



CARDS

Country

Bosnia and Herzegovina

Implementation period

2002-2012

Funding

EU €10 million

Others €30 million

Results

Loans, guidance and systems to help local banks, micro-credit organisations, SMEs and citizens rebuild the country

Coordinator

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Partners

European Commission

Governments of Austria, Germany, the Netherlands and Switzerland

Banking in Bosnia and Herzegovina

Banking on development

Bosnia and Herzegovina (BiH) is one of the poorest republics in the former Yugoslav federation. Although agriculture is largely privately owned, farms are small and find it difficult to raise capital for expansion and improvement. Despite heavy reconstruction, economic growth remains low at 2.3% (2002 estimate).

Privatisation is a priority but progress has been slow, with few incentives for small- and medium-sized enterprises (SMEs). However, aggressive banking reform under way since 2001 has seen some tangible improvements.

The European Fund for Bosnia and Herzegovina – managed by the Kreditanstalt für Wiederaufbau (KfW), Germany's main development bank – is helping Bosnia and Herzegovina set up a robust and independent banking sector through financial, technical and logistics support to local banks and credit agencies, in particular.

Helping the country help itself

The European Fund for Bosnia and Herzegovina is a pool of donor funds led by the EU (€40 million), with other donors including Austria, Germany, the Netherlands and Switzerland. It offers a range of loan packages either directly to individuals and SMEs, or through local banks and micro-credit organisations (MCOs). In the long term, through better capital flow and systems, the benefits of this scheme should trickle down to the country's almost 4 million people in the form of socio-economic stability.

Set up in 1998 to help fund post-war housing reconstruction, the Fund has grown to become a €57 million refinancing operation. Its three types of loans – for housing, for SMEs, and rural credits for agriculture – are lent to local banks and micro-credit institutions, which then lend it on to local citizens. The local institutions repay the funds with interest, which will allow the Fund to continue its operations until 2012.



Sharing the risk

Large numbers of the population saw their homes destroyed or damaged during the war. Through the EU-financed scheme, Bosnians wishing to build, rebuild or buy new homes are offered reasonable lending terms and a chance to start again. So far over 4,000 loans have been made for housing reconstruction, of which some 20% were to returnees.

Small and medium firms, those with fewer than 50 employees, are another priority for the scheme, as they are a valuable 'economic multiplier' for a fledgling economy, helping to cut rising unemployment figures (estimated at 40% in 2002) and providing much-needed government tax revenue. Some 2,700 loans have been made for SMEs, creating 1,700 new jobs and safeguarding over 7,000.

In the area of rural credits over 1,500 loans have been made, with four-fifths of these to the agricultural sector. Micro-credit organisations have acted as intermediaries in this sector, since they have a wider network of offices, particularly outside the cities.



Keeping something in reserve

The Fund works with six domestic banks – among them the country's biggest – and seven micro-credit organisations. Rather than the Fund bearing all the risk, the partner institutions use their own money for their loans. As well as backing the local institutions financially, the Fund is also supplying technical assistance, ensuring that its partners are able to develop their capacities in lending and analysis.

With the Fund planned to run until 2012, the EU proposes to withdraw leaving the local partners to run it by themselves at that stage. Although the current focus is on loans in the areas of SMEs, housing and rural credits, it is envisaged that the partners could move into supporting investment in areas with public benefit, such as environmental improvement projects.