

Bosnia and Herzegovina

The Development Challenge: Bosnia-Herzegovina (BiH) continues to struggle with the structural challenges of the Dayton Peace Accords. Composed of two entities, the Federation and the Republika Srpska, and with a weak state government, the arrangement places few demands on the three ethnic groups to work together. Add to that the fact that the three Serb, Croat and Bosniak (Muslim) hard-line parties have all returned to power, and the result is a country with very little centralized power, whose ethnic rivalries turn even the smallest decisions into political stalemates. As a result, BiH functions in large part as an international protectorate, with the Office of the High Representative (OHR) stepping in to impose decisions that the governments refuse to implement. The entity structure also imposes far too great a financial burden on BiH, which has a population of four million and GDP of \$5.2 billion. In the Federation, the situation is even more critical, as that entity is broken down into 10 cantons, all of which have their own mini-state structures that duplicate entity and state institutions. Given BiH citizens' almost universal approval of their former ruler, Tito Broz, the advent of democracy has always been viewed with some ambiguity. Multi-layered bureaucratic structures make it difficult for reformers to initiate significant change, thus provoking a sense of resignation in the population when it comes to electing officials. This sense of resignation was reinforced by the failure of the moderate Social Democratic Party (SDP) to make a noticeable difference in government. As a result, the hard-line parties were voted back into power in 2002, with one of the lowest voter turnouts in BiH history.

In contrast to its political problems, BiH has achieved significant success in the banking sector, enjoying a stable currency (linked to the Euro) and an absence of inflation. The Central Bank is probably the most trusted institution in the nation, while the private banking sector has consolidated and grown stronger, thanks in large part to USAID's support for deposit insurance. Bank deposits increased by 30% in the first year of the program and 17% over the past year. OHR has used input from local businesspeople to push through reforms that make it easier to own and operate a business in the country. Nevertheless, BiH is still only at the beginning stages of transition to a market economy. Per capita income stands at about one-half the pre-war level, making BiH one of the poorest countries in the region. The public sector dominates the economy, accounting for about two-thirds of the country's \$5 billion GDP. Political uncertainty, slow progress on privatization and the prevalence of organized crime and corruption deter both domestic and foreign investment. On a brighter note, a USAID-conceived initiative to recompute all judicial positions throughout the country has resulted in a restructuring of the court system, and thus improved the quality of justice for all citizens.

The overriding U.S. interest in Bosnia remains the conversion of this multi-ethnic country from a source of regional instability to a peaceful, viable state on the road to European integration, along with its neighbors. U.S. assistance in creating new laws and robust institutions will help prevent terrorists from using Bosnia and Herzegovina to threaten American citizens and interests, a high priority goal.

The USAID Program: USAID is addressing BiH's development challenges through a program targeted at economic transformation, democratic reform, and the reestablishment of multi-ethnic society. USAID's economic programs focus on supporting small- and medium-sized businesses, enhancing government services and accountability through improved treasury and tax collection systems, and strengthening the banking sector and commercial law regimes. The mission's democracy programs are promoting greater transparency and professionalism in the legal sector, helping moderate political parties to modernize and become more issues-based, increasing citizen participation through support to NGOs and independent media, and improving responsiveness and efficiency in local government. Efforts to re-establish a multi-ethnic society are focused on providing access to basic services through repairing infrastructure, improving the economic self-sufficiency of returned refugees, and strengthening institutions responsible for the delivery of power and water. Cross-cutting programs support the previous three areas with a wide range of participant training activities, as well as combating trafficking in persons, promoting values, and helping children at risk.

Other Program Elements: Risknet is a USAID regional project managed out of USAID's Regional Support Center in Budapest. Through cross-border activities, Risknet represents a regional approach to reducing the transmission of the HIV virus by reaching such high-risk behavior groups as intravenous

drug users and youth and increasing knowledge about risk factors. The program aims to increase outreach and activities for HIV prevention among vulnerable populations and improve harm reduction activities on a regional level.

The Commercial Dispute Resolution project seeks to promote, develop, and support effective commercial dispute resolution in countries within the Europe and Eurasia region. It is managed by the Europe and Eurasia Bureau's Office of Economic Growth.

USAID's Global Trade Network is a program designed to assist BiH businesses to build partnerships with firms in the U.S. and South-East Europe. GTN provides free services and information to BiH businesses. The assistance helps them increase trade, implement joint ventures, and enter into licensing and franchise agreements. GTN facilitates linkages between Bosnian firms and firms in Croatia, Albania, Romania, Hungary, Bulgaria, Macedonia, Montenegro, and the U.S. through qualified trade leads. The program is managed by the Bureau for Economic Growth, Agriculture and Trade.

Other Donors: The International Bank for Reconstruction and Development (IBRD) and European Union (EU) are the two largest donor institutions in BiH, with the U.S. being the largest bilateral donor. Other significant contributors include the German, Swedish, Dutch and Japanese governments, as well as the European Bank for Reconstruction and Development (EBRD). USAID works closely with the German, Swedish and Dutch governments, who support minority returns through housing reconstruction in areas where USAID funds infrastructure. USAID also collaborates closely with other major donors in the World Bank Power III project. Partners in this project include the Spanish, Italians, Norwegians, Japanese, Canadians, and EBRD. On the economic front, USAID works closely with the IBRD, EU, International Monetary Fund (IMF), German Organization for Technical Assistance (GTZ) and the EU's Customs and Financial Assistance Office (CAFAO) on a variety of issues. In the democracy sector, Rule of Law activities are coordinated with the EU and the Organization for Security and Cooperation in Europe (OSCE), while media and civil society projects include collaboration with the Soros Foundation and the EU. Governance activities support efforts by OSCE, Swedish International Development Agency, the Dutch Embassy, IBRD and the IMF.

Data Sheet

USAID Mission:	Bosnia and Herzegovina
Program Title:	Economic Restructuring
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	168-0130
Proposed FY 2004 Obligation:	\$8,226,000 AEEB
Prior Year Unobligated:	\$3,660,000 AEEB
Proposed FY 2005 Obligation:	\$9,000,000 AEEB
Year of Initial Obligation:	FY 2001
Year of Final Obligation:	FY 2008

Summary: USAID is working to ensure development of a vibrant private sector-led economic growth through: 1) continuing economic policy reform to create a legal and regulatory environment that enables business entry, development, and investment; 2) developing and strengthening the financial intermediaries needed to ensure that SMEs have adequate access to financing; and, 3) strengthening the capacity of SME managers and owners to operate and compete in the global economy. In addition, USAID is assisting the BiH Government in becoming fiscally responsible by improving transparency and accountability of budget formulation and execution and streamlining tax administration, which will contribute to creating a stable macroeconomic environment in which SMEs can flourish.

Inputs, Outputs, Activities:

FY 2004 Program:

Cluster Competitiveness: (\$2,826,000 AEEB, \$3,660,000 AEEB carryover). The Cluster Competitiveness Activity (CCA) will develop competitiveness of the agribusiness, wood processing, and tourism industries by forging a strategic partnership between the public, private, and civil societies in order to remove obstacles to enterprise development, which will lead to jobs, investment, and economic growth. CCA will also provide technical assistance and financing to firms in the targeted industries. Implementer is to be determined.

Commercial Law Reform (\$1,400,000 AEEB). Effective collateral and bankruptcy systems, successful WTO accession, and streamlined judicial processes are critical to stimulating investment and lending in BiH. These core elements of economic growth will build the foundation for more efficient and predictable business practices in which credit and investment can be made with fewer systemic obstacles. The activity will train stakeholders in the new bankruptcy, collateral, and civil procedure laws; conduct pilot bankruptcy cases; streamline court administration (in conjunction with other donors); and provide direct technical assistance to the Ministry of Foreign Trade. Principal contractor is Chemonics.

Mobilizing Capital for SME's (\$3,000,000 AEEB). USAID will develop alternative sources of long-term financing for SMEs through introduction of primary mortgage and leasing markets. The key to success for development of these markets is a reliable secured transaction regime in real estate and moveable properties. Improving and facilitating the process by which real estate or moveable properties are owned, bought and sold, leased, developed, financed, and transferred encourages private investment, generates jobs, and fosters economic growth. This activity will address issues of securing titles, developing brokers and credit bureaus, improving the appraisal of real property, and fostering mechanisms for mortgage lending and leasing. Implementer is to be determined.

Energy Sector Restructuring (\$1,000,000 AEEB). In FY 2004, USAID will continue, in cooperation with World Bank and other donors, to work on restructuring of the national energy sector in order to make it competitive and more transparent under a modern energy regulatory framework. FY 2004 funds will be used to provide consultation and professional assistance to the State and Entity Ministries for Energy in the formation of the Transmission Company, and Independent System Operator, including registering and

licensing. The process of restructuring the electricity sector is of crucial importance for privatization of the sector and the integration of Bosnia and Herzegovina into the European Union. Principal contractors are Pierce Atwood Attorneys and PA Consulting.

FY 2005 Program:

The following activities are expected to be incrementally funded with FY 2005 AEEB funds:

Cluster Competitiveness Activity (\$2,600,000 AEEB). USAID will continue to develop public-private partnerships to foster development of the agribusiness, added-value wood, and tourism industries.

Mobilizing Capital for SME's (\$3,000,000 AEEB). By developing a lending environment for SMEs through primary mortgage and leasing markets, USAID will improve the process of the sale of real estate and movable properties.

Commercial Law Reform (\$1,400,000 AEEB). In the second year of this project, pilot bankruptcy cases will be conducted in order to test the effectiveness of new court procedures and laws.

Development Credit Authority (\$1,000,000 AEEB). USAID will enter into agreements with strong local banks by securing 50% of the principal of loans issued by banks with their own funds; the ultimate goal is to provide SMEs with long-term financing.

Energy Sector Restructuring (\$1,000,000 AEEB). USAID will continue to restructure the national energy sector. USAID will continue to work in FY 2005 with the international donors who are part of the Power III consortium to strengthen the State Regulatory Commission and to set up the Single Transmission Company and the Independent Systems Operator. This will include the training of the regulators as well as drafting of additional legislation, rules, and regulations.

Performance and Results: USAID's work on developing private sector-led economic growth through its CGBIP and Business Finance Project (BF) has significantly contributed to the development of a vibrant and sound banking sector and generated new jobs. The seven-year long BF activity, which is drawing to a close, is directly responsible for introducing modern banking into BiH, creating over 15,000 new jobs, and protecting 30,000 existing jobs. The total deposits in the banking system have grown to \$3 billion in FY 2003 from \$2.5 billion in FY 2002, while outstanding loans have grown to \$2.4 billion in FY 2003 from \$1.9 billion in FY 2002. Further work by USAID in developing a stable macroeconomic environment included assisting the BiH Government in becoming fiscally responsible by improving transparency and accountability of budget formulation. Execution and streamlining tax administration produced significant results in FY 2003 as well: a surplus of \$20 million in the State and entity budgets; and an 8% increase in tax revenues. The financial management information system is now operational in the State, both entities, and six of the ten federation cantons.

USAID's overall efforts in creating a stable macroeconomic environment have supported BiH's improved ranking on the Wall Street Journal's Heritage Foundation Economic Freedom listing. BiH is currently ranked 139th, compared to 1998 when it ranked 150th. (Total countries ranked are 156. BiH was not ranked in 1997). By the conclusion of the program, the private sector share of GDP will reach 40%.

Data Sheet

USAID Mission:	Bosnia and Herzegovina
Program Title:	Multi-Ethnic Democratic Society
Pillar:	Democracy, Conflict and Humanitarian Assistance
Strategic Objective:	168-0210
Proposed FY 2004 Obligation:	\$11,999,000 AEEB
Prior Year Unobligated:	\$5,270,000 AEEB
Proposed FY 2005 Obligation:	\$10,800,000 AEEB
Year of Initial Obligation:	FY 2000
Year of Final Obligation:	FY 2007

Summary: This program seeks to: 1) increase citizen participation in political and social decision making; 2) strengthen legal systems that promote increased access to justice; and, 3) develop more responsive, transparent, and accountable governance. The Mission's democracy portfolio has moved from a macro to a local level focus to provide citizens with greater opportunities for participation and control over the direction their country takes.

Inputs, Outputs, Activities:

FY 2004 Program:

Rule of Law (\$ 3,530,000 AEEB, \$1,860,000 AEEB carryover). USAID is promoting greater transparency in legal institutions, improved court and prosecutor management and administrative capacities, the professionalization of lawyers, judges, and administrative personnel, an independent judiciary, and the creation of an effective demand for justice by citizens. Principle implementers are ABA/CEELI and the Center for Institutional Reform and the Informal Sector (IRIS).

Political Processes (\$1,816,000 AEEB, \$350,000 AEEB carryover). This program provides focused support to political parties on modernization and coalition building; parliamentary support promoting professional development and efficiency of caucuses and committees; improved policy-related communication strategies, and targeted work at the local level promoting issues-based politics as municipal election approach in October 2004. In addition, it is working with local policy analysis organizations in order to encourage issues-based politics and improve policy outcomes. Principal grantees are the International Republican Institute and the National Democratic Institute.

Civil Society (\$3,673,000 AEEB, \$1,610,000 AEEB carryover). USAID's DemNet program nurtures a core group of NGOs capable of leading sector and social reform in the areas of democracy and human rights, rule of law, economic development, and social safety nets. The United Methodist Committee on Relief (UMCOR) implements a program designed to encourage domestic philanthropy. Through the International Center for Not-for-Profit Law (ICNL) USAID supports a program designed to make BiH's legislative and tax framework amenable to the development of the NGO sector. The Urban Institute has begun an activity to strengthen indigenous policy analysis and development capacity. The Support to Independent Media (SIM) Program, implemented by contract through Chemonics, is designed to improve the quality of news and programming available to all citizens of BiH by providing training and technical assistance to independent media outlets in newsroom management, business development, independent production, and legal/regulatory issues. Principal grantee is America's Development Foundation.

Governance (\$2,980,000 AEEB, \$200,000 AEEB carryover). USAID, through the Cooperative Housing Foundation, is promoting efficient, transparent local governance in central Bosnia by improving services from local governments and strengthening business and homeowner associations. A second local government initiative focusing on northern Bosnia is implemented by PADCO, Inc. and is restructuring the way municipal governments in Northern Bosnia (including Brcko District) do business by dramatically improving customer service provision. Through a Development Credit Authority agreement with

Volksbank BH, USAID has committed to guaranteeing 50% of a municipal loan portfolio up to a value of \$25 million for loans that serve local developmental purposes, and result in increased revenues or decreased costs for municipalities. USAID intends to initiate a new local governance program in mid-2004 which will work directly with local governments in southern Bosnia-Herzegovina. The implementer for this new program has yet to be determined.

Anti-trafficking (\$250,000 AEEB carryover). USAID will fund a project to combat trafficking in human beings by using a human rights framework through effective participation of citizens and civil society in the decision-making process. The implementer is to be determined.

Children at Risk (\$1,000,000 AEEB carryover). USAID helped fund an assessment conducted by UNICEF of BiH's most vulnerable children and the capacity of the government and society to meet their needs. USAID plans to continue its involvement by helping to design and implement action plans based on the result of the assessment. Implementer to be determined.

FY 2005 Program:

Rule of Law (\$3,200,000 AEEB). USAID plans to continue support to rule of law and justice sector reform in FY 2005 with added emphasis on courts, State judicial institutions, and the State Ministry. Implementer to be determined.

Political Processes (\$1,500,000 AEEB). USAID plans to continue support to political parties on modernization and coalition building; parliamentary support promoting professionalism and efficiency, and targeted work at the local level promoting issues-based politics. Implementers will be NDI and IRI.

Civil Society (\$3,200,000 AEEB). USAID plans to continue limited support to civil society groups in FY 2005, with particular emphasis on direct grants to indigenous organizations. Large-scale training projects will be phased out, as supply has largely met demand. USAID will continue to assist Bosnian policy organizations to make contributions to legislative systems. USAID will continue support to independent media outlets with increased focus on advanced business, journalism, and production techniques.

Governance (\$2,900,000 AEEB). USAID plans to continue as the lead donor in reforming Bosnia's currently inefficient and unsustainable structures of governance. USAID will continue to make local governments more efficient, accountable, and better able to promote local economic development. Implementers to be determined.

Performance and Results: As a result of USAID support to independent media, audience share of private TV stations has doubled within the last two years. USAID-sponsored parliamentary internship programs have increased the policy development capacities of legislatures, while offering talented university students an introduction to public service. USAID was instrumental in working on the execution of a judicial reform initiative resulting in a country-wide restructuring of the court system and a re-competition of every judicial and prosecutorial position. As a result of USAID's investments, objective local government performance measures have improved considerably, as has citizen perception of this level of government. USAID opened 22 "one-stop shops", which have reduced waiting times for local government services. USAID has pushed forward a number of public administration reform initiatives which have the potential to greatly improve the efficiency and accountability of governance structures in BiH.

Data Sheet

USAID Mission:	Bosnia and Herzegovina
Program Title:	Minority Returns
Pillar:	Economic Growth, Agriculture and Trade
Strategic Objective:	168-0311
Proposed FY 2004 Obligation:	\$3,856,000 AEEB
Prior Year Unobligated:	\$400,000 AEEB
Proposed FY 2005 Obligation:	\$2,500,000 AEEB
Year of Initial Obligation:	FY 2001
Year of Final Obligation:	FY 2005

Summary: This USAID program assists minority returnees and displaced persons in returning to their homes, thus helping to re-establish a multi-ethnic society. USAID's program focuses on access to basic utilities and services, and on improving economic self-sufficiency for returnee families. As an integral part of institutional strengthening activities that were initiated in order to assist public utility companies, USAID continues to provide support in the restructuring of the energy sector in Bosnia and Herzegovina.

Inputs, Outputs, Activities:

FY 2004 Program:

Access to Basic Services (\$1,326,000 AEEB, \$200,000 AEEB carryover). USAID will use FY 2004 funds to benefit up to 1,000 households of minorities returning to their communities through the provision of basic services, such as water and electricity, and the reconstruction of schools. USAID will continue leveraging its resources by entering into partnerships with other donors or local authorities who will provide funds for housing reconstruction. The contractor is Parsons of Delaware (prime).

Improving Economic Self-Sufficiency (\$2,530,000 AEEB, \$200,000 AEEB carryover). In FY 2004 USAID will continue to provide economic opportunities to selected minority returnee communities throughout Bosnia and Herzegovina. Targeted will be families that cannot avail themselves of any type of existing credit mechanisms. Strengthening of economic activities in returnee communities ensures the sustainability of those who have returned. In FY 2004, USAID will support approximately 2,000 returnee families with suitable aid, such as small grants or social loans. Additionally, 40 local communities and/or NGOs will be provided with adequate training for capacity building and community advocating. In FY 2004, USAID also will support returnee farmer groups engaged primarily in dairy production. This activity will demonstrate to returnees the benefits of collaboration and help them to organize themselves into an appropriate cooperative model. Agricultural cooperatives or associations will then be trained and assisted in business management, product development, and market linkages development. Grantee is Land O' Lakes.

FY 2005 Program:

Improving Economic Self-Sufficiency (\$2,500,000 AEEB). In FY 2005, USAID will request funds for the continuation of the improvement of economic opportunities for minority returnees. In FY 2005 USAID intends to build up the sustainability of the most vulnerable minority returnee families through the provision of appropriate income generation opportunities. FY 2005 implementers will be U.S. registered NGOs in cooperation with local NGOs. Currently, economic initiatives include provision of the loans and grants through UMCOR (United Methodist Committee on Relief) and IRC (International Rescue Committee).

Performance and Results: USAID's support in re-establishing multi-ethnic society through facilitation of minority returns has exceeded its targets. The lives of more than 129,000 minority returnees were directly impacted through the provision of access to basic services, including electricity, water, schools, health centers, and roads/streets. Seven hundred and fifty families were directly impacted, representing one-

fifth of the total minority returns registered since 2000. Sustainability of those returns is ensured through provision of economic opportunities such as small grants and loans. To date, more than 1,950 families received some type of economic incentives that contributed to income generation. The grants/loans were provided for agriculture activities (75%), services (16%), production (5%) and trade (4%). One third of the total number of disbursed grants/loans was provided to women.

Data Sheet

USAID Mission:	Bosnia and Herzegovina
Program Title:	Cross-Cutting Programs
Pillar:	No pillar info
Strategic Objective:	168-0420
Proposed FY 2004 Obligation:	\$2,919,000 AEEB
Prior Year Unobligated:	\$327,000 AEEB
Proposed FY 2005 Obligation:	\$3,200,000 AEEB
Year of Initial Obligation:	FY 2004
Year of Final Obligation:	FY2007

Summary: Funds provided under this program support objective are used to provide program support and technical expertise that enables the Mission to develop, monitor, and evaluate program implementation and to carry out assessments of current activities. In addition, funds support cross-cutting programs in Participant Training and Children at Risk.

Inputs, Outputs, Activities:

FY 2004 Program:

Program Development and Support (\$919,000 AEEB, \$327,000 AEEB prior year recoveries). In addition to supporting the operations and personnel costs of the program personnel who manage USAID's on-going activities, FY 2004 funds will support evaluations, assessments, surveys, and studies that are needed to fully inform program planning and program design.

Participant Training (\$1,000,000 AEEB). Training, which supports USAID's technical assistance program in BiH, will continue. It provides short-term technical training to mid- or high-level professionals from the public and private sectors of BiH. Training programs are conducted in the U.S., in third countries, or in-country, and are designed to directly complement USAID activities in support of economic growth and reform, infrastructure rehabilitation, and democracy building. USAID will continue to send senior- and mid-level Bosnian professionals for training. Training program implementer is World Learning.

Children at Risk (\$1,000,000 AEEB). USAID is designing a project to assist in transformation of the public child care system in BiH and provide support and alternatives for children at risk. Implementer is to be determined.

FY 2005 Program:

Program Development and Support (\$900,000 AEEB). In addition to supporting the operations and personnel costs of the program personnel who manage USAID's on-going activities, FY 2005 funds will support program implementation and the evaluations, assessments, surveys and studies that are needed to fully inform program planning and new program design.

Participant Training (\$1,000,000 AEEB). USAID plans to use FY 2005 resources to maintain the continuity of Participant Training funding that supports overall program goals. Under this program, USAID will send over a hundred senior and mid-level Bosnian professionals to the United States and other countries for training. Selected participants will be those with decision-making roles in their organizations, who will have an immediate and substantial impact in their institutions in the sectors of physical reconstruction, economic restructuring, and civil society development. Implementer is the same as above.

Children at Risk (\$1,000,000 AEEB). USAID will fund a project to assist in the transformation of the public child care system in BiH and provide support and alternatives for children at risk. The aim of the project will be to insure that the transformation of the public care system for children is accomplished

through a process that brings together government authority and non-governmental expertise. Implementer is to be determined.

Anti-Trafficking (\$300,000 AEEB). USAID will continue to fund an anti-trafficking legislative reform project. The project will focus on legislative human rights approach through developing the anti-trafficking legal framework. USAID will also fund the Prevention and Awareness-Raising Campaign on Trafficking in BiH. The purpose of the Campaign is to provide education about the risks and dangers of the involvement in trafficking, including the transmission of HIV/AIDS. Grantee to be determined.

Performance and Results: This program support objective begins in FY 2004. Results will be reported in next year's Congressional Budget Justification.