. The SPEM 3 project is intended to build on the work of the previous two projects by further institutionalizing and deepening medium term budget planning processes and link those processes to the policy making process across all level of government in BiH. The project will also aim to enhance the role of the BiH parliaments and civil society organization in the budget process by strengthening their capacity to scrutinize and analyze budget policies and spending plans. TOR available for anyone interested. Aid Coordination and Effectiveness (ACE) project was introduced:

Team Leader Richard Moreton and his core team in place with MoFT/SCIA since mid April 2009.

The goal of the ACE project is to improve the effectiveness of international development assistance by application of the Paris Declaration principles, with the purpose of the creation and adoption of a functional aid coordination architecture, to facilitate development and improvement of process of planning, programming and management of external funds in line with BiH development priorities.

PARCO Office provided a brief update on the ongoing activities, which is more explained in more details in the provided material that will be shared along with the minutes of the meeting. PARCO Office is in charge of facilitating the implementing of PAR (Public Administration Reform) fund (EUR 4.5 million) and activities. Technical support is provided by SIDA, DFID, the Embassy of the Netherlands and EC. Currently, 11 projects are being implemented at all government levels in the amount of EUR 2.5 million, however, the resources available will not be sufficient. Therefore, the PARCO Office used the opportunity to extend invitation to other donors to participate in the PAR fund.

UN Country Team informed the DCF that UNDP appointed for the first time a woman, Ms. Helen Clark, as the new UNDP Administrator, who also serves as the Chair of the UN Development Group, which coordinates the development work of majority of UN Agencies worldwide. The UN Resident Coordinator expressed hope, the BiH Government will invite Ms. Clark to visit BiH in near future.

The SCIA provided a brief update on the ongoing Donor Mapping Exercise in 2009. So far six out of ten sectors have been finalized and progress has been made in drafting the report. It is expected that in the next two months the remaining three sectors will be covered and draft DME report will be presented to the DCF. The SCIA extended gratitude to the DCF for participating in the DME and providing support to the process. The plea was extended to the DCF to update the donor mapping information more than once a year and to appoint focal points to receive training on updating donor mapping information through SCIA.

Canada/CIDA informed the DCF that currently, options are being explored to house CIDA in light of the recent decision to close the Canadian Embassy in Sarajevo. Once more information are available, the DCF will be informed.

The Embassy of the Netherlands thanked the SCIA and the Ministry of Finance and Treasury BiH on great organization of the DCF meeting. The DCF was informed of the phasing out process, which should finalize in 2011, when the ongoing project in the amount of \$5 million should be finalized as well. They include support to Srebrenica's Area Based Development, implementation of the Annex VII of DPA, social housing and the latest initiative through UNDP on private sector development.

Next Meeting

The Meeting Chair thanked the DCF Secretariat for well organized meeting. It was decided that EC and the Embassy of the Netherlands will chair the next two DCF meetings in 2009. The SCIA in its capacity as the DCF Secretariat will consult EC and the Embassy of the Netherlands to arrange the logistics. At the end, the Meeting Chair informed the DCF that Mr. Gregg Wiitala from USAID is leaving BiH and expressed the gratitude for contributions provided in BiH. The DCF is wishing well to Mr. Wiitala in his future activities.