

IPA National Programme 2008 Part II – Bosnia and Herzegovina

Fiche 20: Central Bank

1. Basic information

1.1. CRIS Number: 2008/20-339

1.2. Title: Implementation of the ECB/Eurosystem Recommendations for the Central Bank of Bosnia and Herzegovina

1.3. ELARG Statistical code: 03.17 European standards/Economic and monetary policy

1.4. Location: Bosnia and Herzegovina

Implementing arrangements:

1.5. Contracting Authority: European Commission

1.6. Implementing Agency: European Commission

1.7. Beneficiary:

Central Bank of Bosnia and Herzegovina, Vice governor – in charge of Economic Research, Statistics and European Integrations Department,

Contact person:

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Financing:

1.8. Overall cost (VAT excluded): EUR 1.1 million

1.9. EU contribution: EUR 1 million

1.10. Final date for contracting: Two years following the date of the conclusion of the Financing Agreement

1.11. Final date for execution of contracts: Two years following the end date of contracting

1.12. Final date for disbursements: One year following the end date for the execution of contracts

2. Overall Objective and Project Purpose

2.1. Overall Objective

To strengthen institutional capacity of the Central Bank of Bosnia and Herzegovina (CBBH) in order to enhance CBBH preparations for the participation in the European System of Central Banks.

2.2. Project purpose

To align the CBBH standards with the central banking standards of the ESCB by drafting and implementing new rules and policies, changing practices and training staff in the following business areas: statistics, economic analysis and research, financial stability, monetary policy under the currency board arrangement (CBA), including legal framework, and IT area.

2.3. Link with AP/NPAA / EP/ SAA

European Partnership: key priorities as set in European Partnership, consolidating key reforms required by the Stabilisation and Association Process, in particular:

Short-term priorities/Key priorities:

- Make substantial progress in creating a single economic space in Bosnia and Herzegovina supporting the free movement of goods, capital, services and persons.

Economic Criteria

- Strengthen macroeconomic stability by ensuring a sustainable fiscal stance and using prudential policy instruments to preserve financial stability in the light of rapid development in financial intermediation

European Standards

- To improve the quality and coverage of statistics on consolidated government accounts
- Develop reliable economic statistics and build up institutional capacity to produce and publish basic statistical data harmonised with European standards, in particular in the areas of national accounts, agricultural, macro-economic and business statistics, and social statistics, including education, labour and health statistics.

2.4. Link with MIPD

The project will contribute to the priorities of Multi-Annual Indicative Planning Document 2008-2010 as listed below:

Axe 3: Ability to assume the obligations of Membership- European Standards

The institutional set-up of key market actors, particularly state aid authorities, the Council of Competition, the Public Procurement Agency and the Public Procurement Review Body, the Institute for Intellectual Property Rights and related agencies, the BiH Agency for Statistics, the Consumer Protection Ombudsman, the State Insurance Agency and the BiH Central Bank, will be improved.

2.5. Link with National Development Plan

Under BiH Mid-term Development Strategy, one of the priorities is to maintain macroeconomic stability, by ensuring low level of inflation through continued actions of the Currency Board.

EU Integration Strategy of BiH also supports the CBBH's European orientation as chapter 2.3.4.1. of EMU reads:

Clear orientation of monetary policy and exchange rate policy with ultimate goal of fulfilling Maastricht criteria and EUR introduction in EMU; maintenance of independent central bank, price stability as a main objective of CBBH, forbidden financing, prohibition of monetary financing.

2.6. Link with national/ sectoral investment plans

This activity has also been incorporated into the CBBH Activities/Action plan including Road Map to EU Integration as based on CARDS 2006 Needs Assessment Report by ECB/Eurosystem.

3. Description of project

3.1. Background and justification

The Central Bank of Bosnia and Herzegovina (CBBH) is the state level institution with the sole responsibility for monetary policy in BiH. It commenced its operations in 1997 under a currency board arrangement. It is considered one of the strongest institutions in Bosnia and Herzegovina, enjoying a high reputation and stands as the pillar of monetary stability contributing to the overall macroeconomic stability. As stated in the Progress Report 2007, macroeconomic stability has improved and the currency board arrangement continues to underpin macroeconomic stability. Despite significant achievements, Progress Report 2007 reiterates the need to achieve substantial progress in term of developing single economic space and reliable statistics. Furthermore, the forthcoming SAA obligations also require the CBBH capacities to be strengthened. Therefore, the implementation of this project aimed at strengthening the institutional capacity of the CBBH is of vital importance for preparations of the CBBH for the incorporation into the European System of Central Banks (ESCB).

The preparations for the future membership of the CBBH in the EU central banking community are a big challenge. The Bank's institutional and structural development and the process of adopting the *acquis* requires the reinforcement of the capacities and enhancement of the skills and competences of the CBBH. According to the findings of the CARDS 2006 Eurosystem Needs Assessment programme to the benefit of the CBBH conducted in 2007 there are areas where the CBBH practices and policies are at or very close to EU standards. However, in a number of aspects significant progress needs to be made to attain to a level close to EU standards. The CBBH will need to ensure the implementation of organisational, technical and operational preconditions for the ESCB membership and later on for the monetary union. However, the process of approximation and later on full harmonisation of the CBBH procedures and policies with those of the ESCB is a lengthy process. In order to ensure smooth and stable preparations for the EU, the CBBH Management has embarked on a strategy to move closer to European central banking standards. The Strategy lays down the CBBH's medium and long-term objectives and tasks.

The CBBH strategy for EU integration “Road map to EU” is based on the findings of the CARDS 2006 Eurosystem Needs Assessment programme to the benefit of the CBBH as conducted in 2007 by the ECB in partnership with Eurosystem central banks, and agreed by the CBBH. The CBBH has already started implementing some of the recommendations but in order to meet other recommendations, the CBBH will require EU assistance. In view of meeting the ESCB/Eurosystem requirements and recommendations, the CBBH will need to rely on external assistance. Therefore, the Central Bank of Bosnia and Herzegovina needs to commence the follow-up programme of the CARDS 2006 Needs Assessment Programme aimed at closure of gaps as identified in the Programme in order to intensify process of adjustment to European standards, in cooperation with the ECB and the Eurosystem

The direct grant agreement with the ECB, will be concluded in view of its de facto monopoly in accordance with Article 168(1)(c) of the Implementing Rules to the FR. In more detail, the de facto monopoly stems from:

1. The Implementation of the ECB Recommendations (under IPA 2008) as defined by the CARDS 2006 Needs Assessment project is in effect the second phase of a broader programme aimed at harmonisation of the CBBH policies and practices with the central banking standards of the ESCB/Eurosystem. Since the project intends to address core central banking activities and the aim of CBBH is the eventual membership in the ESCB, the logical counterpart for the implementation of the project is the ECB and its partner central banks.
2. Having in mind that the ECB/Eurosystem have already conducted the needs assessment and therefore have a broad and comprehensive insight into the whole situation in the CBBH it would be justified to continue the project with the same partners. The advantages also include on-site experience with the CBBH and already established links with counterpart colleagues at the CBBH. Logically, it would be justified to continue such cooperation through follow up in the form of direct agreement with the same partner.
3. Additionally, future monetary integration requires closer cooperation and tighter links with the ECB/Eurosystem which is also one CBBH policy orientation that would greatly benefit from the direct agreement with its counterparts in ECB/Eurosystem.

The approximation and gradual harmonisation of the CBBH policies and practices with central banking standards of the ESCB and EU acquis requires that the CBBH eliminate gaps identified in the following business areas:

1. Statistics
2. Economic analysis and research
3. Financial stability,
4. Monetary policy under the CBA – legal framework
5. IT

Gaps identified in other areas also require to be closed in order to smooth the way for harmonisation of the CBBH standards with those of the ESCB, but the CBBH will start addressing them through its own resources and capacities.

3.2. Assessment of project impact, catalytic effect, sustainability and cross border impact

It is important that the capacity of the CBBH is strengthened, as the monetary and financial stability is important for economic development of a country. Consequently, strong central

bank will make the country better prepared for the EU and accession process of BiH. The cross border impact will be substantial once harmonisation with the ESCB is completed with increased transparency and improved regulation in the transnational system.

3.3. Results and measurable indicators:

Result 1.

Statistical framework, data collection and statistical methods are improved in line with relevant European standards

OVI1: Methodology approved, applied and quality statistics are presented by the end of the project

Result 2.

Capacities for conducting economic analysis, research and forecasts are improved

OVI2: Macroeconomic model created, forecasting tools accepted and functioning by the end of the project

Result 3.

Capacities for monetary policy under Currency Board, including legal framework, are developed in line the EU/ECB best practices

OVI3 : Preparations for MP framework adjustments conducted.

Result 4.

Capacities to conduct financial stability analysis and application of tools and standards are enhanced in line with EU NCBs practices.

OVI 4. Fully fledged Financial Stability Report published

Result 5.

IT infrastructure and IT staff capacity are improved to be able to correspond to EU standards.

OVI 5. Needs Assessment performed and strategy drafted, IT staff trained by the end of the project.

3.4. Activities:

For all activities: Rules and polices revised and new drafted and implemented, methodologies introduced and CBBH staff trained, IT tools applied

As Needs Assessment conducted under CARDS 2006 and Implementation of the ECB Recommendations for the CBBH to be conducted under IPA 2008 are in effect II phases of the broader programme aimed at harmonisation of the CBBH polices and practices with the central banking standards of the ESCB/Eurosystem, the CBBH counterpart in this IPA 2008 project should be the ECB and its partner central banks. As the project will address core central banking activities the expertise required is to be provided by the ECB/Eurosystem central bankers.

Activity 1.

Support and assistance to improve quality and coverage of existing data, introducing new statistics and related methodologies and introduction and use of adequate IT infrastructure for statistics;

Activity 2.

Support and assistance to develop capacity of the analysis and debate of the convergence process and EU economic policies, the utilisation of scientific and data-management software, macroeconomic modelling and forecasting tools

Activity 3.

Support and assistance for preparation for the Monetary Policy operations.

Activity 4.

Support and assistance for the preparation of in-depth Financial Stability Reporting and crisis management;

Activity 5.

Assessment of current IT policies, strategies and procedures and IT strategy development.

3.5. Conditionality and sequencing:

All necessary conditions have been met.

Bosnia and Herzegovina will be characterised by political stability, administrative capacity to implement standards and continued ambition to join the European Union.

Regardless to the dynamics of Bosnia and Herzegovina pace towards European integrations, the Central Bank of Bosnia and Herzegovina is committed to increase its standards, overall practice and work in accordance to the standards existing in central banks members of the European System of Central Banks/Eurosystem.

3.6. Linked activities

The programme is directly related to and regarded as a direct follow-up to the CARDS 2006 Eurosystem Needs Assessment Programme project number 2006/131-582 conducted in 2007 aimed at the implementation of some of the recommendations given in the Needs Analysis Report.

This programme with the CBBH is likely to have interface and benefits of possible synergies with the twinning project “EU Support to the Statistics Sector of BiH – Phase III”, in order to ensure consistency and take advantage of possible synergies between both projects whose general objective is to assist in provision of timely, reliable and harmonised statistical data at level of BIH, in particular improvement of data collection and harmonisation of statistical methods between the three Statistical Institutes in BiH as well as the CBBH, in line with European standards.

The programme will also have interface with Twinning Light project under IPA 2007: Capacity building in the field of the HR management in the CBBH.

Finally, this CBBH programme will pay due attention to and thoroughly coordinate with other providers of technical assistance to the CBBH, including the USAID: project “Partnership for Advancing Reforms in the Economy (PARE) in Bosnia-Herzegovina – Component 1:

Financial Services Sector “, technical assistance by the International Monetary Fund and other possible donors.

3.7. Lessons learned

Previous project CARDS 2006 Eurosystem Needs Assessment Programme number 2006/131-582 was characterised as comprehensive with a short time frame, including many different business areas and with the contribution of many central banks. Despite the ambitious scope, the programme was completed very successfully through effective work, smooth cooperation and support from the CBBH management. The project demonstrated the expertise and ability from the CBBH staff in working with Eurosystem experts in all covered business areas relevant for future transposition of knowledge and standards in central banking in the CBBH. It also provided the CBBH staff with a clear view of current and future needs.

Since its establishment, the CBBH had received support from the IMF in the form of technical assistance and resident advisors that contributed in improving, among others particularly the areas covered by the proposed project.

Given the positive experiences of these projects, activities for continuation of improvements of the CBBH work will be undertaken in the proposed IPA 2008 project to ensure further external support needed for implementation of the road map for the CBBH in EU integration.

4. Indicative Budget (amounts in EUR)

			SOURCES OF FUNDING									
			TOTAL EXP.RE	IPA COMMUNITY CONTRIBUTION		NATIONAL CONTRIBUTION					PRIVATE CONTRIBUTION	
ACTIVITIES	IB (1)	INV (1)	EUR (a)=(b)+(c)+(d)	EUR (b)	%(2)	Total EUR (c)=(x)+(y)+(z)	% (2)	Central EUR (x)	Regional/ Local EUR (y)	IFIs EUR (z)	EUR (d)	% (2)
Direct agreement with ECB	X		1,100,000	1,000,000	90.91	100,000	9.09	100,000				
TOTAL IB			1,100,000	1,000,000	90.91	100,000	9.09	100,000				
TOTAL INV												
TOTAL PROJECT			1,100,000	1,000,000	90.91	100,000	9.09	100,000				

Amounts net of VAT

- (1) In the Activity row use "X" to identify whether IB or INV
- (2) Expressed in % of the **Total** Expenditure (column (a))

Co-financing for the project will be projected in the CBBH 2009 budget. Co-financing will be aimed at improvement of the CBBH policies and practices as well as staff training in the core central banking areas such as: statistics, financial stability, monetary policy, economic analyses and research and IT.

5. Indicative Implementation Schedule (periods broken down per quarter)

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1.1	II Quarter 2009.	I Quarter 2010.	II Quarter 2012.

All projects should in principle be ready for tendering in the 1ST Quarter following the signature of the FA

6. Cross cutting issues

6.1 Equal Opportunity

Equal opportunity for participation of men and women will be assured in all aspects of the project implementation

6.2 Environment

The project will have no negative environmental effects.

6.3 Minorities

Participation in the project authorities will be guaranteed on the basis of racial or ethnic origin, religion or belief, disability, sex or sexual orientation .

ANNEXES:

ANNEX I. Logical framework matrix in standard format

ANNEX II. Amounts (in EUR) Contracted and disbursed by quarter for the project

ANNEX III. Description of Institutional Framework

ANNEX IV. Reference to laws, regulations and strategic documents:

ANNEX I. Logical framework matrix in standard format

LOGFRAME PLANNING MATRIX for Project Fiche	Programme name and number:		
Implementation of the ECB/Eurosystem Recommendations by the CBBH	Contracting period expires: N+2		Disbursement period expires: N+5
		Total budget: EUR 1.1. million	IPA budget: EUR 1 million
Overall objective	Objectively verifiable indicators	Sources of Verification	
To improve the institutional set up of the CBBH and to enhance the CBBH preparations for the participation in the European System of Central Banks	Positive assessment of the CBBH activities.	EC Annual Progress Reports, BH Government Reports and strategic papers on the CBBH performance and results	Continued ambition to join EU
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
To align the CBBH standards with the central banking standards of the ESCB by drafting and implementing new rules and policies, changing practices and training staff in the following business areas: statistics, financial stability, economic analysis and research, monetary policy under the Currency Board Arrangement (CBA), including legal framework, and IT area	Implementation of recommendations aimed at gaps closure as identified in CARDS 2006 Needs Assessment Programme	Opinion of the EU/ESCB/Eurosystem institutions and experts: project reports: Initial, Interim and Final Report Approval of final report on degree of implementation of recommendations.	No change of the CBBH mandate in terms of approval of ECB recommendations that could affect the implementation process

Results	Objectively verifiable indicators	Sources of Verification	Assumptions
<p>Result 1. Statistical framework, data collection and statistical methods are improved in line with relevant European standards</p> <p>Result 2. Capacities for conducting economic analysis, research and forecasts are improved</p> <p>Result 3. Capacities for monetary policy under Currency Board, including legal framework, are developed in line the EU/ECB best practices</p> <p>Result 4. Capacities to conduct financial stability analysis and application of tools and standards are enhanced in line with EU NCBs practices.</p> <p>Result 5. IT infrastructure and IT staff capacity are improved to be able to correspond to EU standards</p>	<p>OVI1. : Methodology approved, applied and quality statistics are presented by the end of the project</p> <p>OVI2: Macroeconomic model created, forecasting tools accepted and functioning by the end of the project</p> <p>OVI3 : Preparations for MP framework adjustments conducted.</p> <p>OVI 4. Fully fledged Financial Stability Report published</p> <p>OVI 5. Needs Assessment performed and strategy drafted, IT staff trained by the end of the project</p>	<p>The CBBH reports, procedures, policy papers</p> <p>CBBH GB decisions</p> <p>CBBH web site,</p> <p>CBBH publications</p>	<p>Absorption capacity sufficient</p>
Activities	Means	Costs	Assumptions
<p>For all activities: Rules and polices revised and new drafted and implemented, methodologies introduced and CBBH staff trained, IT tools applied</p> <p>Activity 1. Support and assistance to improve quality and coverage of existing data, introducing new statistics and related methodologies; Introduction and use of adequate IT infrastructure for statistics;</p> <p>Activity 2.</p>	<p>Direct Agreement: Input of experts</p>	<p>Direct Agreement: 1.1 million EUR</p>	<p>Adequate training of the CBBH staff continued</p>

<p>Support and assistance to develop capacity of the analysis and debate of the convergence process and EU economic policies, the utilisation of scientific and data-management software, macroeconomic modelling and forecasting tools</p> <p>Activity 3. Support and assistance for preparation for the Monetary Policy operations.</p> <p>Activity 4. Support and assistance for the preparation of in-depth Financial Stability Reporting and crisis management;</p> <p>Activity 5. Assessment of current IT policies, strategies and procedures and IT strategy development.</p>			
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ANNEX II. Amounts (in EUR) Contracted and disbursed by quarter for the project

Contracted	1stQ 2010	2ndQ 2010	3rdQ 2010	4thQ 2010	1stQ 2011	2ndQ 2011	3rdQ 2011	4thQ 2011
Contract 1	1.000.000							
Contract 2								
Cumulated	1.000.000							
Disbursed								
Contract 1	300.000		200.000		200.000		200.000	100.000
Contract 2								
Cumulated	300.000		500.000		700.000		900.000	1.000.000

ANNEX III. Description of Institutional Framework

The project will be implemented entirely within the CBBH. The CBBH was established in accordance with the Law adopted at the Parliament of Bosnia and Herzegovina on 20 June 1997. The CBBH started its operation on 11 August 1997. The main goals and tasks are defined by the Law and in accordance with the General Peace Agreement in Bosnia and Herzegovina. The CBBH maintains monetary stability by issuing domestic currency according to the Currency Board arrangement with full coverage in freely convertible foreign exchange funds under fixed exchange rate.

The senior body of the CBBH is the Governing Board, which is in charge of establishing and supervision of monetary policy, organization and strategies of the CBBH, all according to the powers given to the Board by the Law. The Executive Management of the Central Bank consists of the Governor and three Vice Governors, who have been appointed by the Governor with the approval of the Governing Board. The Management is responsible for the operational management of the Central Bank.

The project will be implemented in supervision of the Project Steering Committee in composition of EC, CBBH vice governors and heads of departments and counterparts of contracting party. The Project Steering Committee shall ensure the proper development and coherence of the project implementation through: strategic guidance, advise and recommendations to the responsible parties, validation of methodology, planning the time schedule of the project.

ANNEX IV. Reference to laws, regulations and strategic documents:

Reference list of relevant laws and regulations

Law on the Central Bank of BiH, Official Gazette BH, No1/97, 29/02, 8/03, 14/03, 9/05, 76/06

Reference to AP /NPAA / EP / SAA

EP, Short-term, Key priorities: Make a substantial progress on creating a single economic space in BiH supporting free movement of goods, capital, services and persons.

EP, Short-term, Economic criteria: Strengthen macroeconomic stability by ensuring sustainable fiscal stance and using prudential policy instruments to preserve financial stability.

EP, Short-term, European standards, Internal market, Statistics: Improve the quality and coverage of statistics on consolidated government accounts

EP, Medium term, European standards, Internal market, Statistics: Develop reliable economic statistics and build up institutional capacity to produce and publish basic data harmonised with European standards

Reference to MIPD

Axe 3: Ability to assume the obligations of Membership: The institutional set-up of key market actors, particularly state aid authorities, the Council of Competition, the Public Procurement Agency and the Public Procurement Review Body, the Institute for Intellectual Property Rights and related agencies, the BiH Agency for Statistics, the Consumer Protection Ombudsman, the State Insurance Agency and the BiH Central Bank, will be improved.

Reference to National Development Plan

EU Integration Strategy of Bosnia and Herzegovina, 2.3.4.1. EMU: Clear orientation of monetary policy and exchange rate policy with ultimate goal of fulfilling Maastricht criteria and EUR introduction in EMU.

Medium-term Development Strategy of BiH 2004. - 2007., Macroeconomic policy