

## **Bosnia and Herzegovina**

**The Development Challenge:** Seven years after the end of the war, Bosnia-Herzegovina (BiH) is still struggling to overcome the political, economic and societal effects of the conflict. After two years of moderate--but ineffectual rule, many voters stayed home on election day. Although the nationalist parties lost ground in numbers of voters (compared to prior elections), the citizens who went to the polls in October 2002 put the hard-line parties back in power at the State level and in both entities. As these are the same nationalist parties that drove BiH into the war, the task of promoting cooperation and reduction of political and administrative barriers among the entities may become more challenging in the near future. It is not yet clear how the shift back to nationalism will affect the high number of minority refugees who are continuing the return to their pre-war homes. In the first nine months of 2002, over 80,000 minority returns were recorded throughout the country. Many of these returns are taking place in areas such as Srebrenica, where some of the worst wartime atrocities took place. On the economic front, BiH also faces unique challenges. Unlike many other former communist countries in the region, BiH never experienced an economic collapse until the advent of war. As a consequence, policymakers often look back to the pre-war years as a model for economic transformation rather than embracing market-driven reforms. Official figures for unemployment hover at 40%. However, some experts think the true figure is closer to 25% due to the large grey economy, which has played a vital role in keeping the country afloat and avoiding civil unrest. Most observers, however, feel that BiH is far enough along in its transition to a market economy that the grey economy has outlived its usefulness--especially since its negative effects include erosion of the government's tax base, preventing it from providing needed public services. Bureaucratic barriers to starting new businesses are so cumbersome that the Office of the High Representative (OHR) recently created a taskforce to find ways to lessen the administrative burdens. Corruption is also a problem. According to Human Rights Watch, trafficking in women and children continues to flourish. It is estimated that over 2,000 victims have been trafficked into BiH.

U.S. foreign policy priorities in BiH include: fighting corruption, terrorism, organized crime--including human trafficking; building a viable and democratic criminal justice system; building effective and integrated state-level law enforcement institutions; developing a state-level unified military eligible for membership in NATO's Partnership for Peace program; accelerating BiH's progress toward transition to a market economy; and promoting democratic institutions capable of successfully resolving political disputes, particularly those arising from ethnic differences.

**The USAID Program:** The U.S. assistance program strives for a stable Bosnia-Herzegovina with a functioning and dynamic free market economy and a democratic society. The Data Sheets provided below cover the three strategic objectives for which USAID is requesting funds. Since its inception in 1995, USAID's program portfolio in BiH has shifted focus from an emergency assistance program designed to restore basic living conditions and enable the restart of economic activities, to one with the following three strategic objectives: 1) accelerated development of the private sector (by supporting macroeconomic reforms, sound fiscal policies, and a viable banking system); 2) a more participatory, inclusive democratic society (by fostering a professional, independent judiciary, independent media, free and fair elections, a responsive and transparent government, and citizen advocacy coming from a robust civil society); and 3) sustainable minority returns (through the provision of community based infrastructure and services).

On the economic front, among the new programs to be established in FY 2003 are: 1) Targeted assistance to provide comprehensive technical and financial assistance to key industries that offer BiH the greatest opportunity for growth; and 2) Technical assistance to establish commercial sections in the courts, and to train judges, appraisers, lawyers and trustees in improved mechanisms to expedite commercial legal disputes.

USAID-sponsored courses dealing with credit risk and consumer lending are also helping banks to increase their lending significantly. A comprehensive assessment of banking needs directed USAID to support the creation of a movable property collateral registry which will further lift constraints to lending.

Refugee returns will be facilitated by USAID through the year with the repair of community-level infrastructure as well as provision of small income generation grants and loans to returnees.

In the fall of 2002, USAID entered into a contract for a new three-year activity that will address administrative obstacles to the rule of law at the municipal and cantonal levels, thereby providing crucial assistance in an area of reform otherwise neglected by the international community in BiH. Rule of law will also be strengthened in FY 2003 as ABA-CEELI continues to work on major reforms such as developing the bar, working with OHR on legal reforms and promoting legal advocacy.

In FY 2003, USAID plans to target resources towards assisting vulnerable segments of society. These efforts will be based on USAID's support in 2002 for a UNICEF-led assessment of children at risk in BiH. The assessment helped build the capacity of local partners in conducting participatory research with children and will be followed by a series of action plans to address the findings. USAID/BiH, through the International Organization for Migration (IOM) is providing support for safe houses that provide housing and medical care for trafficked women. The effort has assisted over 400 women to date.

In FY 2003, USAID will also continue to complement its three strategic objectives by sponsoring participant training for decision makers throughout the country. Previous training topics have ranged from international accounting standards to multiethnic governance to legislative drafting. The training strengthens the knowledge and skills of BiH professionals by offering an opportunity to examine U.S. models and approaches. Competitively selected participants are those with decision-making roles in their organizations who will have an immediate and substantial impact on effecting change in Bosnia and Herzegovina.

**Other Program Elements:** USAID/BiH currently manages or funds all of its ongoing programs.

**Other Donors:** The World Bank and European Union (EU) are the two largest donor institutions in BiH, with the U.S. being the largest bi-lateral donor. Other significant contributors include the German, Swedish, Dutch and Japanese governments, as well as the European Bank for Reconstruction and Development (ERBD). USAID works closely with the German, Swedish, and Dutch governments which support minority returns through housing reconstruction in areas when USAID funds infrastructure. USAID has worked closely with the World Bank in the water sector, and the EU has played a major role in reforming water laws and policies on the entity level. USAID also has close collaboration 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 European Commission, the World Bank, and the German assistance agency Society for Technical Cooperation (GTZ) in carrying out its activities. Rule of Law activities are coordinated closely with the Office of the High Representative (OHR).

**Bosnia and Herzegovina  
PROGRAM SUMMARY**

(in thousands of dollars)

<b>Accounts</b>	<b>FY 2001 Actual</b>	<b>FY 2002 Actual</b>	<b>FY 2003 Prior Request</b>	<b>FY 2004 Request</b>
Asst. for E. Europe and the Baltic States	79,924	65,005	50,000	44,000
<b>Total Program Funds</b>	<b>79,924</b>	<b>65,005</b>	<b>50,000</b>	<b>44,000</b>

**STRATEGIC OBJECTIVE SUMMARY**

168-0130 Economic Restructuring				
AEEB	10,667	18,297	10,158	13,207
168-0210 Multi-Ethnic Democratic Society				
AEEB	7,232	16,739	11,624	9,709
168-0310 Reduced Human Suffering and Crises Impact				
AEEB	41,455	0	0	0
168-0311 Minority Returns				
AEEB	1,054	11,783	8,273	3,184
TRANSFER				
AEEB	19,516	18,186	19,945	17,900

Mission Director,  
Howard Sumka

## Data Sheet

<b>USAID Mission:</b>	Bosnia and Herzegovina
<b>Program Title:</b>	Economic Restructuring
<b>Pillar:</b>	Economic Growth, Agriculture and Trade
<b>Strategic Objective:</b>	168-0130
<b>Status:</b>	Continuing
<b>Proposed FY 2003 Obligation:</b>	\$10,158,000 AEEB
<b>Prior Year Unobligated:</b>	\$14,465,000 AEEB
<b>Proposed FY 2004 Obligation:</b>	\$13,207,000 AEEB
<b>Year of Initial Obligation:</b>	FY 2001
<b>Estimated Completion Date:</b>	FY 2006

**Summary:** USAID's program to accelerate development of the private sector includes: improved management of government expenditures through a transparent and efficient treasury function; a functioning competent commercial law regime that upholds the rule of law in business transactions and builds investor confidence; an accountable, transparent, and modern tax administration that streamlines compliance and reduces tax evasion; improved financial intermediation to entrepreneurs by commercial banks through identification of potentially profitable lending gaps and design and implementation of new products; strengthening of business advocacy groups' ability to improve the policy environment which will promote investment in BiH and increase public access to economic information affecting such policy debates.

### **Inputs, Outputs, Activities:**

#### **FY 2003 Program:**

Fiscal policy (\$2,591,500 AEEB). USAID will use FY 2003 funds to advance an ongoing effort to modernize and strengthen all 10 Cantonal treasuries in the Federation of Bosnia-Herzegovina. This will further strengthen transparency and accountability in public finances, and enable improved budgeting processes. It will eventually produce a healthier fiscal balance. The principal contractor is Deloitte Touche Tohmatsu.

Financial sector development (\$550,000 AEEB). USAID will continue to fund the financial sector business advocacy activity, aimed at increasing financial intermediation through establishment of a group of senior banking leaders, who will work together to identify new market opportunities. The principal contractor is IBM/PriceWaterhouseCoopers.

Commercial law reform (\$6,600,000 AEEB). This major new activity to strengthen the commercial law regime will focus specifically on implementing of bankruptcy and collateral laws. It will aim to establish a sustainable commercial law training institute at which over 50 judges, 100 lawyers, and 200 trustees will be trained in liquidation and reorganization proceedings. The activity will provide those involved in bankruptcy proceedings with opportunities to work on actual pilot cases. The commercial law training institute will also train over 50 judges, 100 lawyers, and 50 appraisers in implementation of the collateral laws. Bankruptcy and collateral laws will be introduced as an integral part of law faculty curriculum in 3 universities. Participant training in activity areas will also be provided. USAID will select a new implementer for this effort.

Small and medium enterprise (SME) business support (\$417,000 AEEB). USAID will continue to work on business investment, targeting SME growth in the agribusiness, tourism and wood processing industries, and will use credit guarantees through the Development Credit Authority (DCA) to stimulate development of SMEs. In a country with 40% unemployment and a recent history of conflict, stimulating the development of SMEs is imperative to both economic growth and political stability. The principal

implementers are Barents/Bearing Point, Center for International Private Enterprise (CIPE), Financial Sector Volunteer Corps (FSVC).

**FY 2004 Program:**

Business education (\$3,080,000 AEEB). USAID will work to improve business education and introduce modern management concepts in partnership with a western institution.

Financial sector development (\$5,550,000 AEEB). USAID intends to support development and regulation of the insurance industry and develop an environment for asset-based lending and a healthy foundation for domestic corporate debt markets. The effort to strengthen the commercial law regime will continue.

Small and medium enterprise (SME) business support (\$4,577,000 AEEB). USAID plans to continue and deepen support to SMEs through targeted assistance to sectors holding the potential for economic growth in BiH - agribusiness, wood processing and tourism. This will include further use of credit guarantees through DCA.

**Performance and Results:** USAID's work developing the private sector resulted in three significant results in 2002: 1) the establishment of a state-level deposit insurance agency; 2) growth in banking deposits of around 30% in both entities of BiH; 3) the implementation of new financial management systems in both entities that averted roughly \$27 million in unbudgeted commitments in the first eight months of operation.

The renewed confidence in the banking sector is particularly striking, as most Bosnian citizens lost their savings twice in the last two decades: once in the late 1980s when the socialist government seized hard currency accounts, then again during the recent war. Deposits have increased considerably, enabling greater lending. A recent positive development is that residents of the Republika Srpska (RS) are now increasingly depositing their savings in banks located in the Federation of Bosnia-Herzegovina. The establishment of a state-wide deposit insurance agency will build on that increase in citizen confidence, insuring all citizen deposits up to 5,000 KM (roughly \$2,500). A state-wide deposit insurance agency spreads the risk exposure and funding over a larger base, and offers RS banks a chance at deposit insurance that they could not have afforded on their own. All Bosnian banks must meet new deposit insurance criteria by August 2003, or lose their licenses, a provision which will further strengthen and consolidate the banking sector, again reinforcing citizen confidence.

The establishment of single treasury accounts for each entity and the state government has also greatly rationalized the budget process, improving the accountability for expenditure of public funds. Such "single window" treasury accounts prevent ministries from diverting funds to ghost employees or to favorite banks. The IMF has also praised the enormous improvement in reporting capability and the entities' capacity for production of auditable statistics now that new financial management systems have been introduced. These tools give the governments the ability to analyze their own spending, project shortfalls, and introduce a new level of transparency in the budget and expenditure systems. The establishment of single treasury accounts for each entity and the state government has also greatly rationalized the budget process, improving the accountability for expenditure of public funds.

Important future results of this program will be: 1) the establishment of a competent functioning commercial law regime; 2) transparent and streamlined budget formulation and execution in all 10 Cantons of the Federation; 3) a fully functional, transparent and accountable tax administration system that unites all three parts of BiH (Federation of Bosnia-Herzegovina, the Republika Srpska, and the Brcko District) into a single economic space; 4) increased availability of financial products appropriate to entrepreneurs; and 5) increased participation by business associations in the economic reform process.

## US Financing in Thousands of Dollars

Bosnia and Herzegovina

168-0130 Economic Restructuring	<b>AEEB</b>
<b>Through September 30, 2001</b>	
Obligations	0
Expenditures	0
Unliquidated	0
<b>Fiscal Year 2002</b>	
Obligations	14,498
Expenditures	2,567
<b>Through September 30, 2002</b>	
Obligations	14,498
Expenditures	2,567
Unliquidated	11,931
<b>Prior Year Unobligated Funds</b>	
Obligations	14,465
<b>Planned Fiscal Year 2003 NOA</b>	
Obligations	10,158
<b>Total Planned Fiscal Year 2003</b>	
Obligations	24,623
<b>Proposed Fiscal Year 2004 NOA</b>	
Obligations	13,207
Future Obligations	0
Est. Total Cost	52,328

## Data Sheet

<b>USAID Mission:</b>	Bosnia and Herzegovina
<b>Program Title:</b>	Multi-Ethnic Democratic Society
<b>Pillar:</b>	Democracy, Conflict and Humanitarian Assistance
<b>Strategic Objective:</b>	168-0210
<b>Status:</b>	Continuing
<b>Proposed FY 2003 Obligation:</b>	\$11,624,000 AEEB
<b>Prior Year Unobligated:</b>	\$9,466,000 AEEB
<b>Proposed FY 2004 Obligation:</b>	\$9,709,000 AEEB
<b>Year of Initial Obligation:</b>	2000
<b>Estimated Completion Date:</b>	2007

**Summary:** This Strategic Objective focuses on three intermediate results: 1) Increased citizen participation in political and social decision making; 2) Strengthened legal systems that promote increased access to justice; and 3) More responsive, transparent and accountable governance. The Mission's democracy portfolio has moved from a macro-level focus to a focus on the local level where changes can be effected that improve the life of the average citizen and offer them greater opportunities for participation and control over the direction their country takes.

### **Inputs, Outputs, Activities:**

#### **FY 2003 Program:**

Legal systems (\$2,071,000 AEEB). Emphasis is placed on activities 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. This program will be expanded in FY 2003. A component also has been added to provide support for State Court operations and administration. Other donors are also active in this sector, but unfortunately poorly coordinated and with few active projects. Principle implementers are ABA/CEELI and the Center for Institutional Reform and the Informal Sector (IRIS).

Political processes (\$2,043,000 AEEB). A cooperative agreement with the National Democratic Institute (NDI) provides technical assistance and training to Bosnian political parties, and the Entity and State legislatures. A cooperative agreement with the International Foundation for Election Systems (IFES) focusing on electoral administration and training for election officials requires no additional funding. The next phase of assistance to strengthen political processes will continue the work of NDI at a reduced level. To promote more fact-based public policy debate, USAID will award a new grant mechanism to support NGOs that can undertake public policy analysis and advocate independent positions on major issues based on objective criteria. Implementers to be determined in second quarter of FY03.

Citizen participation (\$3,600,000 AEEB). USAID's program develops and nurtures a core group of NGOs capable of leading sector and social reform. USAID targets four major sectors of activity, including democracy and human rights, rule of law, economic development, and social safety nets. The Independent Media Program helps develop a more politically secure and sounder financial base that will allow the consolidation of the media sector in a free market economy and democratic society. A new activity, implementer to be determined, will provide more focused assistance on business sustainability for print and broadcast media organizations and enhance investigative journalism to expose corruption. These activities will comprise our exit strategy from the media sector. The principal implementer is the International Research and Exchanges Board (IREX).

Local governance (\$3,910,000 AEEB). USAID is promoting efficient, transparent local governance in Central Bosnia through an approach which improves services from local governments and strengthens business and homeowner associations. A second local government initiative, the Local Government

Support Activity, began in September 2002. It will allow seven municipal governments in Northern Bosnia (including Brcko District) to dramatically improve their service provision. The principal implementers are the Cooperative Housing Foundation (CHF) and PADCO, Inc.

**FY 2004 Program:**

Rule of law (\$2,737,000 AEEB). USAID plans to continue support to rule of law and justice sector reform in FY 2004 with added emphasis on the courts. Implementers to be determined.

Governance (\$2,111,000 AEEB). USAID will address issues pertaining to municipal elections in Bosnia-Herzegovina, with particular focus on deemphasizing ethnic divisions and towards greater emphasis on substantive local governance issues. In addition, a main challenge in FY 2004 will be disseminating best practices from its two targeted local governance activities to the nation's 150 municipal governments. Implementers to be determined

Civil society (\$2,352,000 AEEB). USAID plans to continue support to civil society groups in FY 2004, with particular emphasis on direct grants to indigenous organizations that have demonstrated the capacity to be viable NGOs providing advocacy, social services, or other forms of support to citizens. USAID will continue to provide support throughout BiH to members of the independent broadcast and print media that have demonstrated the capacity to be viable and independent sources of news and programming. In addition, USAID will continue to support the establishment of indigenous institutions responsible for enforcing balanced policy objectives related to the media sector. Implementers to be determined.

Political Processes (\$1,760,000 AEEB). USAID will continue to assist in the development of a more competitive and inclusive political process through support to political parties oriented towards democratic principles. USAID will assist political parties and parliamentary bodies in their efforts to reach out to a wider constituent base and to provide more effective representation. USAID will address issues pertaining to municipal elections in BiH, with particular focus on steering municipal politics away from ethnic issues and toward substantive local governance issues.

Children at risk (\$749,000 AEEB). 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 results of the assessment.

**Performance and Results:** USAID support will increase access to independent sources of information by strengthening the profitability and sustainability of print and broadcast media. A strengthened media sector will help increase the accountability of politicians and institutions between elections through use of investigative reporting that highlights problematic conduct. Access to justice will be strengthened through the increased efficiency and professionalism of judicial and administrative decision making processes. Lawyers, judges, and prosecutors will be better equipped to provide fair and just solutions to legal problems. Political processes will be made more representative, through USAID-sponsored work with political parties and legislatures. Parties will be given tools to respond better to citizens and their own membership. Grassroots input into the political process will be strengthened with technical and material assistance provided to NGOs in Bosnia-Herzegovina. NGOs and civil society organizations will gain increased credibility and stature through their advocacy and service delivery activities. Municipal governments in Bosnia-Herzegovina will be better able to serve their citizens through increased efficiencies in service delivery. Local governments will be better able to attract and keep businesses and jobs. Municipal governments will be better able to engage in long-term financial planning, and will be able to better access credit markets.



## US Financing in Thousands of Dollars

Bosnia and Herzegovina

168-0210 Multi-Ethnic Democratic Society	<b>AEEB</b>
<b>Through September 30, 2001</b>	
Obligations	0
Expenditures	0
Unliquidated	0
<b>Fiscal Year 2002</b>	
Obligations	15,739
Expenditures	3,757
<b>Through September 30, 2002</b>	
Obligations	15,739
Expenditures	3,757
Unliquidated	11,982
<b>Prior Year Unobligated Funds</b>	
Obligations	9,466
<b>Planned Fiscal Year 2003 NOA</b>	
Obligations	11,624
<b>Total Planned Fiscal Year 2003</b>	
Obligations	21,090
<b>Proposed Fiscal Year 2004 NOA</b>	
Obligations	9,709
Future Obligations	0
Est. Total Cost	46,538

## Data Sheet

<b>USAID Mission:</b>	Bosnia and Herzegovina
<b>Program Title:</b>	Minority Returns
<b>Pillar:</b>	Economic Growth, Agriculture and Trade
<b>Strategic Objective:</b>	168-0311
<b>Status:</b>	Continuing
<b>Proposed FY 2003 Obligation:</b>	\$8,273,000 AEEB
<b>Prior Year Unobligated:</b>	\$844,000 AEEB
<b>Proposed FY 2004 Obligation:</b>	\$3,184,000 AEEB
<b>Year of Initial Obligation:</b>	2001
<b>Estimated Completion Date:</b>	2005

**Summary:** USAID's program assists minority returnees and displaced persons return to their homes, thus reestablishing multi-ethnic society. The program focuses on access to basic utilities and services, improving economic self-sufficiency, and institutional strengthening of power and water sectors for the continued delivery of basic services.

### Inputs, Outputs, Activities:

#### FY 2003 Program:

Access to basic services (\$2,513,000 AEEB). USAID will use FY 2003 funds to benefit 4,000 households of returning minorities, currently residing in the Federal Republic of Yugoslavia, to their communities through the provision of basic services such as water and electricity, schools, health clinics and transportation services (streets, small roads, and bridges). USAID will continue leveraging its resources by entering into partnerships with other donors, or local authorities who will provide funds for housing reconstruction. Parsons of Delaware is USAID's prime contractor. Infrastructure activities will also be implemented through assistance grants with International Rescue Committee, American Refugee Committee, Catholic Relief Services, World Vision, Mercy Corp, International Orthodox Christian Charities and local contractors.

Improving economic self-sufficiency (\$5,760,000 AEEB). Strengthening economic activities in returnee communities ensures the sustainability of those who have returned. In order for these returnees to prosper and stay in their communities, USAID will support approximately 2,000 small income generation grants and 350 loans to individuals, community groups, businesses, and legal aid services, as well as linkages between producers and internal and external markets. Support will be carried out through three micro-credit providers: United Methodist Committee on Relief, American Refugee Committee and Women for Women.

#### FY 2004 Program:

Improving Economic Self-Sufficiency (\$3,184,200 AEEB). In FY 2004, USAID will focus on the economic sustainability of the minority returnees through the micro-credit grants and loans program. USAID will no longer provide funds for reconstruction of basic infrastructure. USAID anticipates the continued involvement of key partners including United Methodist Committee on Relief, American Refugee Committee, International Rescue Committee and local contractors.

**Performance and Results:** USAID's support for minority returnees is leading to higher numbers of sustainable returns. By program completion, USAID will have provided 115,000 minority returnees with the basic services necessary to reestablish life in their communities. Of those who have returned, 70% will be able to support themselves economically. This is expected to diminish the support for and strength of hard-line nationalist parties and re-establish a more representative society. USAID is on track toward achieving these goals having already provided 650 income generation loans, including social loans which require no or partial repayment, and micro loans for minority business owners seeking to re-start or expand their businesses. These loans are providing returnees with the means to achieve economic self-

sufficiency. In addition, in FY 2002, USAID restored electricity to 14,800 minority returnees, potable water to 10,112 minority returnees and reconstructed schools enabling 2,400 new students to attend classes. USAID foresees the completion of all returnee assistance by the end of FY 2005.

## US Financing in Thousands of Dollars

Bosnia and Herzegovina

168-0311 Minority Returns	<b>AEEB</b>
<b>Through September 30, 2001</b>	
Obligations	0
Expenditures	0
Unliquidated	0
<b>Fiscal Year 2002</b>	
Obligations	7,494
Expenditures	616
<b>Through September 30, 2002</b>	
Obligations	7,494
Expenditures	616
Unliquidated	6,878
<b>Prior Year Unobligated Funds</b>	
Obligations	844
<b>Planned Fiscal Year 2003 NOA</b>	
Obligations	8,273
<b>Total Planned Fiscal Year 2003</b>	
Obligations	9,117
<b>Proposed Fiscal Year 2004 NOA</b>	
Obligations	3,184
Future Obligations	0
Est. Total Cost	19,795