

SECTION C - DESCRIPTION/SPECIFICATIONS/STATEMENT OF WORK

C.1 BACKGROUND

Bosnia and Herzegovina (BiH) has achieved several significant economic reforms over the past several years, but it has a long way to go in order to meet the European Union's (EU) accession criteria (or Copenhagen Criteria) for economic readiness: "existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union." In order to complete the transition to a market economy and meet EU standards, BiH must address issues related to the lack of a domestic single economic space, flawed and undeveloped economic policies, complex yet weak regulatory systems, and high unemployment. An important indicator of the economy is the private sector's share of GDP in Bosnia and Herzegovina which is only about 50 percent; this is one of the lowest among transition countries in the region. Private sector growth requires a consistent and competent legal, regulatory, and administrative environment to provide incentives for creditors and investors.

The European Union pre-accession process for Bosnia and Herzegovina is guided by the European Partnership with Bosnia (updated in January, 2006) which outlines several reform priorities. Many of these reforms will be very technically and politically challenging to implement and success will be determined by the political will of the Governments (particularly at the State and Entity levels) of BiH and the ability of the international community to provide high quality and responsive technical assistance.

There is widespread consensus among donor institutions and counterparts that several critical deficiencies exist in the: financial services sector, financial administration of public resources, and the enabling environment for private sector investment. As BiH begins to enter a new stage of development, there is a growing, unmet demand for targeted and timely technical assistance for more specific, but critically important, reforms.

C.2 OBJECTIVES AND DESIRED RESULTS

The **overall objective** of the Partnership for Advancing Reforms in the Economy (PARE or "money" in Bosnian) is to achieve economic reforms and build institutional capacity to assist Bosnia and Herzegovina on its path towards joining the European Union.

The **purpose** of the activity is to strengthen the regulatory system for the financial services sector, improve the financial administration of public resources, and improve the enabling environment for private sector investment and growth through the provision of targeted, demand-driven assistance.

Although PARE is meant to be a flexible and demand-driven activity, it will also be results-oriented and results-driven. The following illustrative (but not exclusive) list of **results** indicates what the project would like to see accomplished. The achievement of many of these results (particularly those listed below in italics) will depend largely upon political will:

Component 1: Financial Services Sector

A. Banking supervision

- a. BiH is closer to full compliance with Basel II Core Principals (progress will be measured against the 37 recommended actions specified in the 2006 Report on Observance of Standards and Codes on Banking Supervision)
- b. *Banking supervision is effectively consolidated at the State level*

- B. Insurance
 - a. Insurance regulators conduct inspections, assessments, and issue directives consistent with current laws
 - b. *Insurance regulators are established as fully independent regulators*
 - c. *BiH has moved closer to a single economic space for the insurance sector*
- C. Capital Markets
 - a. RS and FBiH Securities Commissions have improved compliance with at least four of the International Organization of Securities Commission (IOSCO) standards
 - b. Surveillance capability of the Sarajevo and Banja Luka stock exchanges is measurably improved
 - c. *A market for fixed income securities including corporate, entity, and municipal bonds is established with appropriate supervision and oversight*
 - d. *BiH has improved compliance with at least 4 of the 32 OECD Corporate Governance Principles*
- D. Leasing and Factoring
 - a. *Rules, regulations, and oversight governing leasing and factoring are strengthened and consistent with EU requirements*
- E. Deposit Insurance Agency
 - a. The Deposit Insurance Agency's investment strategy is revised to ensure it incorporates best practices of EU member states
 - b. An updated model is developed and implemented regarding eligible insured deposits thresholds (to incorporate considerations of EU standards)
 - c. Institutional risk is incorporated into the calculation of deposit insurance premiums
- F. Private Pension Funds
 - a. *A regulatory environment is established that fosters the development of private pension funds*
- G. Central Bank
 - a. *Central Bank of BiH has implemented recommendations of the European Central Bank regarding alignment with EU best practices*
 - b. *Central Bank has an operational financial sector surveillance unit*

Component 2: Financial Administration of Public Resources

- A. Parliamentary Committees overseeing public sector audits established and analyze and act upon the recommendations of the Entity and State Audit Offices
- B. Entity and State Audit Offices have developed and implemented a media and public awareness capability to more effectively communicate audit findings
- C. *Internal controls and internal audit units are established within 3 pilot publicly owned enterprises or government offices*

Component 3: Enabling Environment

- A. Associations of real estate brokers, mortgage brokers and appraisers are established and improve consistency of standards, advocate for improved business environment, and provide training for certification.

Political will (either the presence or the absence) can change quite quickly as can the planned interventions of other donors which would result in changes to this list. Similarly, additional results could be pursued by the activity if they are deemed important and cost-effective contributions to the purpose of the project.

C.3 TASKS

The principal tasks of the contractor are:

1. To maintain continual dialog with USAID, US Embassy, other donors, the business community, and most importantly, host country counterparts to identify strategic “high return” opportunities for advancing economic reforms that contribute to the project’s results and purpose.
2. Screen and rank the requests and identified needs for assistance.
3. Develop annual work plans based upon an initial assessment and updated throughout the year to accommodate unforeseen windows of opportunity for reforms. It is expected that the Contractor will be diligent and resourceful in adapting tactics to meet unexpected circumstances and to take advantage of policy breakthroughs when they occur. This need to react quickly and appropriately to changing facts and circumstances is fully appreciated and, for this reason, changes to the work and staffing plan are not unexpected. The Contractor may recommend interventions to be added to PARE, or some interventions to be terminated if circumstances change.
4. Develop specific “terms of reference” in conjunction with counterpart organizations to support the highest priority interventions. Counterpart buy-in and cooperation must be clearly demonstrated up front, prior to mobilization of technical assistance including any expected commitments of the counterparts. Each terms of reference shall include an updated description of related activities of other donors and have identified results.
5. Identify and mobilize appropriate technical experts to carry out each terms of reference. The contractor should be able to identify appropriate technical experts to assist counterparts within two weeks for certain unexpected needs (though most interventions will allow longer lead times of six to eight weeks). Local experts should be utilized to the extent possible and when expatriate experts are required, knowledge needs to be effectively transferred to local experts.
6. Provide tailored and targeted technical assistance and training to achieve the desired results. Very limited support will also be provided for study tours, participant training, and sub-contracts for specialized services. **Offerors should include a budget factor of \$300,000 for the base period and \$300,000 for the option period for this component.**
7. Maintain an effective performance monitoring plan (PMP) to track activities, results, and measurement of client satisfaction through surveys of counterparts/participants. The PMP will include specific annual benchmarks and track appropriate indicators.
8. The Contractor shall “manage for results” by requiring each specific intervention to have identified and approved expected results established beforehand (including any commitments requested of counterparts). Additional support will not be provided to a counterpart until it has implemented agreed upon commitments of a previous intervention. The contractor’s in-country team will assure that each partner has followed through before taking next steps.
9. The Contractor will also be responsible for monitoring and managing the Mission’s already existing Development Credit Authority (DCA) loan portfolio guarantee facilities with three local banks. For illustrative activities corresponding to this task please refer to the document “PARE Description of DCA Activities” under the key documents posted on the USAID Bosnia website.

C.4. GENDER CONSIDERATIONS

The implementing partner will monitor and report on the direct and indirect impacts of its activities on gender balance, collect gender disaggregated data whenever available, and report on the gender composition of the trainings and other activities it undertakes. The implementing partner will assure that it satisfactorily addresses potential gender concerns: 1) how are women and men involved or affected differently by the work undertaken in this project, and 2) if this is the case, then would the differential impact be an important factor in managing for sustainable program results.

Contractors will be required to address the impact of the planned activities on both men and women and how this impact might affect implementation in their technical approach. There is a discrete sub criterion under Technical Approach to evaluate how well potential contractors have responded to gender issues.

C.5. KEY DOCUMENTS

The following key documents are posted on USAID Bosnia website. Link:
www.usaid.ba/PARE.htm

Additional Background Info for PARE
PARE Description of DCA Activities
Accounting and Auditing WB report 2004
Corporate Governance WB report 2006
EBRD strategy 2005
European Partnership Priorities 2006
FIC White Paper- 2007
Financial Sector in BiH by Kemal Kozaric 2006
IMF Financial System Stability 2006