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Bosnia and Herzegovina

Country Strategy Paper

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1. EXECUTIVE SUMMARY

As provided for in the CARDS regulation¹, the Country Strategy Paper (CSP) provides a strategic framework in which EC assistance will be provided in the period 2000-2006. It sets out EU co-operation objectives, policy response and priority fields of co-operation based on a thorough assessment of the partner country's policy agenda and political and socio-economic situation. The multi-annual indicative programme (MIP), attached to the strategy and forming an integral part thereof, sets out the EU response in more detail, highlighting programme objectives, expected results and conditionality in the priority fields of co-operation for the period 2002-2004. The indicative financial allocation for CARDS assistance for BiH for the period 2002-2004 is €172.4 million under the National Programme and €23 million under the Regional Programme.

Bosnia and Herzegovina is a full participant in the Stabilisation and Association Process (SAP). Following the declaration of independence in April 1992 the country was plunged into a devastating civil war which continued until November 1995 and led to the displacement of an estimated 1.2 million people and extensive physical and economic destruction. The present structure of the State of Bosnia and Herzegovina (BiH) was established under the General Framework Agreement for Peace (GFAP)² which brought the war to an end. The responsibilities and powers of the State of BiH are strictly delimited. This has resulted in a weak state without many of the attributes associated with statehood. The presence and involvement of the international community has ensured that democratic principles have been applied in the elections held since 1996. Respect for the rule of law and human rights is not yet universal.

A unique feature of BiH is the role played by the international community and in particular by the High Representative. In the period until 2001 the authorities in BiH were unwilling to take ownership and work together to build the country. During this period the Office of the High Representative (OHR) has been the motor of reform in BiH. There are indications of an increasing willingness on behalf of some political leaders to take responsibility for the decisions which have to be taken.

The post war period has been characterised by extensive reconstruction financed and directed by the international community. Although the country has recorded high levels of growth since the end of the war, GDP is still well below pre-war levels and the second lowest in the region. Assistance will decrease in the coming years and this will reduce growth levels. The reluctance to take ownership has meant that essential reforms have not proceeded at the desired pace. The main challenges facing the country over the medium term are strengthening the State of BiH, creating the conditions for the sustainable return, reinforcing the administration thereby creating 'functional government', achieving self sustained economic development, establishing an effective and accountable legal system and progressing in the SAP.

Within that context and taking into account the objectives of the SAP, the EC CARDS Programme can most effectively assist BiH in meeting those challenges by focusing on Democratic Stabilisation, Administrative Capacity Building, Economic and Social Development, Environment and Natural Resources and Justice and Home Affairs.

¹ Council Regulation (EC) 2666/2000, OJ L 306/1 07/12/2000

² Initialled in Dayton on 21 November 1995 and signed in Paris on 14 December 1995

2. EU CO-OPERATION OBJECTIVES IN BOSNIA AND HERZEGOVINA

The EU's co-operation objectives with Bosnia and Herzegovina are anchored in the Stabilisation and Association Process, a proximity policy which reflects the political and strategic importance of the Balkans to the EU. The Stabilisation and Association process is a framework in which a new contractual relationship (Stabilisation and Association Agreements) and an assistance programme (CARDS) help each country to progress, at its own pace towards EU membership.

The European Commission set out this ambitious vision for the region's development in May 1999. This is based on:

- (1) a recognition that one of the main motivators for the reforms relating to respect for the rule of law, democratic and stable institutions and development of a market economy is a relationship with the EU that is based on a credible prospect of membership once the relevant conditions have been met.
- (2) the need for the countries to develop bilateral relationships between themselves as a basis for greater economic and political stability in the region.
- (3) the need for assistance programmes and contractual relations, which although anchored to a common set of political and economic conditions, are flexible enough to allow each country to move ahead at its own pace, to accommodate a range of situations from post-conflict reconstruction and stabilisation to technical help with matters such as the approximation of legislation to the core elements of the EU acquis.

Following the Feira Council of June 2000, which confirmed that the EU's goal is the fullest possible integration of these countries into the economic and political mainstream of Europe, the 24 November 2000 Zagreb Summit set the seal on the Stabilisation and Association process by gaining the region's agreement to a clear set of objectives and conditions. In return for the EU's offer of a prospect of accession on the basis of the Treaty on European Union (TEU) and the 1993 Copenhagen criteria, and an assistance programme to support that ambition, the countries of the region undertook to abide by the EU's conditionality and participate fully in the Stabilisation and Association Process.

They also accepted that the Stabilisation and Association Agreements, when signed, would be the principal means to begin to prepare themselves for the demands that the perspective of accession to the EU naturally entails. The SAAs focus on respect for democratic principles and integration of the countries of the region into the EU single market. They foresee the establishment of a free trade area with the EU and set out rights and obligations in areas such as competition and state aid rules, intellectual property and establishment, which will allow the economies of the region to begin to integrate with the EU's. The conclusion of such Agreements represents the signatories' commitment to complete over a transition period a formal association with the EU, tailored to the circumstances of each country but based on the implementation of the same core obligations.

The EU's political strategy towards the region relies on a realistic expectation that the contract it enters into with individual countries will be fulfilled satisfactorily. Careful preparation with each country before the EU offers such a contract has been and remains a vital component of the Stabilisation and Association Process. The agreements contribute to the EU's objectives in the following way:

- (1) They are a tool which provides, much as the Europe Agreements did for the candidate countries in Central Europe, the formal mechanisms and agreed benchmarks which allow the EU to work with each country to bring them closer to the standards which apply in the EU.
- (2) They are a means to focus attention on respect for key democratic principles – human and minority rights, stable democratic institutions, standards of political behaviour and the independence of the media.
- (3) They include the core elements which are at the heart of the EU single market. Through free trade with the EU and the associated disciplines (competition and state aid rules, intellectual property etc) and rights (e.g. establishment), this process will allow the economies of the region to begin to integrate with the EU's.

Effective implementation of the Stabilisation and Association Agreements is a prerequisite for any further assessment by the EU of a country's prospects of accession. Each country will need time, help and encouragement to implement such obligations properly.

The Stabilisation and Association process is not simply a bilateral process with each country: the Zagreb Summit placed considerable emphasis on the need for regional co-operation. Similarly the Stabilisation and Association Agreements include a clear commitment to regional co-operation, which is reflected both by the funding of a regional CARDS programme and the shared objectives of national CARDS programmes.

The CARDS programme underpins the objectives and mechanisms of the Stabilisation and Association process and as each country moves deeper into that process, assistance will focus increasingly on support for the reforms and institution building necessary to implement the obligations in the Stabilisation and Association Agreements. A precondition for receiving assistance under CARDS is compliance with Article 5 of the CARDS Regulation (Council Regulation 2666/2000 of 5 December 2000) covering conditionality issues. The indicative financial allocation for CARDS assistance for BiH for the period 2002-2004 is €172.4 million under the National Programme and €23 million under the Regional Programme for measures which will be implemented in BiH. In addition, BiH will also participate in other measures under the Regional Programme.

BiH is some way from being capable of concluding an SAA. To support and monitor BiH's progress on reform a joint EU–BiH Consultative Task Force has been established. To help identify the most urgent issues, in March 2000 the Commission presented a "Road Map" of 18 of the most pressing steps which, when implemented, will allow BiH to advance to the next stage within the SAP. The completion of the Road Map is the immediate item on BiH's SAP agenda. When the Road Map has been completed, the Commission will undertake a Feasibility Study which will indicate how far BiH has advanced in reform and whether it can begin negotiations with the Union on an SAA.

The goal of BiH integration into European structures enjoys the explicit support of the wider international community. As suggested at the May 2000 Peace Implementation Council (PIC) in Brussels, the international community seeks not so much an "exit strategy

from BiH” as a “BiH entry strategy to Europe”. To this end, the EU co-operates with partners in the PIC and in particular with the High Representative, designated to oversee the implementation of the civilian aspects of the Peace Agreement in BiH. The CARDS Regulation recognises the special position of the High Representative and enjoins the Commission to consult the High Representative on the implementation of assistance in BiH.

3. BOSNIA AND HERZEGOVINA’S POLICY AGENDA

The BiH constitution attributes only limited competences to the State government. For this reason it has not always been possible to identify a single national agenda in BiH. Indeed, the domination of government by nationalist parties following the war and the particular determination of RS to defend its Dayton-mandated powers meant that there was minimal commitment to any national programme. There was, it is true, a nominal acceptance of the reform requirements outlined by the Peace Implementation Council. However, only since the general elections of November 2000 and the arrival in power of governments more explicitly committed to co-operation with the international community have BiH governments begun to show limited "ownership" of the reform process.

Because of internal divisions and BiH's particular situation, the dominant policy agenda has in fact been that set by the international community. The seminal 23/24 May 2000 ministerial-level PIC set three basic objectives: (i) deepening economic reform and creating the conditions for self-sustaining market-driven economic growth; (ii) accelerating the return of displaced persons and refugees with particular emphasis on enabling citizens to exercise their property rights; and (iii) fostering functional and democratically accountable common institutions supported by an effective merit-based civil service and a sound financial basis based on the rule of law.

These priorities are in conformity with the EU's Stabilisation and Association Process and with the short-term "Road Map" which identifies BiH's first steps on the road to integration with EU structures. Despite some difference on detail, there is a wide consensus that "Europe is BiH's future" and that BiH's policy agenda must concentrate on integration into European structures and Euro-Atlantic security arrangements, including Partnership for Peace (PfP). BiH has been a member of the Stability Pact for South Eastern Europe since its inception.

In terms of practical policies and legislative requirements, BiH's "European future" means that in the short term it has concentrated on the completion of the Road Map's 18 practical steps. Here much remains to be done. Moreover, in response to requirements elaborated by the May 2000 ministerial level PIC and subsequent meetings of its Steering Board, the government developed an operational plan which establishes tight deadlines for actions that should move BiH further towards its goals of sustainability and European integration. Among the priorities are: ensuring conditions for refugee returns and for property repossession; upgrading the common institutions; introducing a Civil Service Law; implementing the decisions of the BiH Constitutional Court on the constituent peoples; combating corruption; and establishing control over the state border. These goals are entirely compatible with the SAP.

In terms of economic policy, integration into regional, wider European and global markets, including membership of the WTO is a priority. BiH has, together with the other countries of South East Europe, signed the Memorandum of Understanding on Trade Facilitation and Liberalisation developed through the Stability Pact, under which trade in products will be progressively liberalised between the signatories. Central government and the Entities have co-operated on economic policy to create a National Economic Development Strategy

(EDS) for the period 2000 - 2004, whose principle objective is to achieve sustainable economic growth and to alleviate poverty and unemployment. (The EDS is the first document of this nature to be produced as a result of a collaborative exercise between the State and the Entities.)

Such a strategy can only succeed if it plays to BiH's own strengths. Thus, the EU has continuously encouraged BiH to develop a proper BiH internal market, for without the economies of scale and ease of exchange implied by such a market the effect of other reforms will be severely limited (and integration into the EU impossible). Here some progress has been made, but in economic reform, as in other areas, BiH frequently confronts a major constraint: under the GFAP the Entities are responsible for economic policy (the state's responsibilities in this area being limited mostly to foreign trade and customs policy). Thus, economically sensible actions such as developing a single BiH economic space have been accompanied by disputes over competence. In economic policy, as in other areas under entity as opposed to state control, the BiH parties must find a modus operandi that will allow them to make faster progress towards the commonly agreed European integration agenda.

4. POLITICAL, ECONOMIC AND SOCIAL SITUATION IN BOSNIA AND HERZEGOVINA

4.1 Political Situation

The successor states of former SFRY face numerous challenges in their double transition from socialism to market economics and from war to peace. Because of its recent history and current set-up BiH faces particular challenges. Since the war, progress has undoubtedly been made in peace implementation under the guidance of the High Representative, with SFOR contributing to the safe and secure environment required for the consolidation of peace. BiH must now progress from peace implementation to recognising and accepting European standards and realising its European vocation.

The constitution of BiH guarantees human rights, democracy, the rule of law and fundamental freedoms. The July 2000 decision of the BiH Constitutional Court declaring all nationalities as constituent peoples with full rights throughout the country (and not just in "their" respective Entities) was a major step forward in this regard. Undoubtedly, however, problems remain, for example: the decision of the Constitutional Court has yet to be fully implemented, minorities still face discrimination in their access to public services, and many obstacles to return including the danger of physical attack persist. Also, many suspected or indicted war criminals remain at large. A further blight is the fact that criminal organisations have exploited BiH's still imperfectly controlled borders to develop transit routes for smuggling, illegal emigration and the trafficking of women, and even children, into sexual exploitation.

Compared to its neighbours BiH faces a special constraint insofar as Dayton foresaw a "minimal" state. The 1995 Dayton Agreement created two strong Entities (FBiH and RS), but limited the number and powers of the common institutions. Six state ministries were subsequently established at the State level, but the state is nevertheless constrained in its ability to assert its authority and to develop and prosecute a consistent policy agenda. This stems from the Dayton provisions but also from unwillingness on the part of some, particularly in the RS, to allow the development of the BiH State - as they see it, at the expense of the Entities. Also, the BiH State has a very limited capacity to raise revenue (relying instead on Entity contributions); it has no countrywide system of administration, no police force or army, and an at best embryonic judicial system. Moreover, BiH has to cope

with other lingering effects of the 1992 - 1995 war. This not only split the former Republic of Bosnia and Herzegovina, but also favoured the development of localised and in many cases now illegitimate institutions and parallel systems of governance. In some parts of FBiH parallel structures persist, competing with legitimate government for influence, hindering democratic stabilisation and subverting the rule of law.

A further defining feature in BiH, resulting directly from the 1992 - 1995 war, has been the displacement of populations and the creation of "ethnically cleansed" regions. Gradually, the effects of "ethnic cleansing" are being reversed through programmes of refugee and displaced person returns and the return of properties to rightful owners. This is an essential pre-condition for BiH's future stability - embittered, displaced populations are generally unwilling to make the political compromises necessary for national stability and regeneration. Moreover, the large-scale investment, domestic and foreign, which BiH so desperately needs is unlikely to materialise until property rights are adequately clarified and investors can be sure their investments are secure. Return is therefore not only an issue of moral concern. The speedy resolution of this issue will effect both BiH's political stability and its long-term economic prospects.

BiH's special constraints explain a further aspect of its political life: the enduring role and input of the international community, in particular of the High Representative³ and SFOR. The involvement of the international community and of High Representative has been essential in advancing reform and in providing strategic direction in the use of the substantial aid which has been delivered to BiH. SFOR has been the guarantor of a secure environment which has allowed peace implementation to proceed. The OSCE and UN (acting through both UNMIBH and UNHCR) are the other GFAP mandated organisations which have played an important role in BiH.

BiH will increasingly have to demonstrate "ownership" of the reform process and show that it is capable of taking the difficult decisions necessary to transform itself into a stable, investment-driven (as opposed to aid-dependent) country. The Government of BiH has articulated the wish to establish a partnership with the international community and the OHR has responded by establishing a Partnership Forum. Under the leadership of the OHR the international community has embarked on a streamlining exercise designed to improve international community organisation and planning. Streamlining will involve restructuring the presence of the international community so that partnership with BiH can be supported and ownership created. The opportunity which the streamlining exercise will afford to examine the international community's role in BiH will also lead to the identification of weaknesses within the existing international structures. Notwithstanding streamlining, the facilitating role of the High Representative may be necessary for some time to come and a continued SFOR presence may also be necessary to ensure security.

There are indications that the old political paradigms may be changing in BiH and in the region as a whole. The November 2000 general elections resulted in the elimination of nationalist parties from government and the installation of governments willing to work with the IC. Also, a sense of normalisation has gradually taken hold in BiH. This is reflected in the increasing flow of returning refugees and displaced persons, even to those areas in which they constitute a minority - thus challenging "mono-ethnic" structures. Further, the landmark decision by the Constitutional Court on "constituent peoples" when transposed into law will positively affect citizens' rights, particularly those of local minorities through-

³ The EU contributes over 50% of the budget of the OHR. The EU presidency, France, Germany, Italy, the United Kingdom and the Commission are members of the Steering Board of the Peace Implementation Council which gives the High Representative political guidance on peace implementation.

out BiH. Finally, developments in Zagreb and Belgrade offer BiH a favourable regional context in which to consolidate its position and to pursue reform. In this gradually improving but still far from optimal environment, the provision of EU assistance in strategic areas may have significant leverage effect.

4.2 Economic and Social Situation

4.2.1 Economic Situation, Structure and Performance

The BiH economy has been confronted by a double transition since 1996 from a post-war and a socially planned economy to a market economy. High GDP growth rates⁴ have been sustained mainly thanks to a large inflow of external assistance (\$3.8 billion was disbursed by the end of 2000) which will diminish sharply in the medium term. This reduction in assistance will have a knock on effect on GDP growth. Despite high growth, BiH remains the second poorest country of the South East Europe region, with GDP per capita just half the pre-war level⁵. The pattern of economic growth has been uneven between the Entities with RS trailing the FBiH.

Macroeconomic stability has been maintained mainly under a series of IMF-supported programmes. A strict adherence to rules of the currency board arrangement (CBA) has contributed to moderate inflationary pressures and to the almost universal acceptance of the common currency, the Konvertible Marka (KM), pegged to the deutsche mark (Euro) at 1:1. On the fiscal side, weak fiscal discipline and poor expenditure control continue to be a major source of macroeconomic risk. General government expenditure in 2000 remained very high at about 56% of GDP. Bloated public sector wage bills, public sector subsidies, and unsustainable social security schemes need to be addressed. Current levels of military expenditure are unsustainable. A reduction in unproductive expenditure and a downsizing of the public sector, while protecting social expenditure and increasing capital expenditure are essentials for fiscal sustainability.

4.2.2 Social Developments

The war shattered economic and social structures in BiH completely. 250,000 people were killed or registered as missing and more than 1.2 million persons were displaced. According to UNHCR estimates there are still almost half a million displaced persons in BiH. Under the GFAP exclusive responsibility for social policy rests with the Entities and in the case of the Federation this responsibility is shared with the Cantons, which are also responsible for policy implementation and service provision. Social assistance in the RS is provided by the municipalities. This situation has contributed to under developed and uncoordinated social policy formulation.

Reliable statistics on poverty in BiH do not exist.⁶ Unofficial data suggests that between 45-55% of the population live in poverty, and that 15-22% survives on average monthly incomes of €10-46. Regional differences in living standards are increasing with 'Croat areas' enjoying the highest standards and the RS the lowest. The average net salary in the Federation is 436 KM and in the RS 309 KM⁷. Official unemployment, excluding workers on waiting lists, is estimated at around 40%. Limited survey data suggests that poverty rates amongst the unemployed are three to five times higher than amongst the employed.

⁴ Annex 4 provides details on main economic trends.

⁵ GDP for 1999 was \$4.4 billion. Source: World Bank

⁶ The results of a Living Standards Measurement Survey and Household Budget Survey should be available in 2002.

⁷ FBiH and RS Statistical Offices. OHR Economic Newsletter Vol 4, No3, July 2001.

Unemployment is highest amongst displaced persons and demobilised soldiers. The employment situation may worsen as privatisation proceeds and new job creation is discouraged by rigidities in labour market legislation and high taxes on labour. There are 415,000 registered pensioners and disabled persons, who receive pensions set below the indicator of relative poverty (50% of the average net wage).

There is an extremely limited capacity to provide social welfare payments and services. While estimates of the percentage of the population receiving social assistance benefits vary it is clear that it is very restricted with domestically financed programmes limited to pensions, veterans and limited poverty alleviation. It is estimated that well under 5% of the registered unemployed receive unemployment benefits. A World Bank analysis suggests that less than €25 per capita per annum are spent on social assistance programmes (including administrative costs). The situation is exacerbated by the additional demand placed on the system as a result of the war by veterans, families of deceased soldiers and returnees. On the delivery side local responsibility has led to wide variations in the level of assistance provided. The Centres for Social Work, a legacy from the SFRY system, provide direct and referral services and cash benefits but in many cases an estimated 50% of their resources are devoted to personnel and administration costs. Variations in service provision are contributing to an emerging rural/urban divide. There has been limited reform of health policy, the provision of primary health care, health financing mechanisms and medical training.

The education sector is in somewhat better shape: 75% of all schools have been reconstructed and refurbished since the war, enrolment rates are high, and pupil-teacher ratios remain within acceptable limits. However, the quality of educational provision, the content of the curriculum, the ratios of qualified staff, and educational expenditure varies markedly between the Entities, Cantons and Municipalities. An agreement was signed in June 2001 by both Entities on a shared strategy for the modernisation of primary and general secondary education.

In the area of labour market reforms, the Entities have recently taken steps to adapt their legislation to make it more suited to a market economy. These changes should contribute to increasing the flexibility of employment as well as bringing entitlements to more affordable levels.

The Government has embarked on the preparation of a Poverty Reduction Strategy Paper which is scheduled for completion in June 2002. The paper will build on the BiH Economic Development Strategy 2000-2004 and will identify the priorities for ensuring sustainable economic development and EU integration. The Government is in the process of establishing a coordinating structure between the line ministries and the Entities tasked with identifying the priorities and reporting to the highest levels of Government.

4.2.3 Assessing the Process of Reform

The process of reform in BiH has achieved some successes (the Currency Board Arrangement, the introduction of the common currency and the closure of the payment bureaux). However, progress in reform which has taken place in a sporadic fashion, has not proceeded as quickly as it should have. Slow government formation after the November 2000 general elections also delayed the process. The governments which were eventually formed have a stated commitment to reform and while the risks of slippage cannot be entirely discounted they are lower than at any time in the post war period.

The establishment of a functioning market economy still requires substantial efforts. The size and the role of the state are still much too large, with government expenditure at 56%

of GDP and privatization not completed. Reforms of the welfare system still have to be initiated. A better picture exists for the financial sector, where reforms in terms of banking regulation and supervision have proceeded steadily.

Reforms in the taxation and customs areas are ongoing. However, parallel structures persist and must be tackled. Action against certain high value smuggling has been particularly effective. In the Federation there have been notable successes in removing smuggled alcoholic beverages, cigarettes and other high-duty goods from the market and similar action is being taken in RS.

Progress in relation to attracting foreign direct investment is not satisfactory. The need to attract foreign capital to BiH is growing, especially as foreign donor assistance is gradually phased out over the coming years. However, the foreign investment climate in BiH continues to be difficult (with one of the lowest rankings among Eastern European countries), with complex investment rules and corruption problems.

4.2.4 Structure of Public Sector Finances and Main Sectoral Policies

Progress has been made in improving the countrywide economic policy framework and in improving inter-Entity co-operation although in some areas such as public expenditure management, tax and customs reforms, banking sector reform more progress could have been achieved.

- public expenditure management

Payments bureaux have been closed and treasury systems have been implemented. The authorities have recognised that privatisation proceeds should not be used to finance recurrent expenditure, and that Parliament should exercise oversight of expenditure of proceeds through the budget process. Nevertheless, there remains an urgent need to reduce the levels of public spending by implementing measures which include reform of the social system, restructuring of the public sector and a reduction in military expenditure. These reforms have to be accompanied by efforts to enhance revenue mobilisation including further progress in tax reforms by reducing incentives for tax evasion and by broadening the tax base.

- customs and tax reforms

Tangible progress has been achieved in the area of customs and tax reform. On the revenue side, both Entities have implemented a common schedule of excise duties, reduced customs duties exemptions and have eliminated temporary sales tax exemptions. They have established working groups that meet regularly to discuss implementation issues. Sales tax harmonisation is proceeding through convergence. The government has the highly ambitious target to introduce Value Added Tax by the middle of 2003.

In the area of customs, both Entities have been working closely with the EC Customs and Fiscal Assistance Office (CAFAO). BiH now has a common customs tariff which is applied by the customs administrations of both Entities which have achieved a reasonable level of co-operation. Special arrangements between parts of FBiH and Croatia and RS and FRY have been abandoned. Customs revenues have been increasing year on year although there are large revenue losses due to illegal sales, particularly of cigarettes. Revenue Task Forces have been established in both Entities to tackle the sale of smuggled goods. The progress made in customs needs to be consolidated.

- privatisation

Recently small-scale enterprise privatisation has been advancing in both Entities and should be completed in the Federation before RS. After major delays, progress has been achieved in recent months in creating the framework necessary for carrying out the privatisation of large enterprises.

- financial sector reform

Adequate banking regulations have been established in both Entities, although procedures continue to fall short of best practice in some areas. Minimum capital requirements are being gradually increased in accordance with schedules introduced in both Entities. An important development has been the changes allowing banks incorporated in the one Entity to carry on business in the other Entity without a new registration or satisfying the capital requirements a second time. The F BiH, which has established a Deposit Insurance Agency, is more advanced in this area than the RS which has yet to implement the approved Entity legislation.

The F BiH has made some progress in the area of bank privatisation while in the RS so far only one bank has been sold.

The payment bureaux were closed on 5 January 2001 and replaced by a commercial bank-based clearing system. The new system is performing clearing functions efficiently, although fees charged by banks for individual transactions remain high. Treasury functions previously performed by the payments bureaux appear to have been successfully replicated, and both tax receipts and information on tax payments are received by the authorities on a timely basis. Non-payments functions such as tax control and information collection have been relocated to relevant institutions.

A number of foreign banks are now present in the BiH market.

- investment climate: creating a single market

The foreign investment climate in BiH continues to be difficult, with one of the lowest rankings among Eastern European countries. Complicated regulation, corruption, an inefficient and incomplete judicial and legal system and a weak financial system are contributory factors. These combine with barriers to internal trade and a lack of integration with neighbouring markets and make BiH one of the less attractive markets for foreign direct investment which is essential if BiH is to achieve economic sustainability.

4.2.5 External environment.

After a fall in 1999, exports recovered in 2000, owing in part to a reopening of the FRY market. Imports continued to decline as a result of reductions in donor finance for reconstruction and a drop in consumer imports consistent with the slowdown in general economic activity. Net services also declined in 2000, in part due to lower foreign assistance. Overall, the current account deficit (excluding transfers) narrowed to 22.2% of GDP.

Foreign debt remains at high levels (about 60% of GDP in 2000), partly as a result of a substantial debt burden inherited from the former SFRY. Debt service as a percentage of export of goods is relatively low, reflecting the concessional nature of much of the debt. In November 2000, imports from BiH were granted tariff free entry to the EU. A Free Trade Agreement with Croatia, which accounts for 25% of BiH's exports, became effective on January 1, 2001, with tariffs on goods originating in BiH being reduced progressively until

elimination in 2004. Similar Free Trade Agreements are being negotiated with FYROM, Slovenia and FRY and BiH is committed to trade liberalisation with other countries of the region which have signed the Memorandum of Understanding on Trade Facilitation and Liberalisation. BiH is seeking membership of WTO. The implementation of free trade agreements and fulfilment of WTO obligations will have a significant impact on customs revenues which represent a major portion of both Entities' budgets. The possibility of compensating this impact with the benefits deriving from economic integration will only be realised if BiH succeeds in the timely completion of essential economic reforms.

4.2.6 Corruption in BiH

The extent of corruption in BiH is difficult to measure but there is a consensus amongst observers that it is widespread. Survey results⁸ indicate that this view is shared by a majority of enterprise managers, public officials and the general public. The post war situation in BiH was particularly conducive to the development of corrupt practices. Continuing ethnic divisions and the existence of parallel structures, state (party political) control of large parts of the economy, a lack of transparency in key areas such as political party financing, public service recruitment, public expenditure management and control, weaknesses in the police and judicial system and the wider regional instability combined to create the conditions in which corruption could flourish.

Corruption in BiH takes many forms and affects business and private citizens alike. Bribes may be required from enterprises in their dealings with the different administrations when complying with administrative formalities or attempting to secure authorisations. Similarly, private citizens may have to make extra legal payments for various services. Undisclosed links exist between companies and political parties whereby the party receives financial support and the company market protection. The financial system has also been used in an improper manner to allow for the furtherance of political objectives or personal gain. There are credible reports of corruption in the award of public contracts and concerns about possible abuses led the international community to intervene in the privatisation process. Selectivity in tax assessment and collection, smuggling and the blatant sale of smuggled goods also forms part of the problem.

The Anti Fraud Department of the OHR produced a comprehensive Anti-Corruption Strategy for Bosnia and Herzegovina, which was approved by the PIC Steering Board in March 1999 and is being implemented by the OHR and a number of donors and international organisations in cooperation with the BiH authorities.

BiH has to make significant progress in tackling the problem of corruption which has a corrosive effect on public confidence in the political system. The use of public office for private gain has to be eliminated. Economic development will not proceed until investors (both foreign and domestic) are operating on a level, transparent playing field without the need to offer inducements to governments or public servants. As levels of corruption decrease, BiH will secure badly needed additional revenue. Tackling corruption will require, inter alia, political will by the State and Entity governments, the introduction of reforms in the public service, transparent and effective management of revenue and expenditure (including public procurement), enhanced investigation and prosecution capability and public awareness.

⁸ World Bank Diagnostic Surveys of Corruption, prepared at the request of the BiH Government.

4.3 Capacity for European Integration

Participation in the European integration process will place political and economic demands on BiH which the country has so far only a limited capacity to address. In the political area BiH's capacity for European Integration should be assessed by reference to its ability to secure democratic principles, the rule of law, respect for human rights and the protection of minorities. European integration also demands national cohesion and a public administration with the capacity to meet the legislative, regulatory and enforcement challenges which the process entails.

The BiH constitution provides that Bosnia and Herzegovina shall be a democratic state, which shall operate under the rule of law and with free and democratic elections. There has been a progressive improvement in the running of elections which have been organised by OSCE but will in the future be organised and supervised without outside assistance. BiH only adopted an election law, one of the conditions on the EU Road Map and a requirement for entry into the Council of Europe, in July 2001. Although the adoption of the election law is a promising sign, the length of time required to adopt it is symptomatic of the weakness of the parliamentary process and demonstrates clearly the need to strengthen legislative procedures. The weakness of the legislature has a counterpart in the Council of Ministers, where the chairmanship, which is largely symbolic, rotates regularly.

The judicial system is weak and fragmented. At the State level the Constitutional Court is operative and includes foreign judges who will be withdrawn in the medium term. A State Court of BiH has been created but is not yet operational. It has been a struggle to ensure adequate funding for the Constitutional Court and the same difficulties may be encountered in relation to the State Court. No other courts exist at the State level. The judicial system is considerably more developed at the Entity and Canton level. However, the judiciary is not yet regarded as fully impartial and professional and will not arrive at this point until the work of the Independent Judicial Commission has been completed.

The failings in the judicial system are part of a larger picture of weakness in the area of justice and home affairs which produces a measurable regional and larger impact affecting the EU. Bosnia and Herzegovina has been identified as a key hub for illegal immigrants coming to the EU. There is also evidence of trafficking in human beings. A BiH State Border Service, which should secure BiH's borders when fully deployed, is the only State level law enforcement agency. However the State budget is unable to cover the costs of the new service. BiH does not have a State level penal code, police force or prison system. There is no State level commercial or criminal code nor are there State wide enforcement mechanisms. Co-operation between the different police forces and their capacity to tackle corruption and organised crime is limited. In summary BiH is without most of the mechanism and tools which a state normally possesses in the area of justice and home affairs.

The BiH Constitution contains extensive provisions guaranteeing human rights and fundamental freedoms and the GFAP established a number of institutions for their protection. While these institutions, which have been largely directed by international personnel, operate satisfactorily enforcement of their rulings is poor. The right of return for refugees and displaced person has not been secured throughout the territory of BiH and returnees frequently suffer from discrimination in respect their civil, social and political rights. Police protection of minority returnees is poor in some areas. Religious discrimination also exists. Political influence is exercised over wide sections of the media and the number of registered threats against journalists has increased.

Most areas pertaining to European integration come within the responsibility of the Entities. The possibility exists for the Entities to transfer a part of their responsibilities to the State. This has never occurred and the leadership of the RS is united in a strict reading which maximises Entity competence, even though such an approach clearly acts as a break on progress to Europe requiring as it does changes to the legislative and administrative framework in both Entities. Not only does this duplicate the efforts required in a country with limited budgetary resources but it also entails the real risk of divergent legislation and practice between the two Entities thus contributing to the fragmentation of the BiH market.

The public administration at all levels is weak. The limited number of ministries and agencies which exist at State level are under-resourced and given the dependency of the State budget on Entity contributions this is unlikely to change in the near future. The draft Civil Service Law is intended to provide the framework for the development of a professional State level public administration but this will take some time. The situation in the FBiH is complicated by the existence of the ten cantons and the persistence of parallel structures. While the RS has a centralised structure the administration is not strong.

While all major parties and governments share the goal of European integration there is little real appreciation of what the process involves. With few exceptions there is scant knowledge of the Community acquis and the administration does not have the ability to formulate policy and draft legislation consistent with it. In addition, there is a severe lack of monitoring and enforcement capacity in relation to existing legislation and standards. The slower than initially expected rate of progress in completion of the Road Map is indicative of the ability of the country to address essential steps on the path to European integration. Progress towards the goal of integration with the EU will always be slow and will eventually reach a standstill unless the State of BiH is transformed into a meaningful partner capable of assuming obligations and ensuring their fulfilment for the entire territory of BiH.

The economic factors relevant for European integration have been dealt with in section 3.2. In this context it is worth recalling the fundamental importance to the European integration process of the EU Road Map requirement to create a functioning single market in BiH.

4.4 Sustainability of Current Policies

Only with the creation of the present governments has BiH begun to assume "ownership" of reform. Sustaining commitment to ownership will depend on a variety of factors. First, political will within the governing parties/coalitions at State and Entity level must be maintained. Given its diversity, this will be a particular challenge. The international community, in particular OHR and SFOR, must play an important role in ensuring sustainability - by providing the stability and security which would give reformist policies a chance. Sustainability could also be jeopardised by the need to demonstrate quick results. Previous governments traditionally appealed to narrow sectional interests. Reform will only succeed and reformists be given the benefit of the doubt if they produce tangible benefits, in particular economic improvement, within a short period of time. In BiH the challenge is particularly great because new elections are foreseen in 2002.

Despite significant progress in the economic reconstruction and rebuilding of BiH society, the country's economy remains fragile owing to a number of structural weaknesses. The GDP level still stands at only half of its pre-war level, and the country's GDP per capita is one of the lowest in Europe. Unemployment remains high. Economic growth has been mainly fuelled by foreign assistance and in particular reconstruction efforts. Maintaining

two-digit growth rates over the coming years will become increasingly difficult and BiH is likely to see growth establish itself at more normal levels to around 4-5% per annum by 2005. Private investment continues to be limited, and export levels are modest compared to the past. Foreign investment continues to be negligible. In particular, a weak commitment to reform and the disappointingly slow pace of implementation in the past has contributed to this situation.

The inevitable decline in foreign assistance over the next years will thus have important implications for policy-makers in BiH. First of all, considerable fiscal adjustment efforts will be required in order to ensure sustainability of public finances. This will entail a reduction in public spending levels which at current levels are unsustainable. In parallel, stronger efforts have to be undertaken by both Entities in enhancing revenue mobilisation. Secondly, in view of declining aid flows, the authorities will have to ensure that private investment is encouraged. In this context, the creation of a single economic space between the two Entities will be crucial. A uniform countrywide framework is the only way to ensure transparent and credible investment policies and also the most efficient way to encourage investment. Thirdly, regional co-operation must be sought more actively in order to expand investment and trade opportunities. This will form an essential element in the process of closer ties with the EU.

4.5 Medium-Term Challenges

Following the Feira European Council Bosnia and Herzegovina has been presented with a new opportunity and incentive for transformation and reform. BiH's European vocation has been confirmed and the SAP is the means through which it can be realised. Each stage of the SAP requires the participating countries to address a number of key issues before proceeding to the next level. The issues identified in the EU Road Map are short term. The issues which must be dealt with in preparing for the negotiation of a Stabilisation and Association Agreement are the medium term challenges. In overcoming these challenges BiH will also have taken the required action to advance the priorities identified in the Brussels PIC Declaration and proceeded further with implementation of the General Framework Agreement for Peace.

On the political front progress since 1996 has been less than optimal and substantial efforts will be required to bring about the needed changes. The fundamental issue of return will continue to occupy centre stage. While the rate of return of refugees and displaced persons has been increasing year on year, and the trend for minority returns is positive, the problem is far from solved. The right of return is a fundamental human right guaranteed by the GFAP but many parts of the country still remain almost closed and in areas where return has taken place returnees frequently suffer from discrimination in the exercise of their rights. This situation militates against internal stability and reinforces "ethnic homogeneity" created during the war. It also impedes the emergence of moderate political forces. In addition to removing sources of obstruction, BiH will have to become responsible for the entire process, gradually taking over the role of the international community.

BiH's widely recognised weakness in the area of administrative capacity must be dealt with. The twin problems which have afflicted the State administration, namely a minimal interpretation of their responsibilities and inherent systemic deficiencies, such as low staff numbers, poor internal organisation, lack of material resources, poor co-ordination etc., directly impact the ability of BiH to participate in the SAA. Three of the six State level Ministries, including the Ministry of European Integration, were established in the year 2000 and have only limited staffing. While the Entity administrations are not as weak as the State they also need development to ensure that BiH has 'functional government'. Tentative

steps have been taken to strengthen the State administration. A draft law on the civil service has been prepared and a Civil Service Agency, responsible for recruitment, will be established when the law is adopted. Comprehensive institutional capacity building, including in the longer-term, the development of enforcement capacity, is essential for BiH to move closer to the EU.

The almost total dependence of the State budget on contributions from the entities is another constraining factor on development of the state level administration. Unlike most countries, the State budget is only a fraction of the combined budgets of the two Entities. This situation is unlikely to change dramatically in the medium term. Taxation and the collection of customs duties are the exclusive responsibility of the Entity administrations. Although considerable progress has been made in the customs area and the customs administrations are now working on the basis of a customs policy law and tariff modelled on EU legislation, the reform must be completed. Taxation reform is not as well advanced. The introduction of Value Added Tax and the establishment of the necessary capacity to ensure its collection is the paramount priority in the taxation field which must be addressed. The benefits this will produce will be manifold. BiH will introduce an essential part of the *acquis* into its tax system which will help increase transparency and reduce levels of corruption.

The work which needs to be undertaken on the level of the state administration should be matched by a development of the state's executive and legislative branches. Since its establishment, the Parliamentary Assembly's record as a legislature has been poor with the majority of legislation only being adopted after its initial imposition by the High Representative. Similarly, decision making within the Council of Ministers is slow and painstaking. Improvements in the elaboration of legislation can be addressed through developing the administration. However, the failings of the Parliamentary Assembly which are a real break on BiH's progress in the SAP will only be solved through political commitment. This will entail an acceptance of responsibility by the Government for the difficult and unpopular decisions which have to be taken and a willingness by the Parliamentary Assembly to enact the necessary legislation.

In order to achieve the necessary internal stability required for progress in the SAP and implementation of the GFAP, self-sustained economic development must be attained in the coming years. Although previously committed foreign assistance will continue to translate into new projects over the next two-three years and provide an important source of growth for the economy, there is an urgent need to continue and accelerate the process of economic reform and development with a particular emphasis on creating an environment conducive to increased trade.

BiH still does not function as a single economic space. The removal of trade barriers between the entities is a step in the Road Map and it is likely that the identified barriers will be eliminated in the near term. The next step which must be addressed is ensuring that the single economic space is consistent with that of the EU, which will require that in so far as practicable BiH progressively develops and implements adequate laws in line with the *acquis* in the internal market area, including with regard to public procurement and intellectual and industrial property. This will bring BiH closer to the EU and other countries of the SAP and will enable BiH to enter into multilateral and bilateral trade agreements, although care must be taken not to assume free trade obligations which the fragile BiH economy is unable to cope with.

This approach should be accompanied by a parallel development of the private sector which can be the only durable solution to BiH's low GDP and high levels of unemploy-

ment. BiH's poor economic performance is due at least in part to very low foreign direct investment, poor export capacity within companies and an underdeveloped SME sector. While some progress has been made in reform of the banking sector (a number of foreign banks have entered the market) further changes are required. All of these matters have to be addressed in order to create the conditions for private sector development. The process of transition and reform will entail serious social consequences initially increasing the numbers of unemployed and measures will have to be taken to mitigate these consequences.

BiH is faced with major challenges in the environmental area which since the end of the war has been low on the list of priorities of the authorities. There is an urgent need to make progress in the development of environmental strategies and action plans which are virtually non-existent. The Entity and canton ministries responsible for the environment lack institutional capacity and until this is developed progress will be impossible. Although responsibility for environmental affairs rests with the Entities and cantons, a BiH wide mechanism is required to ensure coordination and coherence between the different actors and to represent BiH internationally. Water resource management and waste disposal are matters with serious implications for the wellbeing of citizens and cannot continue to be neglected. Given the extreme budgetary constraints which apply in BiH it will be necessary to establish mechanisms which will fund environmental protection.

Full participation in the SAP requires of the countries concerned a major commitment in the area of justice and home affairs. These countries must demonstrate respect for the rule of law encompassing an independent judiciary and the administration of justice, effective and accountable policing and border control and the establishment of a coherent asylum and immigration policy. BiH needs to make significant progress in all these areas. This task will be complicated by the division of responsibilities between the different levels of government. Judicial reform in BiH will be directed by the Independent Judicial Commission (IJC) which will develop a comprehensive reform strategy covering all matters within its mandate. Simultaneously, BiH must render fully operational the newly created State Court and ensure that the Constitutional Court continues to function as it has to date. In the area of policing the reforms begun by the International Police Task Force under the direction of UNMIBH must be completed and consolidated and an organised crime fighting capacity must be developed.

In the area of border control and asylum, full deployment of the State Border Service should continue according to schedule. BiH will have to take an integrated approach to its borders in order to tackle effectively the problems that confront it. This approach will address organised crime, asylum and immigration and trade issues. In the medium term BiH must cease being a part of the Balkan route for EU destined illegal immigrants. BiH will have to implement the commitments which they undertook in the Sarajevo Declaration of 28 March 2001 and align their legislation with that of the EU. The State Border Service will be the main tool through which implementation of the new legislation can be effected and adequate funding from the limited State budget has to be ensured.

Meeting these challenges will facilitate the realisation of BiH's foreign policy goals. Internal stabilisation, assisted by CARDS would enable BiH to progress within the SAP and in the medium-term would allow the conclusion of a Stabilisation and Association Agreement. This would both improve national, regional and European security and, in a virtuous circle, would in itself encourage stability, promote investment and trade and thus facilitate further reform. The EU's interests and objectives are therefore compatible with BiH's medium-term challenges.

5. AN OVERVIEW OF PAST AND ONGOING CO-OPERATION

5.1 EC Co-operation Past and Present

In 1996 following the signing of the GFAP the EC began to deliver non-humanitarian assistance to BiH (ECHO had delivered humanitarian assistance since 1991 and continued doing so until 2000). This was done through two programmes: Phare, which in accordance with the Regional Approach was limited to projects in direct support to the GFAP, and OBNOVA, designed to support the post war reconstruction of the country including the return process. A total of €890 million were allocated in the period 1996 to 2000, out of which almost 90% had been contracted by July 2001.

EC assistance during this period was characterised by a multiplicity of different interventions in a wide range of sectors and was based on an annual programming approach. Projects were identified within the framework of the \$5,1 billion “Priority Reconstruction and Recovery Programme” developed through the joint efforts of the World Bank, the EU and other agencies.

1996 was a year of emergency and interventions which were designed to respond to the immediate post-war situation. The Phare Essential Aid Programme (EAP), focusing primarily on imports, provided critical assistance to kick start reconstruction. In 1998 independent experts evaluated the procurement component of the EAP and it was concluded that *“the impact could have been stronger with improved management, sufficient staff and more technical expertise”*. In 1996, Phare and Obnova also funded projects in the areas of return, basic infrastructure, housing, institution building, economic regeneration and civil society development.

In 1997, following the conclusions of the London Peace Implementation Council, the Commission brought closer the reconstruction and refugee return aspects of its assistance. In addition to return, (the single most important area for Community assistance between 1996 and 2000), EC programmes concentrated on priority areas such as economic reform and employment regeneration, reconstruction of technical and social infrastructure, institution building and support for peace implementation.

In the period 1998 – 2000, the Commission sharpened the focus of its programmes with continued support to return and better targeted support in the areas of institution building, economic reform and social cohesion and development. The EC strengthened the institutional capacity of the Common Institutions, the customs services, and supported the Dayton Institutions (Human Rights Chamber, the Office of the Ombudsperson and the Commission for Real Property Claims) and the Public Broadcasting Service. Micro projects supported democratisation, human rights and civil society. In the economic reform sector, assistance was targeted at modernising the banking and finance systems, facilitating trade and investment, at enterprise privatisation and restructuring, local development and SME development. This was complemented by support to the agriculture sector, principally through the procurement of livestock and the provision of small-scale loans. Finally, in the area of social cohesion and development, assistance was given to reform both the education and the health systems.

Concerning macro financial assistance, the Council of the European Union decided on 10 May 1999 to grant BiH a package of macro financial assistance of up to €60 million, composed of a loan facility of up to €20 million and a grant facility of up to €40 million. The first tranche, €25 million (€15 million grant and €10 million loan) was released in December 1999. The second tranche, €20 million (€10 million grant and €10 million loan) was

disbursed in December 2000. The third and final tranche of €15 million is still outstanding and its release will depend on a positive evaluation of the progress made in the reforms.

The total amount of humanitarian assistance provided by ECHO between 1991 and 2000 was €1,032 million.

The EIB has to date signed loans amounting to €160 million for the road, rail and electricity sectors. The BiH Roads Project covers a Sarajevo bypass, a bridge in Caplijna and roads and bridges in RS. The BiH Railways Project covers investment on sections of Pan-European Transport Corridors. The BiH Electric Power Reconstruction Project will focus on the restoration of power transmission and distribution systems.

5.2 Assessment of Past EC Assistance

A number of evaluations of Community programmes have been carried out and in February 2000 an independent Monitoring Support facility was established to monitor the impact and sustainability of EC assistance to BiH. By July 2001, 26 reports had been issued covering EC assistance in agriculture, water supply, private sector development, finance and banking, assistance to refugee return through housing reconstruction, job creation, electricity supply and de-mining and support to the State Institutions.

Particularly positive results have been achieved by the EC support to the Constitutional Court, to small and medium enterprises and to the return process. In the latter case a representative sample indicates an occupancy rate of 79% for dwellings reconstructed with EC funds. The reports have also highlighted shortcomings in certain projects. Recommendations have been incorporated into the design of more recent programmes and the project terms of reference have been refocused. Successful instruments like the SME and housing credit lines are to be extended, while less sustainable interventions (like the supply of livestock) have been curtailed.

The reports pointed out that while the earlier programmes were designed in response to the immediate post-war situation, the later programmes (1998–2000) had an already improved strategic focus. The harmonisation of EC interventions with the provisions of the SAP through this Country Strategy and the recent efforts by the State and the Entities in formulating an Economic Development Strategy should optimise the impact of future assistance.

The policy of deconcentration of the implementation of Community assistance initiated in 1998 has improved contracting and disbursement rates and ensured closer contact with the beneficiaries. The beneficiaries however often remain unprepared for direct involvement in project implementation. This will need to be addressed through capacity building projects, notably in project preparation and aid co-ordination.

Annex 6 provides further information on findings in relation to past EC assistance to BiH

5.3 EU Member State programmes

Since 1992, the EU Member States have provided large amounts of grant funds for humanitarian aid, rehabilitation of the transport, communications and utilities infrastructure and the return process (housing, de-mining and advisory services). Particular emphasis has been placed upon human rights and civil liberties. Furthermore, Member States provided grant funds for technical assistance projects linked to the Stability Pact, institutional capacity building, judicial and police reform, private sector development, health, education and

social welfare reform, modernisation of the agriculture and environment sectors and micro-projects to strengthen civil society.

Grant funding has been complemented by the provision of soft loans and assistance provided within Member States to refugees. The assistance given by the Member States has been co-ordinated with that provided by the EC, the World Bank and other major bilateral donors (Japan, USAID) within the framework of the Priority Reconstruction and Recovery Programme. While several Member States are scaling down their assistance particularly in areas like infrastructure rehabilitation and refugee return, others have renewed their commitment.

Two Member States, the United Kingdom and Sweden, have elaborated Country Assistance Strategies for the period 2000 – 2003 and 2000 – 2002 respectively. The UK goal is to support transition to a pluralist democracy and well regulated market economy with a distribution of the benefits through all levels of society. Assistance is targeted at enterprise restructuring, trade and investment, public administration reform, the media, judicial reform and health care provision. Sweden's strategy focuses on refugee return including infrastructure rehabilitation, economic reform and private sector development, public administration and democratisation and human rights including the mass media. It allows for minor programmes in mental health reform and culture, e.g. restoration of cultural heritage.

5.4 Other Donors' Programmes

Much of the funding allocated to BiH to support reconstruction and economic regeneration has taken the form of investment for infrastructure development mobilised by the International Financial Institutions (IFIs), principally the IMF, the World Bank (WB), EBRD, EIB and IFC.

USAID is the largest donor after the EC. Support has been targeted at capacity building in the private sector, the development of a market economy through privatisation, macro economic reform, the introduction of sound fiscal policies, a properly functioning banking system and development of capital markets. While much of the assistance is in the form of grants, USAID has also provided a \$250 million loan combined and technical assistance to support private enterprise development. In addition, support has been given to the return process, the strengthening of democratic institutions, promoting a multi-ethnic society through independent media, free and fair elections, improved governance and an independent judiciary.

The IMF Stand-by Arrangement approved in May 1998 was completed in May 2001. The IMF is considering a further Stand-by Arrangement, probably to be implemented as of 2002, when the IMF will also initiate a Poverty Reduction Growth Facility.

The current portfolio of the World Bank, which has developed a Country Assistance Strategy (CAS) for the period 2000-2004, is worth \$698 million, including \$150 million from the WB Trust Fund for BiH. Loans in support of infrastructure rehabilitation, private sector development and social sector reform and public finance reform have been approved. The objectives of the 2000-2004 CAS are to strengthen institutions and governance, foster private sector led growth and employment and build social sustainability.

The EBRD, which has also developed a Country Strategy, has allocated some 725 MEUR to projects in BiH (143 MEUR from own resources and 582 MEUR from other co-financiers and grant donors). 15 projects, focused on restructuring the financial sector,

SME and infrastructure reconstruction have been initiated. The EBRD will continue to support projects in these areas in the future.

The current portfolio of the IFC is \$33 million as of the end of 2000. The focus has been on financing SMEs and investments in larger companies. More recently, the IFC have, together with the World Bank, established the South Europe Enterprise Development (SEED), which is a \$30 million Technical Assistance Facility to support SME development in the Balkan region.

In addition, the United Nations has played and continues to play a major role in the post-war reconstruction of BiH. This is in particular the case of UNHCR and the UNDP.

6. THE EC RESPONSE STRATEGY

6.1 Principles and Objectives for Co-operation

Introduction

EC assistance to BiH will be provided primarily through CARDS which has been designed as the main instrument for supporting the countries covered by the SAP. The nature and level of that support will be a function of the degree of political will to make progress within the SAP. In addition to CARDS support, in the case of exceptional financing needs the European Community may consider providing macro financial assistance based on an ad hoc Council decision. The EIB may also provide loans to BiH.

In framing the response strategy the Commission has been guided by the goals of the SAP, namely the promotion of economic development and trade, co-operation in justice and home affairs, support for political dialogue at bilateral and regional level, assistance for democratic and administrative reform, in short preparation for integration into EU structures. The Brussels PIC of May 2000 established a number of priorities for BiH (deepening economic reform, fostering functional and democratically accountable common institutions, accelerating refugee returns) which are entirely coherent with the SAP.

BiH will determine its own rate of progress within the SAP. The key to success lies in the authorities taking ownership and providing a solution to their own difficulties. The EU will remain engaged and will help BiH in finding solutions. The nature of that engagement must be attenuated to reflect BiH's choices. A failure by BiH to assume ownership of reform and take seriously the European agenda may result in EU policy becoming one of "critical engagement". Concretely support would be selective, holding open the door to future progress, while recognizing that BiH has been unwilling to take the necessary steps. The aim would be to create incrementally a consensus on the European choice. Assistance programmes would be redirected, refocused or reduced to reflect this reality.

Although certain recent developments in BiH are encouraging with the formation of Governments which have expressed commitments to reform, it is not certain that these expressions will be translated into concrete sustained action. While there is a high degree of coherence of vision at the State and Federation levels there is a difference in emphasis between these levels and the Republika Srpska. BiH has a long and uncertain path to achieve the transformation from a state where the international community is heavily involved in decision making and providing support to self-sustaining independence. It is therefore essential that the EC response strategy preserve a degree of flexibility which will enable it to adapt to various scenarios and long-term trends within the BiH body politic.

The Objectives for Assistance

The EU's political objective for BiH is the fullest possible integration of the country into the economic and political mainstream of Europe, through the Stabilisation and Association Process, political dialogue, liberalisation of trade and co-operation in justice and home affairs.

The overall objective of EC assistance is to support the participation of BiH in the Stabilisation and Association Process (SAP).

The specific objectives are to:

- Help consolidate the state of Bosnia and Herzegovina as a democratic country in which the rule of law and good governance apply thereby enabling it to participate in the SAP and building on the General Framework Agreement for Peace;
- Support the development of functioning State institutions capable of acting as reliable counterparts for the international community and representing the entire country's interests effectively;
- Support economic reform and transition to a market economy, in order to facilitate sustainable economic growth, trade and employment, and to facilitate the integration of the Bosnia and Herzegovina economy into EU structures and those of the wider international community;
- Support the development of an environmental framework in BiH based on the acquis;
- Facilitate and encourage cooperation between BiH and the other countries of the region as part of the SAP.

The EC Response Strategy serves not only the direct policy goals of the SAP as required by the CARDS regulation but also two critical objectives which were considered when designing EC support, namely conflict prevention and poverty reduction. The SAP is a regional conflict prevention strategy and the EC Response Strategy will address fundamental weaknesses and tensions which may contribute to or trigger conflict within the country and the region. In addition, the SAP is designed to contribute to the stabilisation of the countries of the region and their economies. Sustainable economic development is central to the SAP. All of the measures supported will contribute directly or indirectly to this goal. It is only through sustainable development that poverty reduction can be effectively addressed. This is an approach which is shared with the World Bank.

6.2 Priorities for Cooperation

6.2.1 Democratic Stabilisation

The SAP emphasises the importance of respect for democratic principles, human rights and the rule of law for progress along the road to closer relations with the EU. Helping create a democratically stable BiH is a fundamental priority for the EC. BiH is one of the target countries for support under the European Initiative for Democracy and Human Rights (EIDHR) in the period 2002-2004, through which civil society active in the area of human rights and democracy will be assisted. This support will complement support for civil society active in the social area which has already been programmed. The freedom to exercise constitutionally guaranteed rights, including the right to return, is essential to the underpinning of democracy in BiH. The destabilising and inflammatory effect of a partisan electronic media has been seen throughout the region. The successful establishment of a truly

independent, professional electronic media will reinforce democratic accountability and aid the process of reconciliation.

In addition to the matters covered under this heading a number of EC priorities in relation to the rule of law are covered under the heading Justice and Home Affairs.

Return of Refugees and Displaced Persons

Democratic and national stability will not be achieved until people displaced during the war feel free to return to their place of origin without fear for their personal safety in accordance with Annex VII of the GFAP. Successful sustainable return is the key issue and the creation of conditions for return is one of the requirements of the EU Road Map.

The EC has been the most important donor in this area and has achieved good results with its programmes. Priority will continue to be given to the return of refugees and displaced persons in accordance with the policies and guidelines developed by the Reconstruction and Return Task Force and having regard to the recommendations of the Stability Pact Regional Return Initiative.

The EC will seek to reinforce its co-operation with other donors to ensure complementarity between the respective interventions. Given the comparatively low level of returns to Republika Srpska and the particularly unsatisfactory record of that Entity on implementation of the property legislation which is designed to accelerate returns, a particular emphasis should be placed on return to the Republika Srpska.

An important element of the EC strategy will be to develop the capacity of the local authorities in relation to return and to transfer ownership of the process to them.

Media Reform

The importance of media reform was underlined in the Declaration of the May 2000 Brussels Ministerial PIC. The EC will work closely with the OHR and will support reform of the media sector, focusing on large-scale strategic support designed to bring about durable change in the electronic media landscape.

6.2.2 Administrative Capacity Building

The establishment of a stable, democratic BiH will require a major effort of administrative capacity building supported by comprehensive institution building support. The inability of the administration to address the challenge of state building and basic steps for regional and wider European integration will limit BiH's horizons and must be tackled. The development of an effective, responsive and accountable public administration is the goal which the EC will support.

The State Institutions

Progress in the SAP is inextricably linked with the establishment of properly functioning institutions. The EC's top priority is to strengthen the State institutions. Previous assistance provided to these institutions has revealed the relatively low base line from which the process of development must proceed. In view of the wide range of responsibilities conferred on the Entities, it will also be necessary to work with and develop certain Entity institutions

in order to attain 'functional government'. Past support has also demonstrated the need to target assistance on a limited number of key issues.

BiH is the second poorest country covered by the SAP and is subject to severe budgetary constraints which affect its ability to function as a country. The proper management of budgetary resources is a fundamental requirement in a democratic state and a priority for the EC. In the case of BiH this will maximise scarce resources, combat corruption, reduce arbitrary political decisions relating to expenditure and enhance public confidence in the administration.

BiH created a Ministry of European Integration in 2000. This Ministry has been designated the National Aid Co-ordinator for EC assistance. Although BiH received substantial amounts of Community assistance since the end of the war the State has been unable to play a significant role in programming this assistance and has not had the capacity to monitor programme implementation. It is important that the Ministry of European Integration can act as a reliable counterpart for the EC in relation to all aspects of the SAP including Community assistance.

BiH will be faced with the task of overhauling its legislative framework in the coming years. As a potential candidate for EU membership BiH should ensure that legislative reform goes in a direction which is compatible with the Acquis. It will be necessary to deepen understanding of the SAP and the European integration process at State and Entity levels and to develop local capacity to ensure coherence between government policy and legislation and the obligations flowing from participation in the SAP, notably in the area of approximation of laws.

Professionalisation of the civil service is a key part of the process of establishing an administrative framework and culture which will allow the public administration to function independently of party or ethnic allegiance.

The lack of co-ordination amongst and between the State institutions and the Entities has been widely recognised as an impediment to the development of the State and the functioning of the public administration. This problem is linked to the complex structure of the administration, the constitutional division of responsibilities, political considerations and poor communication due to a lack of the necessary infrastructure.

Taxation and Customs

The taxation system in BiH is an area which has received little attention and requires comprehensive reform. This reform should help to eliminate problems of corruption and the financing of parallel structures and provide badly needed revenue. The Government has the stated policy of introducing Value Added Tax (VAT) by July 2003. The introduction of a harmonised VAT system based on the Acquis will bring the country closer to the EU and reinforce a single market in BiH. The EC will support BiH in relation to tax reform.

The customs reform, which has been comprehensively supported by the EC since the beginning of the process by institution building activities through the CAFAO programme needs to be completed and consolidated. The achievement of this reform is a priority for the EC. It will contribute to improving the business environment for importers and exporters, enhance revenue collection, combat corruption, and facilitate inter Entity and regional co-operation and trade.

6.2.3 Economic and Social Development

The Stabilisation and Association Process identifies economic reform and social development as issues to be addressed by all the countries of the Western Balkans. BiH is probably the country, which faces the greatest challenges in this area. The SAP emphasises the importance of strong, stable market based economies which are well integrated regionally and with the European and global economies.

BiH has received a large amount of assistance with the economic reform process from a wide variety of donors and IFIs who remain committed to this issue. The European Community will not attempt to address all aspects of the economic reform agenda. CARDS support is limited to those areas where the Community enjoys a comparative advantage and will not be directed to areas where other donors are sufficiently active.

Similarly CARDS assistance to social cohesion and development will be sharply focused. The Government will have to address the wider social cohesion agenda covering poverty reduction, social inequality and social solidarity. Participation by stakeholders will be an important part of the process of development of social cohesion in order to effectively tackle exclusion and ensure that those with needs are adequately addressed by the various systems.

The EC has identified the following priorities on which it will concentrate.

Economic Reform and Development

National Economic Integration - The development of a single economic space covering goods, services, capital and labour within BiH is a fundamental step in the economic reform process and will be supported. The fragmentation of the BiH market along Entity lines impedes economic development and internal and external trade and is inconsistent with the Stabilisation and Association Process. The EU will draw on its comparative advantage and assist the country with the creation of a single market consistent with the Community acquis and the development of the necessary State institutions to support economic integration. Integration of the BiH market based on the acquis will bring BiH closer to the EU and facilitate the conclusion of free trade agreements with other countries covered by the SAP and WTO accession.

Sustainable Local development - The implementation of economic reforms will entail considerable social costs in terms of unemployment and social dislocation which could have a potentially destabilising effect. Action to mitigate these social consequences will have to be taken. Local development initiatives can support the economic revival of certain regions and generate sustainable employment opportunities. The process of local economic development, including job creation activities, can also mitigate the brain drain of youth and support the sustainability of refugee return.

Trade Development - Sustainable economic development will not be achieved in BiH if the country does not succeed in increasing its trade both regionally and globally. Sooner or later BiH will assume international trade related obligations, including those flowing from WTO accession and those consequent on signature of a Stabilisation and Association Agreement. BiH already enjoys generous trade concessions from the EU but is unable to exploit these due to deficiencies in norms, standards, certification and other controls. The EC will assist BiH to assume international obligations and to address obstacles to trade using the Acquis as a basis for new legislation and regulation.

Social Cohesion and Development

Economic reform should be accompanied by complementary measures designed to support the process and mitigate its adverse consequences. These measures will contribute to social cohesion and development. The EC priority is to support improvements in both vocational education training and the university sector. Reform and modernisation in these systems will, in time, lead to a better qualified work force and reduced unemployment.

6.2.4 Environment and Natural Resources

Sustainable economic development can only take place in the context of a sound environmental framework which is currently lacking in BiH. Environmental issues are dealt with at the Entity level and have been neglected since the end of the war due to more pressing priorities. The most important issues in the environment sector will be identified in the Environmental Action Plan which is being developed with World Bank support.

There is a pressing need for the Entities to put in place key pieces of legislation, including environmental impact assessment laws, and to develop the necessary enforcement capacity and funding mechanism. The Community acquis should serve as a template in this area. Important reforms have already begun in the management of water resources and should be pursued. There is an urgent need to tackle the unregulated disposal of solid waste throughout the country. The EC will support measures to develop capacity to deal with environmental issues and to better manage water resources and solid waste.

6.2.5 Justice and Home Affairs

The strengthening of institutions responsible for the administration of justice and the development of the requisite capacity for fighting organised crime, enforcing law and order and asylum and immigration policies consistent with those of the EU is fundamental to State building and the participation of BiH in the SAP. Co-operation with the other countries covered by the SAP in these domains with a view to ensuring a harmonised regional approach based on the Community acquis is an integral part of the process of attaining the required standards. The importance of these matters has been recognised in the Final Declaration of the Zagreb Summit of 24 November 2000 and in the commitments undertaken by the countries covered by the SAP in the Sarajevo Declaration of 28 March 2001. Regional aspects of Justice and Home Affairs are addressed in the EC Regional Strategy for the countries participating in the SAP.

The Administration of Justice

The proper administration of civil and criminal justice depends on the existence of an independent, impartial and professional judiciary, a well regulated legal profession and the availability of adequate enforcement mechanisms. Responsibility for guiding and coordinating reforms affecting the judiciary, prosecutors and professional associations has been conferred by OHR on the Independent Judicial Commission (IJC) established in March 2001. EC support to the reform of the judiciary and the administration of justice will take account of the blueprints and recommendations developed by the IJC.

The availability of remedies for the defence and vindication of returnees' rights is an indispensable element for successful return. The EC is committed to support the Commission for Real Property Claims and the Human Rights Commission, ('the Dayton Institutions'), established under Annex 6 and Annex 7 of the General Framework Agreement for Peace.

These institutions make an important contribution to the clarification of property rights and the rule of law.

Policing

The efforts of the UNMIB and the IPTF have contributed greatly to improved standards of policing but much remains to be done to achieve effective and democratically accountable policing in which all citizens have confidence. The EC will support efforts in this direction. The development of the capacity of the police to fight crime, particularly organised or drug related crime and trafficking in human beings, will be given priority.

Asylum and Migration

The importance to the effective implementation of immigration and asylum policies which respect the applicable international conventions has been recognised in the Sarajevo Declaration of 28 March 2001 through which BiH has undertaken to align its legislation with these conventions and to approach European standards. The establishment of the State Border Service (SBS) under the aegis of the UN is an important development to be built on. The EC will help BiH to fulfil its commitments under the Sarajevo Declaration and provide assistance for the development of BiH's immigration and asylum policy and legislation. As part of its Regional Strategy the EC will encourage and assist BiH to contribute to a regional approach to such issues by the countries covered by the SAP. The SBS will be supported under the Regional Strategy.

Integrated Border Management

The EC Regional Strategy Paper sets out priorities which will be addressed in a regional context. Although included in the Regional Strategy and funded from the regional envelope, measures to address the Integrated Border Management priority will, for reasons of efficiency, be implemented as part of the national programmes and for that reason are described in this paper.

The EC will support an integrated approach to border management in BiH and the other countries covered by the SAP. The interlinkage of border management problems dictates that only a comprehensive solution addressing all problems will be effective. The specific problems which this approach is designed to address are the threat posed by increasing levels of organised crime and corruption, including trafficking and illegal migration to the EU transiting through BiH and the low levels of regional and international trade. The approach will be to strengthen controls at the border and facilitate cross border trade. This will involve improvement of border crossings, strengthening national institutions and procedures and improving infrastructure. Strengthening capacities and infrastructure of border agencies and strengthening inter agency cooperation will be accompanied by actions on border demarcation and regional crime fighting.

6.3 Coherence

The response strategy and the programmes and assistance specified in the MIP have been formulated in the light of the EU's policy objectives for BiH. The realisation of the priorities will contribute to stabilisation of the country and the larger region thereby contributing to the goal of conflict prevention and leading eventually to the conclusion of a Stabilisation and Association Agreement. Under this strategy there is a clear change in emphasis away from large-scale infrastructure and post war reconstruction to building up the country into a modern democratic State capable of managing its own affairs and being a reliable partner

for the EU. The advancement of the economic reform process and the development of regional cooperation are coherent with the Community's trade policy for the region under which highly favourable trade preferences have been granted. The strategy pursued in relation to Justice and Home Affairs is entirely consistent with the Sarajevo Declaration subscribed to by the EU and the other policies pursued by the EU in this area. Similarly, the priority attached to the environment sector is coherent with the EU's approach

Coherence with CARDS regional programmes: The bulk of CARDS support to the countries is being financed through national CARDS support programmes. Experience from PHARE and other Community programmes has shown that this subsidiarity ensures greater levels of national commitment and ownership, better targeting and impact of projects and greater efficiency in implementation. Complementing this basic national approach with a regional CARDS programme will ensure its objectives are achieved and complement the activities of the CARDS national programmes because either: (i) the problem addressed is truly cross-border and requires active regional cooperation between the SAP governments if it is to be corrected; or, (ii) there are significant gains to be obtained in terms of efficiency or enhanced impact by implementing through one regional programme instead of five national ones.

To this end, some 10% of available funds will be allocated through the CARDS regional programme to help countries achieve the regional cooperation objectives of the SAP. These will be focused on three priorities: (a) supporting democratic stabilisation, including minority rights, media and good governance; (b) building the capacities of state institutions; and, (c) reinforcing regional infrastructure and environmental development. These priorities are outlined in greater detail in the CARDS Regional Strategy Paper.

Coherence with INTERREG programme: The CARDS programme will ensure as far as possible complementarity with the INTERREG programme III A when priorities of the CARDS programme contain a cross border co-operation character. This is particularly the case in relation to Integrated Border Management. To this end, close co-operation will be developed between the country concerned, the CARDS and INTERREG programmes and the concerned EU Member States and candidate countries, including as appropriate the identification of relevant projects in the priority areas of the Multi-annual Indicative Programme and regular reporting of progress.

6.4 Complementarity with EU Member States and Other Donors

The EC does not seek to address all the challenges facing BiH in its response strategy. In formulating this strategy the EC has been guided by the need to concentrate its assistance on a limited number of areas and to focus on those matters which require action in order that BiH can make progress in the Stabilisation and Association Process. The priorities and actions identified have been selected to reflect the EC's comparative advantage. The multiplicity of donors active in BiH and their planned interventions have been taken into account so as to ensure complementarity. A number of mechanisms exist for the exchange of information between the Commission, Member State's missions, and other bilateral and multilateral donors:

- At the level of the OHR an Economic Task Force has been established which meets regularly to address critical reform bottlenecks and policy issues;
- The International Advisory Group on Privatisation (IAGP) has been set up as a technical working forum to co-ordinate efforts between the primary donors on privatisation (WB, EBRD, European Commission, US AID, DFID, GTZ);

- The Private Sector Development Task Force (PSDTF) has been established to co-ordinate efforts in addressing the complex issues of addressing the business environment;
- The International Advisory Group for Payments Reform (IAG) has been set up to co-ordinate efforts on reforming the payments system and dismantling the payment bureaux.
- The Reconstruction and Return Task Force (RRTF) composed of OHR, UNHCR, the World Bank, the Commission and other donors co-ordinates activities in the return field.
- In the agricultural sector, regular co-ordination meetings of donors are organised by FAO.
- An Environmental Steering Committee organised by the Entity ministries bringing together all donors meets on a monthly basis

The OHR also plays an important role in the co-ordination of international donor support to Bosnia and Herzegovina. This process of assistance co-ordination is being further refined to avoid overlap and duplication, and to increase opportunities for co-financing and joint actions. The Commission and the OHR co-operate in the context of the EU-BiH Consultative Task Force in order to address such issues as developing a Single Market. The Commission has consulted the OHR on this Country Strategy.

The Commission has also consulted the Independent Judicial Commission for matters within its area of responsibility. The IJC's mandate embraces the promotion of the rule of law and judicial reform. It is responsible for guiding and co-ordinating reforms.

In implementing the Response Strategy and particularly at the stage of project identification the EC will consult with other donors to ensure, so far as practicable, complementarity and coherence. Extensive discussions have been held on the ground with EU Member States on ways to enhance operational synergies and this process will be pursued. Underlying the efforts to streamline the international community in BiH is a recognition that the impact of the resources allocated to BiH can be further enhanced. When this exercise is completed new mechanisms will exist for information exchange and cooperation between the various actors and the EC will make full use of them.

6.5 Risks and Assumptions.

The underlying assumption of the CSP is that both BiH and the wider region will be increasing stable in the coming years. The election of democratic governments in both FRY and Croatia should help to reinforce BiH and reduce separatist tendencies. Conversely, any regression in either of these countries could have a negative impact on BiH which is particularly susceptible to regional influences and trends. BiH's bilateral relations with its neighbours should continue to improve. The international community will remain an important factor in ensuring and advancing stability. It is assumed that both OHR and SFOR will not disengage and the eventual winding up of UNMIBH is foreseen. BiH should complete the EU Road Map and a feasibility study on the opening of negotiations for an SAA will be undertaken. While remaining engaged, the role of the international community should diminish progressively as areas of responsibility are firstly co-managed with BiH in a spirit of partnership and finally handed over to exclusive BiH responsibility.

There is a risk that BiH will not develop its capacity to be an effective partner for the international community. Partnership will entail a high level of commitment from the Govern-

ments of the State and the Entities and willingness on behalf of all governments to work together. It is assumed that future elections held without international supervision will be conducted in a free and fair manner and the results will be implemented. The elections may give rise to unstable governments lacking the capacity to take and follow through on difficult decisions or to governments overtly or covertly opposed to reform. This CSP assumes that there will be an increasing commitment to reform and the EU integration process, including a willingness to develop the institutions of the State and to make available the necessary human and material resources to key agencies and services. While there may be a risk of extra-constitutional agitation it is assumed that this will not seriously jeopardise the workings of government. It is assumed that parallel institutions and structures will be progressively dismantled.

With increasing national stability the return issue should be solved in a number of years with displaced persons returning to their places of origin or opting for integration elsewhere. It is assumed that the judicial reform efforts of the IJC will be successful and there will be a gradual increase in public confidence in the legal system. The State Court should become operational and the Constitutional Court should continue to operate satisfactorily in the absence of its international members. The Constitutional Court's decision on constituent peoples should be implemented. The State Border Service should be fully deployed by the end of 2002 although budgetary constraints may impact the effectiveness of the service.

Although BiH will remain heavily dependent on external financing it is assumed that the level of international assistance for BiH will diminish appreciably in the next years and this will affect growth rates. There is a risk that even if certain key reforms are completed BiH will continue to have difficulty in attracting foreign investment. Unemployment levels are unlikely to fall significantly in the medium term. It is assumed that BiH will conclude further free trade agreements and become a member of the WTO. There is a risk that BiH industry may not be able to take full advantage of the opportunities which these developments will offer. The management of public finances should improve and revenue collection should yield higher receipts.

In implementing EC assistance careful attention will be paid to changes in the assumptions underlying the CSP and project identification will take account of the new circumstances. In some cases the situation may require that a particular programme is postponed or not undertaken. The MIP takes account of this possibility by setting out programmes with a total value of 15 percent more than the indicative allocation for BiH. Where appropriate a revision of the CSP may be undertaken in accordance with the CARDS Regulation.

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Indicative Budget 2002-2004

MULTI ANNUAL INDICATIVE PROGRAMME FOR THE PERIOD 2002-2004

Introduction

This Multi Annual Indicative Programme describes the sectors and the planned interventions to which Community assistance for Bosnia and Herzegovina in the period 2002-2004 will be directed as well as the expected results and indicators of achievement. The assistance will be delivered through a number of sectoral interventions in support of the five areas identified in Section Five of the Country Strategy Paper:

- Democratic Stabilisation
- Administrative Capacity Building
- Economic and Social Development
- Environment and Natural Resources
- Justice and Home Affairs

The **overall objective** of the Multi Annual Indicative Programme is to support the participation of Bosnia and Herzegovina in the Stabilisation and Association Process (SAP).

The **specific objectives** of the assistance are to:

- Help consolidate the state of Bosnia and Herzegovina as a democratic country in which the rule of law and good governance apply thereby enabling it to participate in the SAP and building on the General Framework Agreement for Peace;
- Support the development of functioning State institutions capable of acting as reliable counterparts for the international community and representing the entire country's interests effectively;
- Support economic reform and transition to a market economy, in order to facilitate sustainable economic growth, trade and employment, and to facilitate the integration of the Bosnia and Herzegovina economy into EU structures and those of the wider international community;
- Support the development of an environmental framework in BiH based on the Acquis;
- Facilitate and encourage cooperation between BiH and the other countries of the region as part of the SAP.

The Priorities for Assistance

1.1 Democratic Stabilisation

1.1.1 Return of Refugees and Displaced Persons

Objectives: to consolidate and support sustainable returns, particularly spontaneous and regional returns and to strengthen the capacity of the local authorities to manage the return process.

Expected results

- 1) An increase in the number of returns and increased employment opportunities in targeted areas. The BiH Ministry for Human Rights and Refugees will take a leading role in the return process, gradually replacing the Refugee Return Task Force, establishing priorities and coordinating international and local efforts.
- 2) An increase in economic activity resulting from the establishment or expansion of SMEs, the creation of local development opportunities by municipal authorities and the creation of support organisations for business development.
- 3) Higher rates of implementation of the Property Legislation with increased information on double occupancy and follow up action by the local authorities.

Programmes to be implemented

A number of programmes targeting different aspects of the return process will be implemented:

- 1) Integrated Return Programmes covering the reconstruction/rehabilitation of dwellings, local utilities and communal and social infrastructure as well as sustainability measures and capacity building for local NGOs involved in return issues. There will also be measures, technical assistance, training and investment, to develop the capacity of the local authorities in relation to management and coordination of return programmes. Demining actions required for reconstruction and return will be undertaken and support will be given to the provision of legal advice to returnees.
- 2) Economic Regeneration Measures in return areas providing grant funding and technical assistance to support the development of SMEs, non profit making organisations and municipal authorities in return areas.
- 3) Actions in support of the Implementation of the Property Legislation. Co-financing will be provided for the Housing Verification Monitoring Mission which collects information on double occupancy cases and develops capacity within the relevant ministries.

Indicators of achievement

- 1) The rate of return of programme beneficiaries to reconstructed dwellings and the number of additional jobs created. 75 % of reconstructed dwellings should be occupied six months after programme completion. The sustainability measures in the integrated return programmes should directly create 2000 new jobs.

The degree of involvement of the Ministry of Human Rights and Refugees in the return process. With the increase in the Ministry's involvement there should be a progressive reduction in the activities of the Reconstruction and Return Task Force culminating in its winding up by 2004.

- 2). The number of new jobs created and the number of municipalities assisted with their business development activities. 1000 new jobs should be directly created.3) The rate of increase in the number of decisions under the property legislation which are enforced. Enforcement levels should reach 80% by the end of 2002.

Cross-cutting issues

The assistance provided to the *Return* process reinforces and extends the assistance being provided to *Economic Reform and Private Sector Development* and *Justice and Home Affairs*. In particular, the sustainability measures will create employment in the return areas through the development of small businesses and self-employment opportunities. The support given to create a physically secure environment and to provide advisory services to returnees will underscore at the local level the efforts being made to strengthen the rule of law and to protect human and civil rights at the State level.

Other EC instruments

The activities are designed to complement the support being provided to Croatia and FRY in the area of return under CARDS. De-mining in BiH is also undertaken with other funds from the General Budget of the European Union specifically allocated for actions against anti-personnel landmines.

The other major non-EU¹ donor active in the field of return is the US, implementing programmes through USAID and the Bureau for Population, Refugees and Migration.

1.1.2 Media Reform

Objectives: to provide the population of BiH with access to professional and impartial electronic media and to develop the technical and management capacities of public broadcasting sector.

Expected results

Working within the plans developed by the OHR, a new structure for public service broadcasting will be created through completion of the reform of RTV BiH and the integration of RTRS into the system. The new public service broadcasters, Fed RTV, RTRS and the Public Broadcasting Service (PBS) will assure nation wide coverage. News and current affairs will be produced by PBS and transmitted on all channels. There should be significant improvements in marketing revenue reflecting increasing viewer figures and viewer satisfaction.

Programmes to be implemented

Reform of the public service broadcast media will be supported through the procurement of equipment, the provision of technical assistance to strengthen technical and management capacities within the TV and radio stations and expert assistance with indigenous programme production.

Indicators of achievement

The transformation of the existing broadcasting structures should be substantially completed by July 2003 and should be fully achieved by mid 2004. There should be at least one hour of PBS produced news and current affairs broadcast throughout the country by mid 2003. The public broadcasting system should be moving in the direction of financial viability and there should be an increase in home produced output which should reach 40% of all output on PBS and the Entity broadcasters within three years

¹ Annex 4 sets out the areas of involvement of the EU member states in BiH which have been communicated to the Commission by the member states.

Conditionality

The entities must implement effective licence fee collection and distribution to the different broadcasters according to the First Decision on the Restructuring of the Public Broadcasting Service (September 1999).

The State of BiH and both Entities must adopt legislation covering public broadcasting which conforms to the highest standards established by similar legislation in force in EU member states.

Other EC instruments

The structural measures outlined above will be complemented by support from the European Initiative for Democracy and Human Rights for freedom of expression and the independent media (raising professional standards, better coverage of human rights issues, monitoring and exposure of violations of media freedom).

Non EU¹ donors supporting reform of the public broadcasting system are Slovenia, Croatia and USAID.

1.2 Administrative Capacity Building

1.2.1 Customs and Taxation Reform

Objectives: to create and maintain efficient and effective customs controls and to support reform of the taxation system, in particular the introduction of Value Added Tax (VAT).

Expected results

- 1) A continued improvement in the operation of the Entities' customs services and enhanced cooperation between the services and with the BiH State Ministry for Foreign Trade and Economic Relations, responsible for customs policy. These improvements should translate into increased customs compliance, better customs clearance procedures with reduced delays thereby facilitating trade and a reduction in illicit cross border traffic.
- 2) The establishment of a more efficient tax system generating additional revenue and the introduction of VAT.

Programmes to be implemented

Future programmes will build on the work done by the Customs and Fiscal Assistance Office.

- 1) Customs: Technical assistance and training, principally delivered by EU member states customs officials, will be directed to ensuring the sustainability and further improvements in enforcement capacity and streamlining procedures. Modernisation of

¹ Annex 4 sets out the areas of involvement of the EU member states in BiH which have been communicated to the Commission by the member states.

the Custom Services' IT resource, including ASYCUDA, to keep pace with their expanding activities will also be addressed.

- 2) Taxation: Continued technical assistance and training, principally delivered by EU member states tax officials, and investment will be provided to strengthen tax compliance and enforcement capacities, in particular by establishing and consolidating control, tax fraud investigation and debt management departments. In relation to VAT, during an initial phase studies will be carried out by EU experts and a precise implementation plan detailing sequencing and resource requirements for the introduction of VAT will be developed. On the basis of the plan experts will be mobilised to support the introduction of the necessary legislation based on the Acquis. Institution building support covering technical assistance and investment will be provided to the taxation services to enable them to implement and enforce the new system.
- 3) Both the customs and tax administration will be assisted in the development of personnel management. Training and technical assistance will be directed to the development of a modern, unbiased and transparent personnel policy, including the preparation of legislation required to give effect to the policy.

Indicators of achievement

- 1) An increase in customs compliance and reduced levels of corruption.
- 2) An increase in tax revenue.
- 3) Introduction of VAT by 2004.
- 4) Reorganised tax administrations with only one authorised service responsible for tax control in each Entity.

Cross-cutting issues

The assistance for *Customs and Taxation* reinforces and extends the assistance being provided to *Economic Reform and Private Sector Development* and *Justice and Home Affairs*. In particular, harmonised customs reform and the introduction of VAT contribute to the creation of a single market in BiH and the fight against organised crime and smuggling.

Conditionality

The VAT programme is conditional on an agreement between all parties concerning the level of government with responsibility for the introduction and implementation of the system.

USAID is the only other non-EU donor¹ active in relation to the introduction of VAT.

¹ Annex 4 sets out the areas of involvement of the EU member states in BiH which have been communicated to the Commission by the member states.

1.2.2 Development of State Institutions

Objectives: to strengthen the management of public finances at State and entity levels, to develop institutional capacity in relation to the Stabilisation and Association Process, European integration and aid coordination, to increase transparency in personnel matters and to enhance coordination within and between the different layers of the administration.

Expected results

- 1) Transparent and effective systems of public expenditure management review, financial control and budgetary execution will be established at State and Entity levels.
- 2) A strengthened Ministry for European Integration, staffed by trained personnel conversant with the European Integration Process and capable of participating actively in aid co-ordination.
- 3) There will be an increased understanding of the Community Acquis and a system for screening major policies and key pieces of draft legislation for compatibility with it will be established and operative.
- 4) A system of merit based recruitment and promotion will be established for State ministries and agencies.
- 5) The flow of information between the State institutions and with the Entity administrations will increase thereby facilitating legislative and policy development.

Programmes to be implemented

- 1) Making use of the Public Expenditure and Institutional Review undertaken by the World Bank a report on weaknesses in the current systems, at both State and Entity levels, in relation to public expenditure management review, financial control and budgetary execution will be prepared and a reform plan developed. Working with the Supreme Audit Institutions and the line ministries a comprehensive programme of technical assistance, training and investment will implement the plan.
- 2) Technical assistance will be provided to develop the capacity of the Ministry of European Integration in relation to the European integration process. Comprehensive targeted training will also be given covering all aspects of aid coordination and project implementation. Investments will be financed to address the equipment needs at both the State and Entity levels.
- 3) Technical assistance and training in the Acquis and the Stabilisation and Association Process.
- 4) Technical assistance, training and investment for the development and application of transparent civil service recruitment procedures.
- 5) In the first place an assessment will be carried out to identify the IT communication needs of the six State ministries and their key counterpart ministries at entity level. Based on the results of this assessment investment and training will be directed to establishing an IT communication network.

Indicators of achievement

- 1) Correct use of public funds with budgets being used to control spending supported by appropriate financial reporting and a reduction in irregular or fraudulent expenditure.
- 2) The Ministry for European Integration actively informing and coordinating other State and Entity ministries in relation to EU affairs, including assistance, and acting as an effective counterpart for Community institutions and bodies.
- 3) Increased awareness of the SAP and the Acquis demonstrated in policy proposals and a high degree of compatibility between new legislation and the Acquis.
- 4) All new staff recruitment in State institutions taking place under new procedures.
- 5) Enhanced communication and co-ordination between the State ministries, and between the State ministries and key Entity ministries.

Cross-cutting issues

The assistance provided to Administrative Capacity Building reinforces and extends that being provided to *Economic and Social Development* which will have an important institution building component. In particular, strengthening the administrative capacity of the public authorities will enhance the ability of the Governments at all levels to make and implement policy, and will create the technical and administrative conditions for good governance. Institution building support will also be provided under the programmes in support of the Environment and Natural Resources and Justice and Home Affairs.

Conditionality

The draft Revised Presidency Rules and Procedures must be adopted. The staffing plan drafted in 1999 for the BiH Parliamentary Assembly must be fully implemented.

The Civil Service Law must be fully implemented when adopted.

In so far as one of the Entities is the beneficiary of a programme, assistance to the Entity under the programme is conditional on the active collaboration of the Entity concerned in developing essential State level institutions and adopting legislation required for BiH progress within the SAP.

Other EC instruments

The activities are designed to complement the support being provided to Croatia, FYROM, FRY and Bosnia and Herzegovina under the Regional Institution Building Programme.

1.3 Economic and Social Development

1.3.1 Economic Reform and Development

Objectives: to assist the transition of the BiH economy from a planned to a market economy and facilitate the creation of the conditions for sustainable development in terms of growth, trade, investment and employment.

In order to attain these objectives assistance will be focused on three areas:

- (i) BiH's closer integration with the European Union and South Eastern Europe through the creation of a single market in BiH harmonised with EU.
- (ii) Sustainable local development, particularly in underdeveloped regions, to mitigate social costs of transition and alleviate poverty.
- (iii) Trade Development.

Expected results

- 1) Closer Integration of BiH with EU and SEE: A functioning single market in BiH harmonised with the EU leading to greater trade, investment and labour mobility both within BiH as well as in the region of SEE and with the EU.
- 2) Sustainable Local Development: Increased economic activity in underdeveloped areas leading to greater employment and increased economic integration with surrounding regions.
- 3) Trade Development: BiH will have adopted key pieces of Acquis compatible legislation required for WTO accession and will have established the necessary technical infrastructure allowing for an increase in regional and wider trade and increased domestic consumer confidence in BiH products. There will be an increase in foreign investment in BiH.

Programmes to be implemented

- 1) Closer Integration with EU and SEE: An initial programme of technical assistance will concentrate on the development of a strategy for the establishment of a Single Economic Space harmonised with the EU. Technical assistance, training and investment will be provided to implement this strategy which will cover a national plan for the adoption of the Acquis, approximation of laws, strengthening of state level institutions and regulatory agencies for enforcing such laws (such as the National Institute for Standards, the BiH Competition Authority and the BiH Consumer Protection Council) and raising public awareness. Monitoring and implementing this process through the Ministry of European Integration, CTF working groups, Internal Market Monitoring Groups and public/private advocacy groups will also be supported. Assistance will be directed to priority areas identified in the White Paper as well as supporting improvements in the business environment.
- 2) Sustainable Local Development: Following the two successful pilot projects aimed at revitalising the surrounding regions of Tuzla, Brcko and Mostar, further technical assistance and grant funds will be provided to these regions in order to support the implementation of the local economic development strategies. Activities will include inter alia support for job creation particularly through SME development, business support with an emphasis on export promotion and income generation, and public/private initiatives as well as support to the institutions supporting these local development initiatives. Other regions will also be considered for a similar programme.
- 3) Trade Development: Technical assistance, training and investment will be provided to assist BiH in its efforts to assume international trade related obligations, notably in

relation to WTO accession and the conclusion of free trade agreements with neighbouring countries and eventually a Stabilisation and Association Agreement. The assistance will address both the necessary legislative and regulatory changes required and the negotiation process leading to the conclusion of the agreements. Support will also be provided to promote foreign investment in BiH.

Further technical assistance, training and investment to the competent State and Entity ministries and agencies will support the introduction and enforcement of Acquis compatible standards and certification for industrial products and veterinary and phytosanitary control.

Indicators of achievement

- 1) Closer Integration with EU and SEE: (i) the establishment of a legal, regulatory and institutional framework consistent with that of the EU will established in those areas benefiting from EC assistance, (ii) a substantial increase in inter Entity trade, (iii) active monitoring and enforcement to ensure the proper working of the single economic space.
- 2) Sustainable Local development: An increase in economic activity and employment measured by (i) the percentage of the economically active population engaged in formal employment, (ii) the number of SME start ups and the expansion of existing SMEs (ii) levels of production, trade and investment and exports in the target region and the establishment of functioning institutions supporting local development such as local service providers. Regional disparities in the targeted region are expected to converge towards the national average of per capita GDP and employment.
- 3) Trade development: (i) BiH progress in WTO accession and in bilateral negotiations on free trade agreements, and (ii) an increase in BiH exports to markets previously closed due to BiH's limitations in relations to standards, certification and controls and an increase in domestic consumption (iii) the amount of new investment in BiH as a direct result of the programme and the number of new jobs created.

Cross-cutting issues

The assistance provided to *Economic Reform and Private Sector Development* reinforces and extends the support being provided to *Return* and *Social Cohesion and Development*. Economic growth and increased employment opportunities are seen as preconditions for sustainable return and the alleviation of poverty.

Conditionality

Laws compatible with EU legislation must be adopted at the appropriate level in, inter alia, the following areas: public procurement, competition, intellectual property and foreign direct investment.

In so far as one of the Entities or a sub division of the Entity is the beneficiary of any of the above programmes assistance to that Entity under the programmes is conditional on the active collaboration of the Entity concerned in the passage of State level laws relevant to the creation of a single economic space in BiH.

Adequate financing must be included in the State budget for existing or future institutions required to ensure the proper functioning of the single economic space such as: the Competition Authority, the Consumer Protection Council, the National Institute for Standards.

Both the IFIs and a large number of donors¹ are active in the area of Economic Reform and Development.

Other EC instruments

The activities in relation to trade development are designed to complement the support being provided to Croatia, FYROM, FRY and Bosnia and Herzegovina under the trade facilitation component of the Regional Integrated Border Management Programme.

1.3.2 Social Cohesion and Development

Education

Objectives: to improve the quality of vocational education training and higher education systems moving to European standards and establishing closer links between the vocational education system and the requirements of the labour market.

Expected results

- 1) Improved university administration and curriculum development and greater inter Entity and regional co-operation and networking between universities.
- 2) Better standards of vocational educational training more focused on the needs of the labour market.

Programmes to be implemented

- 1) Continued financial support to the TEMPUS Programme of higher educational reform covering Joint European Projects, individual mobility grants and institution building.
- 2) Technical assistance, training and investment to develop a modern, continuous, flexible and high quality vocational education and training system, responsive to the needs of the labour market, and integrated with the secondary level vocational training programmes. The programme will build on the results of the past EC projects.

Indicators of achievement

- 1) Enhanced management efficiency in higher education institutions, new and revised university curricula, the number of students having followed the new curricula and the length of time required for these students to find employment after completing their studies.
- 2) An increase in the number of vocational educational training graduates in employment.

Cross-cutting issues

The assistance provided to *Social Cohesion and Development* reinforces and extends the support being provided to *Return* and *Economic Reform and Development*. Aligning the

¹ Annex 4 sets out the areas of involvement of the EU member states in BiH which have been communicated to the Commission by the member states.

vocational and higher educational systems more closely with the needs of the labour market will support the transition process and will assist the economy to enter global markets.

Conditionality

Both Entities must adopt legislation by the end of 2003 based on the draft White Paper on VET which will bring the VET system into line with European standards.

Both Entities must cooperate fully in the implementation of the Agreement on the elaboration of a Shared Strategy for the Modernisation of Primary and General Secondary Education in BiH signed on 27 June 2001.

1.4 Environment and Natural Resources

Objectives: to strengthen the capacity of the Ministries and Agencies at Entity level responsible for the water, waste management, and environment, particularly in relation to meeting international obligations and to contribute to a more rational and sustainable use of BiH's natural resources and to enhance environmental protection.

Expected Results

- 1) Environmental capacity building: The sectoral ministries will assume a more active role in the management of the environment and a plan for harmonisation with key elements of the Acquis will be adopted and implemented. BiH will submit regular reports to the European Environment Agency.
- 2) Water sector: Seven River Basin Authorities will be established and will manage water resources within their locality. The supply of potable water will be increased and exploitation of water resources will be carried out under regulation thereby contribution to sustainability. BiH will also participate in international and regional fora addressing the management of shared resources and will enter into bilateral and multilateral agreements.
- 3) Solid waste: (i) Three working waste allocation districts will be established, (ii) pollution controls will be introduced, (iii) a regulated system for managing waste will be established (iv) the Environment Protection Agency will be more capable of addressing solid waste problems, (v) a system for the treatment of medical waste will be designed and (vi) a waste recycling framework will be introduced.

Programmes to be implemented

- 1) Institutional capacity building in the environment sector: Technical assistance, training and investment to strengthen the institutional and human resource capacity of the Entity Ministries and Agencies responsible for the environment. Support will be given to the harmonisation of legislation and standards with the Acquis, in particular in relation to the introduction of Environmental Impact Assessment legislation and procedures, the development of environmental monitoring and reporting in the framework of the requirements of the European Environment Agency, the creation of an Environmental Fund, and the signature of international conventions and protocols. Measures to increase public participation in environmental issues, notably in the area of Environmental Impact Assessments, will be supported.
- 2) Institutional capacity building in the water sector: Continued technical assistance and training in support of the further development of River Basin Bodies, inter-Entity

harmonisation of legislation, the establishment of Licensing Units, the integration of BiH into regional initiatives at Danube and Mediterranean level, and the signature of relevant international conventions and inter country agreements. Targeted investment support in essential infrastructure will also be provided.

3) Solid waste:

- (i) Technical assistance, training and investment to support the creation of Waste Allocation Districts, enactment and enforcement of appropriate legislation introduction of the “polluter pays” principle, and licensing and monitoring of waste management facilities.
- (ii) Technical assistance, training and investment for the formation of a Solid Waste Management Unit within the Environmental Protection Agency, and the development of a policy for medical and hazardous waste, specifying responsibilities for waste segregation, collection, treatment and disposal.
- (iii) Waste Recycling - Technical assistance and training for alignment of waste practices with EU standards through the development of waste recycling, including drafting of recycling standards, identification of sources of finance and implementation plans aimed at reducing future demands on landfill disposal capacity.

Indicators of achievement

- 1) Environment sector: (i) important gaps in the environmental legislative framework inherited from SFRY filled with laws compatible with the Acquis by year 2, (ii) regular reporting and monitoring of the state of the environment (currently non-existent) and reports in the prescribed format submitted to the EEA etc. in accordance with assumed obligations by year 4, (iii) accession by BiH to international environmental conventions, ratification of the Danube River Protection Convention by year 2 and the Aarhus Convention by year 3, and (iv) more consultation of civil society on environmental issues.
- 2) Water sector: (i) the volume and quality of water distributed by the River Basin Bodies and the level of fees collected (90% of invoiced fees by year 3), (ii) the degree of sectoral legislative harmonisation between the entities, (iii) BiH's involvement in international programmes and initiatives to protect water resources.
- 3) Solid waste (i) a reduction in the overall level of untreated waste, (ii) the volume of waste treated in the Waste Allocation Districts and the level of fees collected, (iii) the number of licensed waste management facilities and the degree to which they are monitored (year 4), (iv) a clear harmonised framework based on the Acquis for the disposal of hazardous waste (year 3) and (v) a strategy for increasing recycling (year 4).

Cross-cutting issues

The assistance provided to *the Environment and Natural Resources* reinforces and extends the support being given to *Administrative Capacity Building*. The support will strengthen the institutional and human resource capacity of Ministries and Agencies at the State and Entity levels, increase inter-Entity and regional co-operation, and improve policy-making and the drafting of legislation.

Conditionality

A State level law on the environment providing for the establishment of the Environment Protection Agency must be adopted.

Other EC instruments

The assistance provided under the MIP will be co-ordinated with interventions financed through the LIFE Third Countries Programme and the Regional Environmental Reconstruction Programme (REReP), in collaboration the European Environment Agency (Copenhagen) and the Regional Environmental Centre (Budapest).

Non EU¹ donors active in the area of Environment and Natural Resources include EBRD, the World Bank, USAID and SDC.

1.5 Justice and Home Affairs

1.5.1 The Administration of Justice

Objectives: to support judicial reform in BiH and to develop the capacity of the State and Entity court systems thereby reinforcing the rule of law and respect for human rights.

Expected results

- 1) The Constitutional Court and the State Court operating more effectively.
- 2) Reformed and rationalised court practice and procedure at the Entity, Canton and Municipal levels.
- 3) Enhanced co-operation between the various judicial and prosecutorial systems in BiH.
- 4) The Annex 6 and 7 Dayton Institutions continue to issue opinions and adjudications.

Programmes to be implemented

- 1) Technical assistance/twinning, training and equipment to strengthen the institutional and human resource capacity of the Constitutional Court and the State Court. Investment to address the information technology and communication needs of both courts will be financed.

¹ Annex 4 sets out the areas of involvement of the EU member states in BiH which have been communicated to the Commission by the member states.

- 2) Technical assistance, training and legal advice to the State, Entities, Cantons and Municipalities and the courts in support of the reform and rationalisation of the judicial system, to reinforce judicial independence, improve efficiency and effectiveness, reduce delays in proceedings, and improve the execution of judgements. Computerisation and the establishment of communication networks will be supported. Support may also be provided to the agency responsible for country wide judicial reform.
- 3) Inter-Entity co-operation in criminal, civil and commercial matters will be fostered through the provision of training and technical assistance supported by investment. This programme will take account of the foreseen activities of the IJC in relation to inter Entity Judicial Cooperation. A key activity will be the establishment of a state level Association of prosecutors and judges.
- 4) Support to the Dayton Institutions.

Indicators of achievement

- 1) Number of cases adjudicated by the Constitutional Court and the State Court.
- 2) Reduction in delays before Entity, Canton and Municipal courts, number of judges and officials trained, and higher and faster rates of execution of judgements.
- 3) A regular flow of information between the Entities on civil and criminal matters as measured by regular meetings, seminars, contacts, use of electronic data etc.
- 4) Number of decisions of the Dayton Institutions executed.

Conditionality

The annual budget of BiH must include adequate funding for the Constitutional Court and the State Court. Both Entities must adopt revised criminal procedure codes and laws on the enforcement of court orders.

Both Entities must adopt and implement laws on judicial training institutes.

1.5.2 Policing

Objectives: to strengthen the national authorities' capacity to participate in the international fight against drugs, organised crime, smuggling, money laundering and trafficking in human beings and to support the fight against corruption.

Expected Results

- 1) Enhanced police efficiency and an improvement in the quality of policing with practices converging with EU best practice.
- 2) A number of specific actions resulting in the documentation of corrupt practices successfully completed.

Programmes to be implemented

Initially support will concentrate on investment in police equipment. Following the withdrawal of UNMIBH/IPTF, training will also be provided to address capacity-building and other needs not addressed by IPTF and to ensure sustainability of the IPTF results. Support will also be given to foster cross-border and inter-regional co-operation on matters relating to asylum, immigration, fight against drugs, organised crime, smuggling, money laundering and trafficking in human beings. Support may also be provided for anti-corruption measures which may include assistance for specific actions in relation to particular organisations or bodies as technical assistance and training for the investigating authority.

Indicators of Achievement

- 1) Levels of crime reporting and detection and the degree of public satisfaction/confidence in the police.
- 2) The number of cases of alleged corruption brought before the Courts.

Conditionality

All persons with proven responsibility for ethnic cleansing and/or participation in crimes against returned must be removed from the police services.

1.5.3 Asylum and Migration

Objectives: to enhance State control of the borders and to develop the State's capacity to formulate and implement an asylum and immigration policy aligned with that of the European standards.

Expected results

- 1) Alignment of BiH asylum and immigration legislation with international Conventions and the introduction a visa regime consistent with that of the EU and criminal legislation on trafficking and smuggling in human beings in conformity with the Palermo Convention on Transnational Organised Crime.
- 2) Movements to and from BiH controlled in accordance with new legislation and criminal legislation being enforced.

Programmes to be implemented

Technical assistance, training and investment in essential equipment and infrastructure to strengthen institutional and human resource capacity with respect to the formulation and implementation of asylum and immigration policy harmonised with EU Acquis.

Indicators of achievement

- 1) The number of third country nationals entering/exiting BiH territory in a regular way and the number of asylum seekers granted asylum and assisted in accordance with the new legislation.

- 2) The number of successful criminal prosecutions brought under the legislation giving effect to the Palermo Convention.

Conditionality

The Citizens Identification Protection System should be established and implemented. BiH should document the practical follow up to the Sarajevo Declaration including cooperation with EU immigration liaison officers.

Cross-cutting issues

The assistance provided to *Justice and Home Affairs* reinforces and extends the support being given to *Administrative Capacity Building, Return* and *Economic Reform and Private Sector Development*. The support provided to the judicial system complements the assistance to the executive, legislature and administration. It will also create the conditions for sustainable return by strengthening the rule of law and creating a physically and legally secure environment. Improved border controls will not only facilitate trade and ensure revenue, but will also enable the State to meet its obligations under international security and policing conventions.

Other EC instruments

The assistance will be co-ordinated with regional programmes in support of Integrated Border Management, the fight against drugs, organised crime and trafficking in persons.

1.5.4 Integrated Border Management

Introduction

The integrated approach to border management is ambitious and has clear national policy implications. BiH needs time to discuss and develop a coherent national Integrated Border Management strategy in close co-operation with its international partners. To this end, the strategy and programme preparation will be focused on 2002-2003 with substantive implementation measures taking place in 2003-2004. However, emergency programmes may be addressed earlier where clearly identified. Strategies will need to be discussed for issues of common interest with neighbouring countries (e.g. deciding which priority crossings or common customs approaches). CARDS regional funding will be available to ensure regional networking of involved national agencies between the five countries.

Integrated Border Management Strategies

Objectives: to agree on the overall goals and work plan for integrated border management in Bosnia and Herzegovina.

Expected Results

An Integrated Border Management Strategy that has been nationally agreed, as well as agreed for issues of common interest with neighboring countries.

Programmes to be implemented

Support in 2002/2003 to the government for the development of an integrated border management strategy and for the technical preparation of the specific programmes. The

strategy process will: (i) detail the country's strategic goals in this area, based on a clear analysis of problems and work already completed by CAFAO; (ii) involve detailed discussions and agreement within an inter-service working group of the involved agencies; (iii) identify strategic priorities, programmes and indicators of achievement; and, (iv) prepare a clear and feasible work plan (including specifying studies, technical specifications and terms of reference to be produced) that will be needed to ensure implementation of the strategy.

Cards regional funding will be available to ensure regional networking of involved national agencies between the five countries.

Indicators of achievement

Production of strategies and agreement with neighbouring countries on key issues of common interest.

Integrated Border Management-Border Control

Objectives: to establish greater security at international borders that will diminish cross border crime and illegal immigration.

Expected results

- 1) Effective border security systems integrated with national police systems.
- 2) Demarcation of agreed national borders.

Programmes to be implemented

- 1) Support on border control will emphasise equipment and infrastructure but, as a conditionality, will be complemented by institution building and technical assistance to ensure coherence, sustainability and the overall enhanced effectiveness of the institutions involved.
- 2) The creation of the BiH State border service (SBS) will be supported under integrated border management. International BiH borders with its SEE neighbours shall require additional approaches: (i) an emphasis on control at major border crossing points, (ii) strengthening the national investigative capacity against immigration and smuggling of human beings nationally². A common approach on visa policy and enforcement of immigration needs to be promoted, including regionally standardised procedures and information systems. Co-ordination internationally must be developed both at the preventive level (e.g. exchanges of information) and at the reactive level (e.g. joint investigations against smuggling).

Indicators of achievement

Diminished levels of cross border crime as measured by seizures and arrests.

Integrated Border Management-Trade Facilitation

² This investigative capacity can be built inside the border police service or eventually, regarding local situation, within the criminal police.

Objectives: to facilitate the flow of trade with BiH SEE neighbours and with the EU and candidate countries.

Expected results

- 1) Increased levels of regional trade.
- 2) Completion of border crossings as specified and scoped in the national strategy:
 - (a) Fully integrated facilities by 2006 (i.e. border guards, customs and phytosanitary/veterinary) at the major border crossings on Pan-European Networks (PEN).
 - (b) Facilities on second priority crossings where agreed by the two neighbouring countries involved and included in BiH's border management strategy, although these will be less extensive than those on PENs.
- 3) Enhanced institutional capacities of key agencies involved, including cooperation with counterpart agencies in neighbouring countries.

Programmes to be implemented

Work has already been done on customs and border crossings and a World Bank TTFSE loan has been signed recently. The trade facilitation approach will be led by the work of CAFAO, as set down in the national integrated border management strategy. As regards the border with Croatia, the strategy shall be led by the recent agreement between Croatia and BiH on which border crossings shall be prioritised.

Proposed activities include technical assistance, works and supplies for the construction of the border crossing.

In addition to the work on specific border crossings, the CARDS Regional Programme will also finance interventions: (i) to strengthen the national institutions (primarily customs and veterinary and phytosanitary agencies) involved in processing and handling trade; (ii) to measure crossing times and identify trade flow problems, and to implement improvements often procedural and technical rather than infrastructural (e.g. co-ordination of closure times at border posts or simultaneous processing by involved agencies); and, (iii) to improve infrastructure that may, if necessary and most efficient, be located away within the country far from actual borders (e.g. centralised information technology system).

Co-ordination with the World Bank Transport and Trade Facilitation Programme for South East Europe will be particularly important in the area of trade facilitation and shall be conducted through regular review mechanisms and direct co-operation.

Complementarity and Coordination

The funds for integrated border management have been transferred from the regional Cards envelope, reflecting the key role played by border management in promoting regional cooperation as required under the SAP (see Regional CARDS Strategy).

National implementation permits more effective coordination with other linked national CARDS programmes, a greater degree of ownership by the national governments involved and greater efficiency in implementation (see also 5.2). While originating from the regional

CARDS envelope, these funds will be committed on basis of annual national Orders for Service and implemented via national programme's deconcentrated implementation systems in the normal manner as for any other national Cards programme.

With the need for intensive national discussion and strategy development in 2002/2003, it has been decided to backload the financing of integrated border management programmes to 2004.

Note: The CARDS integrated border management approach is further detailed in the CARDS Regional Strategy Paper.

Annex

Bosnia and Herzegovina
Multi-Annual Indicative Programme 2002 - 2004
Summary

Priorities	Programmes	Financial Allocations (€ million)			
		2002	2003	2004	Total 2002-2004
1. Democratic stabilisation	1.1. Return of refugees and internally displaced persons	23.5	19.5	2.5	45.5
	1.2. Media reform	1.5	1	1	3.5
2. Administrative capacity building	2.1. Customs and taxation reform	9	5	4	18
	2.2. Development of State institutions	1.5	3.5	4	9
3. Economic and social development	3.1. Economic reform and development	11	0	12.5	23.5
	3.2. Social cohesion and development	2.4	4.5	2.5	9.4
4. Environment and natural resources	4.1. Environment and natural resources	6.5	11.5	9	27
5. Justice and home affairs	5.1. The administration of justice	7.5	2	3	12.5
	5.2. Policing	5	5	0	10
	5.3. Asylum and migration	1	5	5.5	11.5
	5.4. Integrated border management (regional envelope)	3	6	14	23
TOTAL		71.9	63	58	192.9

Bosnia and Herzegovina – Main Economic Trends		1997	1998	1999	2000	2001
Real GDP Growth	Percent	37	10	10	5	8
Inflation rate						
	Federation	14	5	-1	2	
	RS	-7	-14	14	15	
Unemployment rate	Percentage of labour force		40	40	40.1	
General government budget balance (% of GDP)	Federation	-1	-2	-1	-2	-2
	RS	0	-5	-5	-3	-3
Current account balance	Percent of GDP		-23.7	-23.3	-22.2	-20.8
Foreign debt	Percent of GDP		71.6	68.2	59.4	54.6
Debt–export ratio	Percent		467	492	345	
Gross foreign debt	Million EUR		3253	3190	2525	
Foreign direct investment	Percent of GDP		2.5%	2.1%	3.3%	
	Million EUR		112	96	138	143
<i>Source: IMF</i>						

The Government of Bosnia and Herzegovina

The System of Government of Bosnia and Herzegovina

Annex 4 of the General Framework Agreement on Peace is the Constitution of Bosnia and Herzegovina. The Constitution defines a state made up of two Entities: Republika Srpska (RS) and the Federation of Bosnia and Herzegovina (FBiH). Subsequent arbitration (1999) also created a third District at Brcko.

The BiH Head of State is a tri-partite presidency representing the three ethnic groups. Its members are directly elected and the chairmanship of the presidency rotates every eight months. The presidency nominates the chair of the executive arm of government, the Council of Ministers. The chairman takes office upon approval by the House of Representatives; he nominates 6 ministers (and 12 deputies) for the six state-level ministries.¹ The Constitutional Court of BiH is the highest and final judicial authority in BiH. It is made up of three international and six national judges (four selected by the FBiH House of Representatives and two by the RS National Assembly).

State-level legislative authority is invested in a bicameral parliament - a 42-seat House of Representatives and a 15-seat House of Peoples. According to the constitution the composition of the parliament is ethnically based; two-thirds of the members of each house are elected by Bosniacs and Croats from FBiH, while the remainder by Serbs from RS. (This provision is under review in the light of a Constitutional Court decision of July 2000.) The 42 deputies in the House of Representatives are elected by direct popular vote; those in the House of Peoples are nominated by the Entity parliaments. All legislation requires approval by both chambers.

All government functions not explicitly attributed to the state are assigned to the Entities.

In RS voters directly elect simultaneously a President and Vice President. The President proposes to the National Assembly a candidate for Prime Minister. The candidate for Prime Minister presents his programme for government and a list of proposed ministers to the National Assembly which may then approve the government. There are four Deputy Prime Ministers.

Parliament is elected by popular vote. The unicameral National Assembly has a Chairman and two Deputies and 83 members. Voters also elect directly Municipal Assemblies responsible for local government.

The RS Constitutional Court has seven judges, proposed to the National Assembly by the President. Judges in the RS Supreme Court and the Office of Public Prosecutor are elected or appointed by the National Assembly.

In FBiH voters directly elect cantonal and municipal Assemblies. They also directly elect 140 members to the FBiH House of Representatives. From the cantonal assemblies 30 Bosnians, 30 Croats and Others are selected to the FBiH House of Peoples. Decisions require the approval of both Houses.

The FBiH Parliament, made up of the House of Representatives and the House of Peoples, elects a FBiH President and Vice President (one Bosniac, one Croat) who

¹ (i) Treasury, (ii) Foreign Affairs, (iii) Foreign Trade and Economic Relations, (iv) European Integration, (v) Civil Affairs and Communications, (iv) Refugees and Human Rights

alternate annually for four years. The Presidency then nominates a Prime Minister and Ministers for approval of the House of Representatives.

The FBiH judiciary consists of a Constitutional Court (with nine judges), a Supreme Court and a Human Rights Court. Judges are nominated by the President and approved by the House of Peoples.

Each of the ten cantons in FBiH also has its own cantonal legislatures, executives and judiciaries. Furthermore, each municipality exercises self-rule on local matters through a Governing Council and municipal courts.

EC and EU Member States Co-operation with Bosnia and Herzegovina

EC AND EU MEMBER STATES CO-OPERATION WITH BOSNIA AND HERZEGOVINA

Areas of intervention	EC	Member States														
		B	DK	D	EL	E	F	IRL	I	L	NL	A	P	FIN	S	UK
Government of BiH/Public Sector																
<i>Institutional support to Common Institutions</i>																
Presidency	✓															
Ministry of Foreign Affairs	✓					✓										✓
Ministry of European Integration	✓															✓
Ministry of Foreign Trade and Economic relations	✓															✓
Ministry of Treasury	✓															✓
Ministry of Civil Affairs and Communications	✓			✓							✓					
Ministry of Human Rights and Refugees	✓										✓					
Parliamentary Assembly	✓															✓
Central Bank	✓															
<i>Institutional support to Entity Governments</i>																
RS			(✓)						✓							✓
Federation									✓							✓
<i>Technical Assistance and capacity building</i>																
Public administration reform	✓														✓	✓
Local government reform	✓			✓											✓	✓
Labour market reform				✓												✓
Education reform	✓		✓				✓		✓			✓		✓		✓
Economic reform	✓		(✓)	✓					✓		✓					✓
Commercial law reform			(✓)	✓												
Pension reform																✓
Prison reform				✓												
Judicial reform	✓			✓		✓						✓			✓	✓

Police reform	✓		(✓)	✓					✓						✓	✓
Health sector reform	✓		(✓)			✓			✓					✓	✓	✓
Social welfare reform	✓													✓		✓
Aid Coordination	✓		(✓)						✓							
Land Registry/Cadastre				✓												
Economic policies			(✓)	✓												✓
Monetary policy				✓												
Employment policies																✓
Regional and local development policies									✓		✓					✓
Agricultural policies	✓			✓					✓							
Industrial policies				✓												
Taxation				✓												
Customs	✓															✓
Transport															✓	
Energy			(✓)	✓					✓							✓
Cross border arrangements	✓			✓		✓			✓							✓
Law enforcement	✓		✓												✓	
Anti-corruption fight, good governance and competition rules				✓		✓									✓	✓
International/organized crime and other illegal activities				✓											✓	✓
Illegal migration				✓												✓
Illegal narcotics	✓			✓												✓
Intellectual, industrial and commercial property																
Consumer protection																✓
Information society																✓
Electronic communication infrastructure and associated services						✓										✓

Social cooperation (industrial and labor market restructuring; social security system; legislation on working conditions and equal opportunities for women and men; protection of health and safety of workers)			✓					✓					✓	✓	✓
Cooperation in the audio-visual field			✓	✓				✓							
Cultural cooperation			✓			✓							✓	✓	✓
Cooperation in research and technological development			(✓)			✓									
Cooperation in Statistics	✓					✓		✓						✓	✓
Others				✓											
Infrastructure															
Public utilities	✓	✓	(✓)			✓		✓			✓				
Energy	✓	✓	(✓)			✓		✓							
Transport	✓	✓	(✓)					✓						(✓)	
Telecom	(✓)													(✓)	
Regional and local development						✓		✓			✓		✓		
Other				✓				✓			(✓)				
EU Integration issues															
Law approximation (acquis)				✓											
Others															
Civil Society/ Non-profit sector															
<i>NGOs/Community organizations</i>															
Trade Unions								✓					✓	✓	
NGO Training/Capacity building	✓		✓	✓		✓		✓		✓			✓	✓	✓
NGO project funding	✓	✓	✓	✓				✓		✓			✓	✓	✓
NGO technical assistance	✓	✓		✓				✓						✓	
Others								✓							
Media															
PBS	✓			✓									✓		✓
Independent TV channels			(✓)											✓	

Independent radio stations			✓						✓						✓	✓
Print media															✓	✓
Journalism training	✓		✓								✓					✓
Journalists' or press associations	✓														✓	
Others																
<i>Refugee issues</i>																
Reconstruction	✓	✓	✓	✓		✓			✓		✓	✓		✓	✓	
De-mining	✓	✓	✓	✓					✓		✓			✓	✓	✓
Property and other legal rights - CRPC	✓			✓		✓			✓		✓				✓	
Economic revitalization projects	✓	✓	✓			✓			✓		✓	✓			✓	✓
Community services and humanitarian aid		✓	(✓)			✓			✓		✓			✓		
Support to UNHCR and other UN agencies	✓	✓	(✓)	✓		✓			✓		✓				✓	✓
Others			✓						✓							
<i>Democratisation and Human Rights</i>																
Minority rights	✓								✓		✓	✓		✓		✓
Women's rights	✓		✓			✓			✓		✓			✓	✓	✓
Dayton Institutions	✓		(✓)	✓		✓			✓		✓			✓	✓	✓
Legal/Rights advisory centres	✓		(✓)			✓					✓	✓			✓	✓
Peace and reconciliation process	✓		✓						✓					✓	✓	✓
Human trafficking		✓	(✓)												✓	✓
Others				✓					✓							
Economic sector																
Banking, insurance and other financial services	✓	✓		✓					✓			✓			✓	✓
Regional Development	✓			✓					✓			✓				✓
Credits	✓	✓		✓					✓			✓			✓	
SME development	✓			✓					✓			✓			✓	✓
Investment promotion	✓			✓					✓						✓	✓
Market competition																
Agriculture, Livestock and Fisheries	✓	✓	(✓)	✓		✓			✓						✓	
Infrastructure	✓	✓	(✓)	✓					✓							

Tourism																	
Chambers of crafts, traders and professionals									✓								✓
Others			(✓)						✓								
Environmental Issues																	
Natural parks	✓								✓								
Waste management	✓	✓	(✓)	✓		✓			✓			✓		✓			
Water management	✓			✓					✓			✓					
Forestry	✓			✓					✓								
Others	✓			✓					✓								✓

(✓) assistance provided, no active programmes

Annex 5

Findings in Relation to Past EC Assistance to BiH

Findings in Relation to Past EC Assistance to BiH

The following conclusions are based on the findings of the 27 monitoring and assessment reports on EC interventions in BiH which have been issued since early 2000 by independent experts contracted by the Commission.

1. Appropriateness of assistance design

Learning from experience: There is evidence that the transfer of experience from donor-funded assistance elsewhere is taking place in some sectors. Thus, lessons of banking reform in other transition countries have been transferred to BiH and this may be one reason for the pronounced success and high impact of assistance in this sector. BiH has benefited, and should be able to benefit further, from experience in the other CEECs in a range of other areas, including privatisation, private sector development, regional development, customs, statistics, social security and agriculture and rural development.

Duration: In general, project durations were found to have been too short for the tasks envisaged, with complex issues given too little time. Even if contract extensions or follow-up phases are envisaged, the EC has been unable to ensure timely of extension and continuity of assistance. Where this leads to interregnums, there has been damage to the performance of the assistance, typically through loss of key staff (support to demining is an example).

2. Organisation and management

Steering arrangements: Steering committees have not been widely used in the implementation of assistance in BiH. In their absence, contractors are left without procedures or structures for formal endorsement of their actions. This situation is now being addressed.

Use of senior national staff in project teams: Building a working relationship with counterpart staff, key interlocutors and other stakeholders in the recipient organisation is fundamental to the success of the assistance. It cannot normally be done quickly and there are obvious implications for the required duration of the implementation period. To date, international staff (principally the Team Leader) have typically been the main interlocutors with recipient organisations, while local staff have rarely been used in senior positions in project teams.

3.

Impact

Recipients: Assistance for which the recipients or beneficiaries were private firms, individuals, state enterprises, associations or municipalities has generally been much more successful, than where recipients were state or entity-level institutions. This is in part due to a stronger sensed ownership by the former category and the existence of a more supportive environment. In the case of support to the banking sector, the banks themselves were stakeholders and have been able to profit from driving the assistance. The profit motive has also been a strong factor in the success of grants to SMEs as well as in the support to the electricity sector, the pig sector and private farmers. It is notable that where profit-making opportunities have been deliberately constrained by project design (support to machinery rings), the assistance has been less successful. This conclusion does not hold in all cases. The principal interlocutors for the return programmes have been municipalities and there has been marked variation in their response and supportiveness. Support to the wood and furniture sector, which was delivered to private firms, was unsuccessful. Conversely, the recipient for vocational training to demobilised soldiers was the Ministry of Education of Sarajevo Canton; an entity level institution, albeit one 'step' down, but assistance was judged to have been broadly successful. Similarly, the recipients of the successful support to demining are the Civil Protection Authorities, both of which are entity-level institutions.

Duration of the assistance: Achievement of impact normally rests on assistance being provided over a number of years, with timely extensions to contract as required. In contrast, if assistance is ended before intended impacts can reasonably be achieved, then impacts are not realised and, in consequence, any results from the first phase of support are jeopardised. A linked requirement is to provide timely follow-up to pilot projects, through funds for replication of the pilot elsewhere.

Piloting is an effective way of testing and refining an approach, but necessitates planning of assistance to allow for replication. Where this has been done the results have been impressive, as in the support to regional development in Tuzla Canton. When no further funding is forthcoming, the lessons of the pilot are quickly lost (support to private farmers is an example). Continuing assistance is also a prerequisite for the realisation of demonstration effects. These may be an intended or serendipitous outcome of the assistance but are unlikely to be realised without assistance continuing for several years. Thus, the demonstration effects from the (substantial and continuing) assistance under banking programmes have been strong, whereas the planned demonstration effects under support to private farmers have not been realised because of the ending of this assistance and the failure to provide any follow-up.

Evolution of the assistance: Assistance works best when contractors and recipients have the opportunity to adjust the design of, and approach to, the assistance in the course of implementation in line with experience and changing needs. Examples include the support to private banks, demining, private farmers and the Quick Impact Facility. This allows dynamic reorientation and encourages the introduction of new products or the organic growth of the recipient organisation in line with stakeholders' needs.

4.

Sustainability

There are a number of factors or conditions, which have proved to enhance, or to be detrimental to, sustainability:

Accurate and comprehensive reporting is necessary (although clearly not sufficient in itself), since it provides a record. This is particularly important where support involves piloting of an approach, with the prospect of replication elsewhere. It is also of greater importance where there are interregnums in the delivery of assistance, with different contractors responsible for successive phases. Efforts are now in hand to ensure an improvement in the quality of reporting.

Preparation of an 'exit strategy' ensures that contractors and recipients think about how to deal with the ending of the assistance and the implications that this will have. Exit strategies may foresee progressive transfer of responsibilities to local staff (including formal inclusion of these tasks in job descriptions), seeking other sources of funding (including revenues through cost recovery) and obtaining partial or full funding for activities from domestic sources. Under new reporting arrangements, exit strategies are now required in inception reports and must be refined and given greater detail as the assistance progresses.

Achievements give the recipient something to sustain. It is clear that if the recipient reaps limited benefits from the assistance, there will be little incentive to install measures to ensure sustainability. Whereas if there are seen to be substantial institutional and personal benefits (in career terms) the incentives are obviously much greater (examples can be drawn from support to the banking sector and demining). Thus, success itself promotes sustainability.

Selected Results of Past Assistance

Return of Refugees and Displaced Persons

Past EC funding has been focused on infrastructure repair, sustainability measures and activities to facilitate the return of Refugees and Displaced Persons. Since 1996, approximately €319 million have been allocated to Integrated Return Programmes (IRP) to facilitate the return of refugees and displaced persons (excluding the CARDS 2001 program).

The funds have been used to implement sustainability measures, rehabilitate properties, basic utilities and social infrastructure. The total number of properties that will have been reconstructed with EC funds (including ECHO) when on-going programmes have been completed will be approximately 25,000 (excluding the CARDS 2001 program).

The main indicator of achievement for assessing the impact of the housing component of the return programmes is the occupancy rate. According to the evaluations over a sample of approximately 10,000 units, circa 80% of reconstructed dwellings were occupied by their pre-war owners on project completion. This already significant figure is likely to increase as a result of the implementation of the property legislation.

With reference to the assessment of the impact of the sustainability measures a study carried out at the end of year 2000 on a sample of 260 beneficiary families shows that such activities had a satisfactory impact upon the objective of creating job opportunities within local communities or meeting immediate survival needs of the returnees. Support was provided in the form of grants for agriculture, for SMEs and for accessing Credit. The resultant products from *Grants for Agriculture* were largely consumed by the beneficiaries and, therefore, used principally to meet immediate survival needs or to facilitate subsistence farming and gardening.

The Grants for SMEs were used for the creation of new enterprises (66%) and the expansion of existing operations (34%) in the building, trade, agriculture and service sectors. The survival rate of these enterprises is high (83%). The grants for accessing credit have proved very effective. The credits were used to establish new businesses or to develop existing businesses. All loan repayments have been met on time and in full. The survival rates were good (above 80%). Furthermore, 86% of the products were sold into the local markets. As a result, the beneficiaries are now extensively integrated into the local economy and approximately 80% of the beneficiaries became credit-worthy and received additional credits.

Transport

The EC has provided some €70 million for the transport sector mostly for projects within the Priority Reconstruction Programme. Major civil aviation, railway, bridge and road projects of the order of €53 have been or are nearing completion, and most of the remaining funds will be contracted soon. The Sarajevo airport terminal has

been rehabilitated, essential equipment supplied for Banja Luka airport and the runway and technical buildings repaired. The rehabilitation of Mostar airport was initiated with the provision of necessary equipment. The construction of a new Air Traffic Control Tower and technical buildings is almost finished.

Through the provision of basic equipment and assistance with track and power lines and systems repair the EC has facilitated the resumption of regular operations by the railways in the main sections of the national network (Sarajevo – Zenica – Doboj – Novi Grad, along Trans-European Corridor Vc). Assistance was also given to the rehabilitation of the trolley lines in Sarajevo in the immediate aftermath of the war.

Four major bridges have been rehabilitated:: Brcko and Raca (linking BiH to FRY), Gradiska (connecting BiH to Croatia)and Karuse.,) The Samac road and rail bridge with Croatia has been entirely reconstructed and is due for completion before the end of 2001. Main road connections were re-established with Community assistance (Priedor-Banja LuKa; Prnjavor-Derventa; Visoko-Lasva; Bihac-Bosanski Petrovac), thus allowing the regular resumption of traffic for goods and passengers.

Where necessary the above projects were accompanied by demining operations.

Water

The EC has provided financial support for priority water projects aimed at rehabilitating damaged systems and inefficient facilities. Under the Sarajevo programme rehabilitation works were carried out at the main water source at Bacevo. A pressure zoning concept was implemented and together with equipment installed in the town this has led to a reduction in unaccounted losses. Water supply in Sarajevo, is now twenty-four hours per day whereas in 1997 it was only for a few hours.

During 1997-2000 a programme for restoring and upgrading water supplies was successfully implemented in Bihac (population 55,000), Bosanska Krupa, Velika Kladusa (population 52,000), Klujc (population 7,000), Sanski Most (population 50,000),Bosanski Petrovac (population 6000), Banja Luka (population 250,000), Ribnik and Sipo (population 10,000) and Bosanski Brod.

Sarajevo

The EC has contributed to the reconstruction of Sarajevo through the rehabilitation of the Secondary Technical School, the buildings of four faculties of the University of Sarajevo, and two schools in Ilidza. Support was also provided for the reconstruction of the Parliament and the preservation of Sarajevo landmarks such as the National Library and the Kosevo Olympic Stadium.

Customs

Through CAFAO assistance BiH customs revenues have increased from KM400 million in 1996 to KM899 million in 2000 and are projected to reach KM1,070 million in 2001. With support from CAFAO the State level customs policy and tariff laws have been adopted and implemented, and a single BiH customs tariff territory has been established. In April 2001, an agreement on international border crossings

was signed between BiH and Croatia. A district customs contract was, furthermore, signed for the Brcko district. Finally, EC has significantly contributed to the establishment of the customs computer system ASYCUDA.

SME Development

Over the last 3 years the EC has been supporting the development of the SME sector through a number of financial instruments and business support projects throughout BiH. These EC funded programmes of support have made a substantial contribution to stimulating the development of SMEs and creating new employment. The EC has spent €15 million on Credit Lines, €2.5 million in grant funds and €5million on Technical Assistance to support this sector. With these Fund, the EC has supported approximately 210 SMEs (10 to 200 Employees) and 7000 Micro Enterprises which in turn has lead to the retention and generation of new jobs for approximately 3500 employees in the SME sector and approximately 14,000 people in the Micro Enterprise Sector.

Vocational Educational Training

A Green Paper on Vocational Education and Training was developed and direct support was provided to 12 vocational schools. 2.660 persons participated in training for demobilised soldiers. About 60% of persons trained found employment.

Agriculture

Since 1996, the EC delivered more than 135.000 poultry, 11.000 sheep and 10.100 pregnant heifers to a total of almost 17.000 beneficiaries. In addition, more than 2.400 pieces of agricultural machinery were provided to approximately 60 machinery rings.

LIST OF ABBREVIATIONS

ASYCUDA	Automated System for Customs Data
BiH	Bosnia and Herzegovina
CARDS	Community Assistance for Reconstruction, Development and Stabilisation
CAFAO	Customs and Fiscal Assistance Office
CBA	Currency Board Arrangement
CTF	Consultative Task Force
DFID	Department for International Development
EAA	European Environment Agency
EAP	Essential Aid Programme
EBRD	European Bank for Reconstruction and Development
EC	European Community
ECHO	Humanitarian Aid Office of the European Commission
EDS	Economic Development Strategy
EIB	European Investment Bank
EIDHR	European Initiative for Democracy and Human Rights
FAO	Food and Agriculture Organisation
FBiH	Federation of Bosnia and Herzegovina
Fed RTV	Radio and Television of the Federation of BiH
FRY	Federal Republic of Yugoslavia
FYROM	Former Yugoslav Republic of Macedonia
GDP	Gross Domestic Product
GFAP	General Framework Agreement for Peace
GTZ	Gesellschaft für technische Zusammenarbeit
KM	Konvertibilna Marka
IAG	International Advisory Group on Payment Reform
IAGP	International Advisory Group on Privatisation
IC	International Community
IFC	International Finance Co-operation
IFI	International Financial Institution
IJC	Independent Judicial Commission
IT	Information Technology
IMF	International Monetary Fund
IPTF	International Police Task Force
LIFE	Financial Instrument for the Environment
MIP	Multi-Annual Indicative Programme
NGO	Non Governmental Organisation
OBNOVA	Community Assistance for BiH, Croatia, FRY and FYROM
OHR	Office of the High Representative
OJ	Official Journal
OSCE	Organisation for Security and Co-operation in Europe
PBS	Public Broadcasting System
PEN	Pan-European Networks
PfP	Partnership for Peace

PHARE	Community aid to certain countries of Central and Eastern Europe
PIC	Peace Implementation Council
PRRP	Priority Reconstruction and Reform Programme
PSDTF	Private Sector Development Task Force
RERep	Regional Environmental Reconstruction Programme
RS	Republika Srpska
RRTF	Reconstruction and Return Task Force
RTVBiH	Radio and Television of BiH
RTRS	Radio and Television of Republika Srpska
SAA	Stabilisation and Association Agreement
SAP	Stabilisation and Association Process
SBS	State Border Service
SEE	South East Europe
SEED	South Europe Enterprise Development
SFOR	Stabilisation Force
SFRY	Socialist Federal Republic of Yugoslavia
SME	Small and Medium-Sized Enterprises
TA	Technical Assistance
TEMPUS	Trans-European Co-operation Scheme for Higher Education
TTFSE	Transport and Trade Facilitation Programme for South East Europe
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNMIBH	United Nations Mission in Bosnia and Herzegovina
USAID	United States' Agency for International Development
VAT	Value Added Tax
WB	World Bank
WTO	World Trade Organisation