

PUBLIC INVESTMENT PROGRAMME IN THE FEDERATION OF BOSNIA AND HERZEGOVINA FOR THE 2004-2006 PERIOD

A) INTRODUCTION

For the very first time in the Federation of BiH (FBiH), the allocation of public resources is executed within a multiyear Public Investment Programme (PIP). Once approved, the Public Investment Programme will be revised annually in accordance with the FBiH's yearly Budget.

The Public Investment Programme presents a basis for the management of public sector resources and the mobilization of external aid.

The basic aims of the PIP are as follows:

- to ensure a link between public investments and sectoral policies and strategies
- to identify and prioritise projects linked to realistic availability of local and external funds
- to present a clear picture of the FBiH's public investment priorities to the international community
- to enable the Federation of BiH, cantons and municipalities to take on the responsibility for development in a situation characterized by constrained resources
- to enable a gradual introduction of project planning and cycle management, setting up a framework for the preparation, implementation, monitoring and evaluation of investment projects
- to increase the level of participation and influence of cantons and municipalities in the process of selection of priorities for external financing
- to establish a system by which the different levels of Government (sectoral Ministries, cantons and municipalities) take on responsibility for projects from their initial proposal right through to dealing with paying back credit on them (in compliance with the relevant legislation)
- to increase the level of coordination between the cantons and the Federation and within cantons, especially, in relation to cantonal ministries of finance, with the objective of facilitating coordination in the allocation of developmental resources from local sources.

The FBiH Budget must be prepared in accordance with the FBiH PIP. Thus, the allocations for the FBiH 2004 Budget are based on the first year of the FBiH 2004-2006 PIP.

The 2004-2006 PIP comprises of the following chapters:

- a textual part with proposed conclusions
- a summary of projects included in the 2004-2006 PIP.

B) CONTENT OF THE FBiH PIP

The 2004-2006 FBiH PIP comprises two lists of priority projects. The first list relates to the selected first level new priority projects linked to the macro financial framework of foreign resources determined by the Midterm Expenditure Framework in FBiH (adopted by the Government in September 2003). This list also comprises projects in implementation and approved projects.

The second list - special list (marked B in the programme) comprises projects ranked as second level priority, for which other modes of financing should be sought, such as foreign direct investments, concessions, etc., or for which public funding may be allocated at a later stage. Upon selection by a donor/investor, they can also be transferred from the second list to the first list of priority projects.

Projects included in the PIP represent the highest priorities of Federal ministries, cantons and municipalities.

General contents of the PIP	The PIP contains public investments covering all investments in the development of public infrastructure, services and institutions.
Coverage of the PIP	The definition of the PIP in FBiH includes the following: <ul style="list-style-type: none">- Projects of governmental ministries on all levels of government financed with domestic and external resources.

	<ul style="list-style-type: none"> - Projects that shall be offered for other modes of financing (concessions, foreign investments etc.) - Projects of public enterprises financed through grants or credits provided by the Federation of BiH Government and on the basis of guarantees issued by the Government - Participation of the FBiH Government in projects financed through the annual FBiH Budget. <p>The FBiH PIP does not include the following:</p> <ul style="list-style-type: none"> a) small scale humanitarian aid projects or small scale technical assistance from foreign non-governmental organizations b) new project proposals merely for technical assistance c) budget assistance with the objective of deficit coverage d) donations for individual citizens e) projects aimed merely at procuring specific equipment
Local Government investment programmes	The FBiH PIP includes projects from local governments - cantons and municipalities - according to their sectoral responsibilities. Currently municipal projects are forwarded to the Cantons, which prioritize them and forward them to the FBiH level.
Investments into the private sector – enterprises	Private sector investments in the FBiH PiP include support to reforms and modernization of the private sector. However, the PIP does not include the resources from credit-lines earmarked for the private sector, as the process of selection of such projects is a commercial decision for investors and financial institutions.
Status of investments proposals included in the PIP	Investment programmes and projects included in the PIP represent the priority areas in which investments have to be made in order to support the implementation of Government policies within the programme of economic reform, restructuring and realization of the Development Strategy of Bosnia and Herzegovina – the PRSP. The inclusion of programmes into the PIP does not imply automatically that the funds are going to be available, except in the case of projects which have already been approved and/or are being implemented. The formal decision on the implementation of new projects shall be subject to detailed project preparation, assessment and financial negotiations with donors.

The constraints in the available macro-financial funds for investments, especially external ones, underline how important it is in the coming midterm for the Government to seek private sector and direct foreign investments, whenever possible. Moreover, they also show the need to increase the level of funding for development from domestic sources.

C) PIP FBiH 2004-2006 PREPARATION

The preparation of the FBiH 2004-2006 PIP began with the adoption of the Decree on the Establishment of the Coordination Mechanism in the Federation of BiH, in September 2003, which, for the very first time in the area of public investments, determined the responsible authorities and procedures for the preparation of the PIP, officially and legislatively.

The Decree on the Establishment of the Coordination Mechanism for Development Resources Management in the Federation of BiH regulates the following within the Entity:

- establishment of organizational coordination units - one in each of 10 Federal sectoral ministries - and cantonal organizational units - one in each Canton, in charge of coordination within the cantonal ministries and coordination with municipalities
- definition of the responsibilities of the organizational units in the drafting of strategies, the process of identification and prioritization of developmental projects, the cooperation with the DCU at the Federation level regarding the process of application for project inclusion into the Public Investment Programme and reporting on the implementation of developmental projects.
- Establishment of rules for the preparation of forms, adjusted to donor requirements, for project proposals and reporting on their implementation.
- Definition of the procedures for the preparation of the PIP
- Establishment of the rules for the formation of the Selection Commission for the Public Investment Programme.

The joint circular letter of September 25th 2003, issued by the Minister of Finance of the Federation of BiH (for projects in implementation and new project proposals) initiated the process of the FBiH PIP preparation formally. The objectives of the letter were as follows:

- explain the purpose and objectives of the PIP
- ensure clear guidelines and procedures for new project proposals to be included in the PIP
- establish deadlines for the preparation and insertion of projects in the PIP.

The circular letter was addressed to all the responsible authorities within the coordination mechanism, i.e. to Federal ministries and cantons – ministries in charge of the coordination of activities related to the preparation of project proposals – describing their obligation to propose projects from their sectors and in line with sectoral policies and strategies, the Development Strategy of BiH and the Midterm Expenditure Framework of the Federation of BiH, for inclusion into the FBiH PIP.

Attached to the letter were guidelines of the Federal Ministry of Finance related to:

- the proposal of projects from the public sector domain
- the need to prioritize projects taking into consideration diminishing donor financing, which should be compensated for with domestic resources, and the related submission of priority lists
- the orientation of external donor financing towards institutional development and reforms, rather than reconstruction
- the requirement that data for ongoing and proposed projects for the PIP financed with domestic budgetary resources be submitted
- determining the constraints in the proposal of projects:
financial constraints relating to the possibility of indebtedness of individual levels of government; availability of domestic resources and availability of capacities for the implementation of proposed projects

The letter also includes the newly established format for the presentation of project information – Project Information Sheet (PIS) – with the objective of:

- ensuring a standardized presentation of all projects
- ensuring identification of key indicators, such as the level of capital investment, participation in financing, technical assistance, training, operating costs etc.
- proposing a method for financing and location for the realization of projects.

Identified projects and the PIP Database

In total the FBiH registers 750 projects. From that number, 250 projects have been included in the 2004-2006 FBiH PIP. Of these, 113 have been approved (some of these are currently being implemented and others have not started yet) and 137 are new project proposals.

The PIP Selection Commission

The preparation of the PIP was supported by the operations of the Selection Commission, set up by a Government Decree, which has the task of reviewing the overall scope of the proposed PIP projects, the

sectoral allocation of priorities, the final selection of projects for the PIP, prior to the presentation of the PIP to the FBiH Government.

The Selection Commission is presided by the Minister of Finance, or a civil servant authorized by him, and is composed of nominated representatives from the following sectoral ministries: the Federal Ministry of Agriculture, Water Management and Forestry, the Federal Ministry of Urban Planning and Environment Protection, the Federal Ministry of Transport and Communications and the Federal Ministry of Industry, Energy and Mining.

The Selection Commission's role is important for the coordination between the policy and investment planning, budgeting and utilization of resources. The Commission's suggestions were built into the final version of the PIP.

Assessment and Prioritization

With the assistance of UNDP, through the «Programme Support to Bosnia and Herzegovina in the Management and Coordination of Developmental Resources», the Federal Ministry of Finance organized workshops for Federal ministries and cantons with the objective of training in the area of identification, formulation and prioritization of projects in order for the authorities responsible for project proposal to be trained in the use of the necessary techniques.

However, this training was insufficient due to strict deadlines necessary for the preparation of the PIP in tandem with the other relevant process such as the PRSP preparation, the MTEF and the annual Budget. With the objective of solving this problem, it is planned that training and interventions shall be undertaken in the coming period regarding capacity building in the area of project preparation, assessment, formulation and prioritization, with the objective of improving the procedures of public investment programming and their inclusion into the formal planning framework of the PIP.

The projects proposed for inclusion into the 2004-2006 FBiH PIP went through the process of assessment and prioritization set out by the relevant Decrees establishing development units within the Federal ministries and cantons and the selection Commission set up at the Entity level.

Inclusion of the (Highest) Priority Projects in the PIP

The criteria used for the inclusion and prioritisation of projects in the 2004-06 PIP are as follows:

- ranking according to the proposing sectoral ministry or canton
- level of harmonization with the Development Strategy
- level of indebtedness allowed to the relevant canton
- balanced regional development
- effect of the financial constraints determined by the Midterm Expenditure Framework

In view of the aforementioned criteria, all projects in the PIP are classified as:

1. Ongoing
 2. Approved
 3. New priority projects
1. Current projects have already been allocated their funds
 2. Approved projects are those for which financing has been pledged (but not yet transferred)
 3. New priority projects are those for which the funding has not yet been pledged – they are subdivided into high and medium priority and their implementation is subject to securing funding.

Projections of PIP Disbursements in 2004-2006

Assumptions applied in the preparation of assessments of PIP disbursements in 2004-06 period

Disbursements of external financing:

The following assumptions were used in the preparation of projections of external financing into a

disbursement plan:

- Resources engaged for ongoing projects. The schedule of disbursements in the PIP is based on the signed agreements for project financing to be found at the PIUs and implementation agencies.
- Programmed resources for approved projects. The disbursement plan is what has mainly been used for this. In cases where such schedules do not exist yet, the planned disbursements have been based on the experience in the implementation of similar types of investments.
- Expected new allocation of external financing that should be committed for new projects. It is assumed that the disbursements shall not take place within the first year of the PIP implementation. It is expected that the funding will start in the following year and continue in 2006, 2007 and further on.

Disbursements of local financing:

Cantons

Domestic financing is planned on the basis of submitted proposals for financing from annual cantonal budgets. Certain adjustments in the schedule of disbursements have been made according to the cantons' participation in funding.

Federation

The PIP document includes those public investment projects the funding of which is proposed within the Federal Budget (which has not yet been approved, 10/03/2004).

The Federation share in the financing of project financed from external sources is presented in the PIP in an amount reported by the implementation agencies, i.e. in line with project agreements.

D) DEVELOPMENT STRATEGY – PRSP AND ITS LINKS WITH THE PIP

In 2002, the Government initiated the preparation of the Development Strategy of Bosnia and Herzegovina - PRSP, containing sector specific strategies and programs for economic reforms and development.

The basic aims of the Development Strategy are as follows:

- ensuring conditions for sustainable development
- poverty reduction
- providing incentives for the process of European Union accession.

The Strategy underlines the necessity for investments in specific sectors, as well as in the implementation of legislation and institutional reform, in order to strengthen the institutions of BiH in attaining the level of modern European states.

According to the Development Strategy, the activities that have to be undertaken in the area of public investment are as follows.

1. Maintaining Macroeconomic Stability

The objective by 2007 is to achieve a rate of economic development of 6%, 2/3 of the Gross Domestic Product of 1991. An important precondition for this is to ensure the continuation of concessional international aid (US\$ 1.5 billion, i.e. US\$ 375 million annually for BiH¹).

¹ From the BiH 2004-2007 PRSP.

2. Fiscal Reform

Among the priorities of fiscal reform, the most significant ones, related to programming public investments are the following:

- ensuring the distribution of resources (including donor resources) between the Entity and the sub-entity levels, in such a way that the distribution of responsibilities in relation to the provision of services is ensured
- establishing a higher level of solidarity in order to assist poorer cantons and municipalities.
- Increasing the share of domestic public revenues in the financing of public investments (a 15% increase in comparison with the 2003 level²)

3. Sector Spending

In the area of sector spending the Strategy has, indicated the basic directions for investments as follows:

In the area of **water management**, it is necessary to:

- improve flood protection systems (facilities on the river Sava and river Neretva, and in urban environments, regulation of river basins, demining
- ensure sufficient quantities of drinking water
- improve the protection of the quality of water (rehabilitation of sewage systems and capacitating of water treatment plants)
- intersectoral planning of exploitation of water resources

In the area of **environment** protection, the following needs to be ensured

- investment construction of plants for water supply and wastewater treatment
- development of rural areas
- biodiversity
- introduction of information management systems (GIS, air, water and soil monitoring)
- rehabilitation of landfills
- coordinated implementation of the national action plan of environment protection

Environment protection is a necessary condition with the activities on the Agreement on Accession to European Union and one of the conditions of the Feasibility Study. The sector priorities are contained in the programme document of the NEAP which contains 8 areas of rehabilitation and improvement of environment protection that should contribute to poverty reduction. The priority projects for the PIP from the NEAP list of projects were delegated by the Federal Ministry of Urban Planning and Environment Protection, Federal Ministry of Agriculture, Water management and Forestry and cantons.

In the area of **infrastructure**, the Strategy proposes the following:

- construction of new and reconstruction of existing roads
- construction of highways through concessional investments
- reconstruction of the rail sector

In the area of **electricity and energy**, the following is proposed:

- restructuring of the electricity energy sector before privatization
- completion of renewal in the sector – Power III
- restructuring of mines before privatization

² From the BiH 2004-2007 PRSP.

- restructuring of the gas sector
- construction of subterranean gas storages

In the area of **demining**, the following is proposed:

- humanitarian demining

The reform measures which are to draw on domestic funds and technical assistance, proposed in the PRSP mainly for sectors such as health, education, the social sector, etc., are not included in this FBiH PIP.

4. Public Administration Reform

The most significant challenge that the Government is facing relates to the weaknesses of governmental institutions, public institutions in the provision of services to citizens. Those are the basic problems that need to be resolved in order to create a secure environment for economic development. The key requirements are:

- adoption of a strategy for the reform of public administration, that shall be ensured with technical assistance financing, which is not included in the PIP.

The Development Strategy and the Interim Strategy's policy directions were drawn on for the preparation of the PIP. The 2004-06 PIP in fact reflects the policies set out in BiH's Development Strategy, which are aimed at the following:

- increase in allocations for water management, waste water treatment and environment protection
- continuation of high levels of investment for transport infrastructure
- starting to finance local infrastructure (especially in the area of water supply) with the objective of increasing the level of decentralization of the responsibility for public investment programming and development.

E) SECTORAL ALLOCATION

The sectoral allocation of resources under the PIP reflects the investment priorities that result from government policy, sector strategies and the needs of the lower levels of local Governments. The Public Investment Projects are subdivided into three sectors: ongoing, approved and proposed. Information given on their funding also shows whether it is based on external or domestic resources.

Allocation of resources by sector in the 2004-2006 period

In thousands of KM

	Ongoing Projects	Approved projects	Proposed projects	PIP 2004-06
Administration				
Defense	61	500	500	1.061
Demining	3.869		9.184	13.053
Education	43.014		2.590	45.604
Health	1.809	5.680	3.885	11.374
Social Protection	21.768		260	22.028
Agriculture*, Water Management and Forestry	38.667	19.439	147.866	205.973
Culture, Recreation,	8.609		1.673	10.282

Religion and Sports				
Energy	170.517		44.063	214.579
Mining				
Transport and communications	105.848	99.716	57.450	263.014
Industry *	16.098			16.098
Entrepreneurship*			3.714	3.715
Other sectors	60.548	3.789	31.790	96.127
Environment - Urban Planning	21.260	6.146	10.189	37.595
TOTAL	492.070	135.270	313.164	940.506
Of which:				
External Financing	445.323	64.744	214.108	724.176
Local Financing	46.747	70.526	99.057	216.330

*In the areas of industry, agriculture and entrepreneurship, significant incentives are expected from the banking sector (about KM 130 million) that are not included in the PIP framework.

The sectoral allocations for new projects, proposed by cantonal and Federal ministries, show that the recommendations of the Development Strategy – PRSP and the Midterm Expenditure Framework of the Federation of BiH were respected.

The majority of new investments in projects relate to four key sectors, as follows: water management, transport and communications, energy and environment protection.

In the area of water management (which, in some cases, overlaps with the area of environment protection) the new, high priority projects planned are the following: water supply of the city of Zenica, Travnik-Plava voda, I phase of environment protection of the lake of Modrac, water supply system Domaljevac –Šamac, Dubrave Čapljina, water supply system in Grude, water supply of the city of Travnik, water supply of the region of Tuzla, construction of the sewage system in Vareš, Tomislavgrad, Livno, Mostar basin, Konjic, Bihać, and regulation of rivers.

In the area of transport and communications, the new, high priority projects planned are the following: city bypass in Livno, primary road between Sanski Most and Ključ, regional road between Goražde and Hrenovica, Lučki bridge.

In the area of environment protection (which, in some cases, overlaps with the area of water management) the new, high priority projects planned are the following: purification of drainage waters in Sarajevo, consolidation control landslides in Tuzla, reconstruction of the water supply network in Sarajevo, medicinal waste control etc. (The area of water supply includes a significant number of projects included in the NEAP – National action programme for environment protection).

All those projects shall, if they get included in donors' lists, contribute to poverty reduction and improving the standards for the fulfillment of the basic living conditions (water, health and environment).

F) ALLOCATION OF RESOURCES IN THE FEDERATION OF BOSNIA AND HERZEGOVINA

The allocation of resources by canton and for the Federation in the 2004-06 period (investment spending) can be seen in the following table. The spending on projects includes both local and foreign funds, ongoing projects, approved projects and newly identified projects for which the sources of financing are yet to be ensured.

In thousands of KM

Cantons	Projects in implementation	Approved projects	Proposed projects - new projects	PIP 2004-06
Gorazde Canton	712		13.380	14.092
Herzeg Bosnian Canton	384		8860	9.243
Hercegovinian-Neretvan Canton	82.291	8.969	33.700	124.960
Posavina Canton	1.161		12.722	13.883
Sarajevo Canton	13.480	15.225	31.741	60.446
Centralbosnian Canton	9.396	1.145	16.129	26.669
Tuzla Canton	10.747		68.215	78.964
Una-Sana Canton	2.966	38	17.065	20.069
West-Herzegovinian Canton	0		9.200	9.200
Zenica-Doboj Canton	15.277	184	18.270	33.732
Inter-entity	0	0	5.379	5.379
More than one canton	37.802	19.150	36.884	93.836
Federation	317.851	90.559	41.619	450.031
	492.070	135.270	313.166	940.506

The table above shows the allocation of resources by location. The projects which it is not possible to assign to a specific location fall into the categories «Federation», or «more than one cantons».

For the 2004-06 PIP, the Government of the Federation of BiH proposes the following:

- the principle of distribution of resources between the cantons and Federal ministries in accordance with the responsibility for service provision
- the principle of cantons taking over the responsibility for development through proposing projects of the highest priority and in compliance with that, taking over the responsibility to repay the credit up to the legally stipulated amount
- balanced distribution of new external commitments according to per capita distribution (total allocation for new commitments divided by population numbers), in order to provide equal conditions for accessing developmental funds throughout the territory
- special status of individual cantons – Gorazde Canton, Herzeg-Bosnia Canton and Posavina Canton and the Solidarity Fund
- enable faster progress to the “more developed” cantons (projects proposed in compliance with that principle are the following: regional road Goražde –Hrenovica, city bypass in Livno, regulation of the river Bistrica, demining in the vicinity of the river embankment in Orašje.)
- establishment of a fund for supporting the projects in under developed areas in the amount of KM 40,600,000, from which incentives would be provided for the return, creating conditions for economic growth and employment.

Allocation of New External Commitments to projects by canton

The criteria for the distribution of resources (foreign) for new commitments to projects is a uniform distribution of new commitments by canton, taking in consideration the distribution of resources per capita (KM 101.6), together with the obligation to repay the credit indebtedness in compliance with the law.

The resources for new cantonal commitments include both priority projects proposed by cantons and priority projects proposed by the Federal ministries with the objective of realizing sectoral policies and strategies, i.e. the realization of the Poverty reduction Strategy – PRSP.

Besides the criteria relating to distribution of resources per capita, the criteria of solidarity with less developed cantons is proposed. Namely, according to those criteria, additional resources have been allocated

for three “less developed cantons” (Goražde Canton, Herzeg Bosnian Canton and Posavina Canton), for which the Federation will take over the costs of debt repayment

The projects for which the Federation will get indebted by taking credit amount to a total of around KM 92 million. That amount includes the resources planned in the amount of KM 25 million (from external sources), in order for a fund to be formed for supporting projects from under developed areas, to which domestic investments in the amount of KM 15 million will be added (KM 40.6 million in total, from which projects for the development of underdeveloped areas would be financed).

The allocation of new external commitments to projects by canton – column entitled «Not realized» in the PIP (excluding the B list)- can be shown in the following table.

Canton	New external commitment
1	
Herzegovinian-Neretvan Canton	20.650.000
Herzeg-Bosnian Canton	12.200.000
Centralbosnian Canton	16.415.589
West-Herzegovinian Canton	9 033.000
Sarajevo Canton	31.527.526
Posavina Canton	10.000.000
Una-Sana Canton	30.000.000
Gorazde Canton	12.330.000
Zenica-Doboj Canton	8.869.000
Tuzla Canton	52.485.289
Federation	86.705.338*
Inter-entity	379.000
More than one canton	43.163.680**
Total	333.758.422

*Includes the «Mostarska kotlina» project

**Includes an inter-cantonal project Plava Voda- water supply to Zenica-Doboj Canton and Centralbosnian Canton in the amount of 38,000,000 of credit that shall be repaid by those cantons.

 Finally, it must be remembered that besides the Public Investment Programme, the FBiH Ministry of Finance’s database contains additional projects of importance which, can also be approved for foreign funding or investments. The list of those projects shall be offered to interested foreign donors, humanitarian organizations, micro-credit institutions or investors.

G) CONCLUSIONS

1. The FBiH Public Investment Programme 2004-2006 has been approved and submitted to the Ministry of Foreign Trade and Economic Relations with the objective of drafting Bosnia and Herzegovina’s 2004-2006 Public Investment Programme which is an integral part of the Bosnia and Herzegovina Development Strategy – PRSP.
2. The Government of the Federation and all the line ministries are under the obligation to use the 2004-2006 Public Investment Programme as a basis for aid mobilization (both in the form of grants and credits) in negotiations with external creditors / donors.
3. The Federal Ministry of Finance is under the obligation to submit the list of projects not covered by the Public Investment Programme to foreign donors/investors dealing with local infrastructure projects.
4. The Federal Ministry of Finance is under the obligation to submit to the Federation Government a set of criteria for the determination of the least developed areas and a list of projects for the aforementioned areas in order for resources to be provided from domestic and external sources for the realization of the “Program of Assistance to Under Developed Areas” (the planned fund amounts to 40,600,000 KM).