

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA7939

Project Name	BiH Floods Emergency Recovery Project (P151157)
Region	EUROPE AND CENTRAL ASIA
Country	Bosnia and Herzegovina
Sector(s)	Irrigation and drainage (25%), General energy sector (25%), General transportation sector (25%), General water, sanitation and flood protection sector (25%)
Theme(s)	Natural disaster management (100%)
Lending Instrument	Investment Project Financing
Project ID	P151157
Borrower(s)	Federal Ministry of Finance
Implementing Agency	RS Ministry of Finance, FBiH Ministry of Finance
Environmental Category	B-Partial Assessment
Date PID Prepared/Updated	06-Jun-2014
Date PID Approved/Disclosed	09-Jun-2014
Estimated Date of Appraisal Completion	05-Jun-2014
Estimated Date of Board Approval	30-Jun-2014
Decision	<p>(a) The chair agreed on the proposed increased project amount, funds distribution and addition of Brcko District as a party to the Project.</p> <p>(b) The chair authorized the team to consider the project appraised once the changes discussed were incorporated, and negotiate the project;</p> <p>(c) The review discussed the risk rating of the project and agreed to rate the project risk as substantial.</p> <p>(d) The chair granted exception to the OP 7.50 International Waterways notification requirement and signed the related Memo</p> <p>(e) The chair agreed to defer safeguards appraisal to Implementation.</p>

I. Project Context

Country Context

1. The political system in Bosnia and Herzegovina is complex, reflecting the provisions of the country's constitution established to end a bitter ethnic conflict. The government is organized around four units: the State (or central) level, and three regional units: two entities—Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS) – and Brcko District (BD). The State is

governed by the Council of Ministers; each entity has its own government and local government units (municipalities). Brcko District, being a much smaller unit, does not have sub-jurisdictions. In the FBiH, 10 cantons, each with its own government, represent an additional layer between the Government of the FBiH and municipalities.

2. Bosnia and Herzegovina's economic situation is fragile. After the end of the war in 1995, Bosnia and Herzegovina (BiH) experienced a robust recovery for more than a decade. Between 1998 and 2008, per capita GDP nearly quadrupled and poverty dropped from about 20 percent to about 14 percent. However, this impressive progress has been arrested by the impact of the global economic crisis. Low growth has translated into record high levels of unemployment, and once again, increasing poverty. Alarming high unemployment of 27 percent, is especially prevalent among youth at close to 63 percent. Prior to the devastating floods in May 2014, economic growth was projected to increase from 1.8 percent in 2013 to about 2.0 percent in 2014, and to accelerate to 3.5 percent in 2015. This projection will need to be revised as floods affected areas have relatively high concentration of industrial and agricultural activity.

3. BiH is vulnerable to natural hazards, particularly floods, droughts, heavy snow falls and landslides. There has been increased frequency and severity of these phenomena, in particular floods, over the previous years. The most vulnerable regions are the areas around the largest rivers such as Sava, Drina, Bosna, and Vrbas, with many agriculture holdings, growing SME sector and industrial facilities, including for energy production, and touristic sites.

4. An unprecedented rainfall started in early/mid-May 2014 and resulted in massive floods and the declaration of a state of emergency on May 14, 2014 in and all affected municipalities of both entities as well as in the Brcko District. As of end of May 2014, 25 people had died, about 40,000 people had been evacuated, and about 1 million or one-fourth of the total population had been directly affected across 60 of BiH's 142 municipalities. The affected area covers more than one-third of the country's territory, and the massive floods have caused over 3,000 landslides. A quantified assessment is on-going at the time of closure of this document, but very rough estimations indicate a potential loss of between five to ten percent of the GDP.

5. Preliminary evidence shows that the largest impact was on infrastructure relating to housing, local infrastructure, energy, transport, water and sanitation and agriculture. Severe damages have been reported to electricity distribution systems and one of the mines supplying the key power generation plant of Tuzla, which supplies over 20% of country's demand. In many locations urban, industrial and rural areas were completely covered with water, cut off and without electricity, transport or communication. The event temporarily deprived an estimated 1 million people (25% of the country's total population) of drinkable water. An influx of raw sewage and animal carcasses has increased disease risks. Rough estimates are that around 100,000 homes and other buildings have been destroyed as well as 230 schools and hospitals, in addition to huge damage to other public infrastructure. Landslides and erosion by the sediment loaded rivers caused substantial damage to houses and public infrastructure at many locations and washed away 20 bridges. Traffic was disrupted along many national roads and railways in the region, along with the disruption of telecommunication lines.

6. The Bank's response to the floods has been prompt with strong contribution and leadership for the joint damage and needs assessment. A Recovery Needs Assessment (RNA) is being prepared by the Government with support by the EU, UN and the World Bank. The RNA is on-going at the time of closure of this document and should be completed by June 18, 2014. The RNA will provide a basis to develop effective infrastructure and services rehabilitation measures in the affected areas. In order to participate in the RNA and take the lead of some of its sectors, the Bank has mobilized expertise from the disaster risk management and other global practices regionally and globally.

7. The Bank's response will include a wide range of multi-sectoral interventions using several instruments. The first element of the Bank's financing response is the emergency operation proposed in this Project Appraisal Document and focused on the priority sectors of Agriculture and Rural Development, Energy, Transport and Water and Sanitation. In view of the situation, US\$ 100 million is sought from the IDA Crisis Response Window (CRW). The second element consists of a portfolio review and is evaluating restructuring to allow maximum support using ongoing projects in the most efficient way. A third element will focus on the longer-term impact and how to move from a reactive approach to a proactive one through flood risk management via protection and prevention through existing and planned projects and TAs.

Sectoral and institutional Context

8. The following paragraphs provide a brief sectoral and institutional context for flood management in BiH and for the priority sectors contemplated under the emergency operation (details on floods impact on each sector, are included in Annex 2):

- **Disaster Preparedness:** BiH had undertaken some important steps in improving disaster preparedness and response. Framework Law on Protection and Rescue of People and Material Goods against Natural or other Disasters in Bosnia and Herzegovina, was passed in 2008. This Law prescribed the founding of an Operational - Communicational Centre in BiH. The Centre has been operational since 2010 and operational centres of other levels of government are connected to it. A Risk Assessment regarding Natural and Other Disasters has also been developed and adopted in 2012.
- **Flood Management:** Despite improved emergency services, the regular occurrence of floods continues to represent a substantial livelihood risk in BiH, as demonstrated during the floods in December 2010 and again in May 2014. Several studies and plans exist that analyze water management and flood protection, including the International Commission for the Protection of the Danube River (ICPDR) Danube River Basin Management Plan (2004) and Flood Management Strategy (2006) and the Sava River Basin Management Plan and Flood Management Strategy (2013). While these plans comply with the European Union (EU) Water Directive, they focus on water and ecological quality. They also set generic policy principles for flood management, but would need to be complemented with more locally-specific operational guidance as well as proposals for concrete investments.
- **Agriculture:** The agricultural sector, which represents slightly less than 10% of GDP but 20% of overall employment, remains in a state of transition with a majority of very small farms; and a growing number of larger commercial farms that acquired land through leasing arrangements with municipalities and other parties. While significant issues remain to be resolved in harmonizing legislation at all levels, institutions involved in the agricultural sector at entity level have gained capacity and competence in executing their respective mandates. Over the past decade the country has been confronted with increasingly dry and hot summers that make irrigation of higher value crops a strict necessity; and proper pasture management has become increasingly difficult due to a lack of water points for cattle.
- **Energy:** After a sharp contraction during the 1990s, the energy sector in BiH has recovered; since the early 2000s, final energy consumption has increased by 55%. There are three power utilities (in Sarajevo, Trebinje and Mostar) performing generation, distribution, trade and supply in their respective license areas, and about 1.3 million registered electricity users. Coal-fired power plants account for about 60% of total generation, with hydro power plants providing the balance. More than 95% of generation capacities are owned by the three major utility companies. All thermal power plants operate with domestic coal (lignite and brown coal). The coal is supplied

mostly from open mines, also mainly owned and operated by the three power utilities. The transmission system is owned by the transmission company based in Banja Luka and operated by an Independent System Operator; the distribution system is operated by altogether fourteen distribution companies.

- **Transport:** The institutional arrangements in the road sector are complex. Eighteen distinct bodies are assigned responsibilities for managing the Main and Regional road networks in BiH. In the FBiH, the main road network is managed by the FBiH Road Directorate. The second tier roads (regional roads) are managed by the road directorates in the respective cantons. At the third-tier, local roads are managed by the municipalities. This three-tier system reflects the constitutional structure of the FBiH, but it is non-optimal for the management of a road network in a relatively small area. The management of the main and regional network in the RS is undertaken by the Public Company Republika Srpska Roads; and the management of the local roads is the responsibilities of the municipalities. In the Brcko District, the Administrative District Council is responsible for the roads within its jurisdiction. The total length of the road network in Bosnia and Herzegovina is approximately 22,600 km which consists of the following: i) 84 km of highways, ii) 3,800 km main roads (out of which almost 1000 km "European roads"), iii) 4,800 km regional roads and iv) 14,000 km local roads. The BiH railway network extends over 1,031 kilometers.
- **Water and Sanitation:** Access to water supply is close to 100%, with around 85% through piped water (source: joint monitoring program). In urban areas and larger towns, water and sanitation are generally provided by water companies, whose shareholders are local governments. Local governments also appoint their management. A significant share of the population, in particular in rural areas, relies on self-supply (through wells or mini-systems) or receives water from community-managed small systems. Access to sewer services is much lower and limited to urban areas and towns. It is estimated that about 35% of overall population and 65% of urban population benefits from sewerage systems, with the rest using septic tanks or on-site solutions. There is no single line ministry or regulatory authority overseeing the water and sanitation sector in either entity, and decisions are largely made at local level.

II. Proposed Development Objectives

The Project Development Objective (PDO) is to meet critical needs and restore functionality of infrastructure essential for public services and economic recovery in floods affected areas.

III. Project Description

Component Name

Component 1: Emergency Disaster Recovery Goods

Comments (optional)

The recent floods have created significant strains on the supply chains for a variety of goods crucially needed to ensure the continuity of public services and economic opportunities. For example, some coal mines have been flooded, resulting in an restriction of supply to the main thermal power plants; flooded areas have been traditionally oriented towards agriculture and agribusiness which were severely affected by floods, resulting in fodder and forage shortages and the urgent need for seeds and fertilizers for reseeded. The Project will therefore finance, through the use of a positive list, the purchase of goods urgently needed during the recovery phase.

Component Name

Component 2: Rehabilitation of Key Public Infrastructure

Comments (optional)

Component 2 will support the rehabilitation of both local and regional public infrastructure on the

basis of the Recovery Needs Assessment. The impact of the floods was concentrated on 60 municipalities in the central, northwest and northeast parts of the country; and in many of these public services delivery were severely impacted. This Component will therefore finance the rehabilitation or reconstruction of high priority, public service delivery infrastructure in the worst affected areas. This component is designed under a framework approach in which activities will be identified in a demand-driven manner, based on the on-going Recovery Needs Assessment.

Component Name

Component 3: Project Implementation Support and Capacity Building

Comments (optional)

This component will finance the management of the Project and any support needed for the identification and implementation of sub-activities. The component will also provide technical assistance and capacity building on ensuring future improved disaster resilience.

IV. Financing (in USD Million)

Total Project Cost:	100.00	Total Bank Financing:	100.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			0.00
IDA Credit from CRW			100.00
Total			100.00

V. Implementation

26. The project will be implemented over four years. Institutional arrangements and responsibilities of the different institutions are outlined below.

27. Overall Arrangements. Given the importance of delivering quick results, implementation will be based on existing structures, mechanisms and capacities built up through on-going Bank projects, including the Agriculture and Rural Development project (P101213), which also financed similar emergency response measures after more limited floods in 2010. The project activities will be implemented by the two entities (FBiH and RS) through an existing Project Implementation Unit in each entity; with the RS APCU also responsible for the BD part of the project, and take place in close coordination with other Line Ministries, under the overall guidance of a Steering Committee. Local governments will play a strong role in setting priorities in particular under Component 2, on the basis of the Recovery Needs Assessment. No funds will be transferred to other institutions or to local governments units.

28. Project Implementation. The project will be implemented by the RS and the FBiH, through their well-functioning and experienced implementation units: Agricultural Projects Coordination Unit (APCU) under the Ministry of Agriculture, Forestry and Water Management (MoAFWM) in the RS, and the PIU under the Ministry of Agriculture, Water Management and Forestry (MoAWMF) in the FBiH. Both bodies that have served as the focal units for preparing and implementing a number of Donor-funded projects (including on-going Irrigation Development Project / P115954, currently rated Moderately Satisfactory for Implementation Progress, and the Agriculture and Rural Development Project / P101213, currently rated Satisfactory for Implementation Progress and which was restructured to support an emergency floods response in 2010). In addition, both units have experience in working with each other on the same projects and in working together to reduce administrative burdens and facilitate implementation and problem

resolution. RS APCU will be responsible for fiduciary aspects and contracting in the Brcko District part of the project, while a small project implementation team (PIT) will be established in Brcko to coordinate and oversee the respective project activities.

29. PIU Staffing and organization. The APCU and Agriculture PIU have professional staff for some technical aspects (agriculture, forestry and water management), and for procurement, FM, safeguards and general project oversight. However, they will require strengthening to absorb the additional workload and extended technical scope associated with the Project. The additional necessary staff will be hired under Subcomponent 3A. Furthermore, because of the strong local dimension of the project, the APCU will consider working with the agricultural extension offices established by the RS Ministry of Agriculture, Forestry and Water Management, which are present throughout the RS, to coordinate closely with local governments; while the FBiH PIU will consider opening up to two additional field offices in worst affected regions of the FBiH for the same purpose. See further details in Annex 3.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12	x	
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50	x	
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

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