

**Bosnia and Herzegovina
Bank Development and Training Program**

**Quarterly Status Report
22 February 2000 - 30 June 2000**

**PCE-I-00-99-00006-00
Task Order 808**

10 July 2000

QUARTERLY STATUS REPORT
22 February 2000 - 30 June 2000

To: Bryan Kurtz
Cognizant Technical Officer
US Agency for International Development
Sarajevo, Bosnia and Herzegovina

From: Michael Gegen
Chief of Party
Sarajevo, Bosnia and Herzegovina

cc: Bryan Fahey
US Agency for International Development

A. Executive Summary

The Bank Development and Training (BD&T) Program officially commenced on 22 February 2000. Five (5) Resident Advisors were relocated to Sarajevo, Bosnia and Herzegovina, as follows:

1. Mr. Michael Gegen, Chief of Party and Advisor for Strategic Planning
2. Mr. John Cunningham, Advisor for Asset and Liability Management and Treasury functions
3. Mr. George Drakey, Advisor for Accounting and Internal Audit and Controls
4. Mr. Dino Peponis, Advisor for Bank Operations
5. Mr. Stephen Williams, Advisor for Information Technology and Bank Automation

Office space has been acquired and local support staff, including translators, have been hired.

Analysis was performed on banks in both the Federation and in Republika Srpska to determine which banks met USAID's RFP criteria. As a result of that analysis, nine (9) banks were recommended to compete for participation in the Program.

On 05 April 2000, a presentation was provided to the nine (9) banks at the Central Bank in Sarajevo. This presentation included a detailed description of the Program, marketing materials for the Program, a format and schedule for the banks' proposals, and responses to queries from the banks. Proposals were due 19 April 2000. In-bank meetings were held with the senior management of each of the nine banks to further clarify the Program and to collect materials necessary for the evaluation of the banks.

Using benchmarks distributed at the presentation, the five resident advisors performed in-bank diagnostics of each bank intended to provide a detailed picture of the banks' current capabilities in each of the five functional areas represented by the advisors. These, along with the banks' proposals, were used to provide a basis for ranking the nine banks.

Based upon the BD&T Team's recommendations, and upon additional requirements of their own, USAID selected the following four (4) banks to participate in the Program:

1. Banjalucka Banka ad Banja Luka
2. Gospodarska Banka dd Sarajevo
3. Hrvatska Postanska Banka dd Mostar
4. UPI Banka dd Sarajevo

Work plans for the four selected banks were completed by each of the five advisors. These were reviewed, coordinated across individuals and banks, and submitted to USAID.

Course topics were agreed upon by the Bank Development and Training (BD&T) Team and the participating banks. A course in *Corporate Governance, Strategic Planning, and Organization* was provided to the banks' Boards of Directors and Senior Management.

Implementation of in-bank advisory services, according to the work plans drafted by each advisor, has begun.

**5. Project Quarterly Report for Current Reporting Period
(22 February 2000 - 30 June 2000)**

During the current reporting period, we have undertaken and achieved the work tasks and deliverables detailed below.

Task 1 – Program Mobilization

Task Description	Outcome
1. Establish resident advisors in country	Five resident advisors, each with one of the requisite areas of expertise, were mobilized in Sarajevo on 22 February 2000
2. Locate and acquire office space and equipment	Office space in Room 3A at 2 Turhanija was located and acquired. Staff were moved from temporary offices in the Central Bank to new office space.
3. Identify and hire local support staff	A local staff comprised of: 1. 5 translators 2. 3 drivers 3. 1 accountant was hired and began work.

Task 2 – Preliminary Bank Selection

Task Description	Outcome
1. Selection process, including selection criteria, and procedures submitted to USAID	Analysis was conducted of all BiH banks to determine which banks meet the minimum criteria as set forth in the RFP. Data for this analysis was gathered from numerous sources, including: <ul style="list-style-type: none"> • BiH Banking Agencies • USAID Business Finance and Business Consulting Programs • The World Bank • The IMF • EBRD • The Internet From this group of banks, an initial group of 11 was informally recommended to USAID, who removed 2, leaving 9 banks for consideration.

Task Description	Outcome
<p>2. Participating banks recommended for USAID approval</p>	<p>On 25 March 2000, a presentation was provided to USAID in which we recommended nine banks grouped into two tiers, according to preference. The following banks (listed below alphabetically, within tier) were recommended to and approved by USAID to be included in the next diagnostic phase:</p> <p>Banks in Tier 1 Banjalucka Banka ad Banja Luka Union Banka dd Sarajevo UPI Banka dd Sarajevo Vakufska Banka dd Sarajevo</p> <p>Banks in Tier 2 Auro Banka dd Mostar Central Profit Banka dd Sarajevo Gospodarska Banka dd Sarajevo Hrvatska Postanska Banka dd Mostar Kristal Banka ad Banja Luka</p> <p>The results of our analysis, contained in a spreadsheet, were provided to USAID. It should be noted that only one of the banks recommended (UPI) met all of USAID's requirements as detailed in the RFP.</p>
<p>3. Define application process, presentation materials, and other material to inform selected banks of the Program</p>	<p>On 05 April 2000 a meeting was held at the Central Bank in Sarajevo with representatives from each of the 9 banks. In addition to the banks' representatives and our program team, the following individuals spoke regarding the Program:</p> <ol style="list-style-type: none"> 1. Peter Nichol, Governor of the Central Bank 2. Mike Sarhan, Director of USAID's Economic Restructuring Office 3. Bryan Kurtz, Director of USAID's Financial Sector Support <p>A presentation detailing the Program was provided to the selected banks. A informational package was provided to the banks, containing:</p> <ol style="list-style-type: none"> 1. An introductory letter from Michael Gegen inviting the banks to propose to participate 2. A format guide for the banks' proposals, due on 19 April 2000 3. A request for information needed to evaluate the banks 4. CVs of each of the 5 resident advisors 5. A tri-color brochure, summarizing the Program in both English and Bosnian (with copies in Latin and in Cyrillic)

Task 3 – Bank Evaluation and Final Selection

Task Description	Outcome
1. Introduce bank personnel to program and respond to questions regarding proposals	Meetings between the program team of 5 resident advisors and senior bank personnel were held according to the following schedule: 07 April – Vakufska Banka 10 April – Union Banka and Gospodarska Banka 11 April – Kristal Banka and Banjalucka Banka 13 April – Hrvatska Postanska Banka and Auro Banka 14 April – UPI Banka 19 April – Central Profit Banka
2. Receive and translate information requested from banks and banks' proposals to participate	Proposals were received from 8 of the 9 banks. Kristal Banka postponed its decision to participate pending its new Board's approval in May. A proposal from Kristal was eventually received on 01 June 2000. Requested materials were also received and translated.
3. Perform in-bank diagnostics designed to evaluate each bank's current capabilities within the five program areas	Each Resident Advisor performed in-bank diagnostics on the banks under consideration. These consisted of gathering and analyzing additional information specific to his area to be used as a basis for ranking the banks.
4. Prepare and present to USAID final recommendations for banks to participate	Based upon the diagnostics, each advisor ranked the eight banks (Kristal was not ranked, due to their failure to submit a proposal). Each advisor was then asked to rank the seven Federation banks in order of their capability to implement the changes that will be required in the Program. Based upon both sets of rankings, a final order of recommendation was defined. On 23 May 2000, a presentation was held attended by M. Gegen, J. Cunningham, D. Peponis, S. Williams, and B. Fahey. At that meeting, the team ranked the banks for participation in the Program (in recommended order): 1. UPI Banka 2. Central Profit Banka 3. Banjalucka Banka 4. Gospodarska Banka 5. Hrvatska Postanska Banka 6. Auro Banka 7. Union Banka 8. Vakufska Banka Note that Kristal Banka was not ranked, due to their failure to their failure to submit a proposal. Support documentation, including a one page analysis of each bank summarizing the diagnostics performed by each team member, was provided to USAID.
5. Selection of participating banks by USAID	On 25 May 2000, USAID selected the following banks for participation in the program: 1. UPI Banka 2. Banjalucka Banka 3. Gospodarska Banka 4. Hrvatska Postanska Banka

Task Description	Outcome
	<p>Four banks were selected, with the possibility of including additional banks drawn from the following banks at a later date:</p> <ol style="list-style-type: none"> 1. Central Profit Banka 2. Auro Banka 3. Kristal Banka <p>Issues relating to Central Profit's outstanding loans and privatization, to Auro's merger, and to Kristal's intention to participate are awaiting resolution prior to a decision to include additional banks from this pool.</p>
6. Prepare bilateral MOUs between participating banks and USAID	Bilateral MOUs were prepared and approved by USAID on 25 May 2000. These included a stipulation that each bank, in addition to providing the cost sharing as proposed in its proposal, will pay the amount of 5,000 KM per quarter to participate in the Program.
7. Notify participating banks and sign MOUs	As of 01 June 2000, all banks were notified of their selection and presented with the MOUs. Banks not selected to participate were also notified. All MOUs were signed.
6. Define work plans for banks selected and present to USAID	Work plans for each of the banks selected were defined and coordinated across banks and across Advisors. These have been submitted to USAID for approval (pending).

Task 4 –Bank Training

Task Description	Outcome
1. Identify and agree upon courses to be offered during the program	<p>The following courses have been agreed upon by the BD&T Team and the selected banks:</p> <ol style="list-style-type: none"> 1. Corporate Governance, Strategic Planning and Organization 2. Internal Audit 3. Asset and Liability Management I 4. Marketing/Advertising 5. Customer Service 6. Risk Management 7. Financial Institutions Analysis 8. Foreign Exchange 9. Asset and Liability Management II 10. Human Resources I 11. Bank Cards 12. Human Resources II 13. IT Project Management 14. IT Database Design 15. Branch Management 16. Letters of Credit 17. Domestic Payments 18. Electronic Banking 19. Bank Operations 20. IT Auditing
2. Identify course instructors and schedule courses	Mr. Tom Downen has been identified to teach the course in <i>Corporate Governance, Strategic Planning,</i>

Task Description	Outcome
	<i>and Organization.</i> Ms. Maureen Berry has been identified to teach a course in <i>Internal Audit</i> . Other instructors are currently being identified and scheduled.
3. Provide training to banks	A course in <i>Corporate Governance, Strategic Planning, and Organization</i> was provided to the Boards of Directors and Senior Management of each of the banks.

Task 5 –In-Bank Advisory Services

Task Description	Outcome
1. Gather remaining prerequisite information to begin in-bank advisory services. Translate information.	The selected banks were visited to accomplish this task and to finalize work plans.
2. Provide in-bank advisory services	Provision of in-bank advisory services by the 5 resident advisors and according to work plans produced in Task 3 has begun.

C. Forecast for Next Reporting Period (01 July - 30 September)

During the next reporting period, it is planned to perform the following:

Task 4 –Bank Training

1. Continue to identify instructors and to schedule classes agreed upon with banks.
2. Complete courses in *Corporate Governance, Strategic Planning, and Organization and Internal Audit.*

Task 5 –In-Bank Advisory Services

1. Continue requests from each bank for information required to initiate in-bank advisory services. Translate that information.
2. Continue implementation of in-bank advisory services within each bank according to work plans.

D. General Information

1. Project Identification

Title: Bosnia and Herzegovina Bank Development and Training Program
Contractor: Barents Group, LLC
Contract: PCE-I-00-99-00006-00
Task Order: 808

2. Project Performance Dates

Period of Performance: 28 months
Start Date: 22 February 2000
Reporting Period: 22 February 2000-30 June 2000
Report Date: 10 July 2000
Quarterly Report: No. 1
Anticipated Completion Date: 21 June 2002

3. Project Management

Home Office Project Director: Patrick Bryzki
Chief of Party: Michael Gegen

4. Project Description

The banking community of Bosnia and Herzegovina is weak and undercapitalized as a result of several factors, including low public confidence in the banking sector, significant weaknesses in corporate governance and risk management, and the lack of products and services provided in a market economy.

The purpose of the USAID Bank Development and Training Program is to address the above factors through the development of a competitive, financially strong, market responsive private financial sector. This is to be accomplished through the provision of in-bank advisory services by a team of resident financial advisors and of formal classroom training both in core banking areas and in specialized areas based upon local requirements. The team of five resident advisors will transfer banking skills in strategic planning, internal audit and controls, accounting, liquidity management and other treasure functions, bank operations management, and information technology. Workshops and classroom training will be delivered for board members, in-bank management, and bank staff.

The goal of the program is to build the capacity of selected banks to:

- Understand, assess, and manage a range of commercial banking risks
- Attract citizen deposits
- Offer a broader array of customer-oriented products and services to the public.