



AUGUST 2005 • EMBASSY OF SWEDEN IN SARAJEVO

Sida Country Report 2004

Bosnia and Herzegovina



Content

Abbreviations	2
1. Executive Summary	3
2. Strategic Country Development (Trends)	4
3. Swedish Development Cooperation	6
3.1 Strategic Assessment and Considerations	6
3.2 Overall Country Portfolio Review	8
3.3 Sector wise analysis	10
4. Office and administrative issues	11
Appendix A	12
Appendix B	13

Abbreviations

BiH	Bosnia and Herzegovina
CARDS	Community Assistance for Reconstruction, Development and Stabilisation
CEDB	Council of Europe Development Bank
DFID	Department for International Development
EC	European Commission
EU	European Union
GAP	Governance Accountability Project
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HJPC	High Judicial and Prosecutorial Council
IAP	Integrated Area Programme
ICTY	International Crime Tribunal Yugoslavia
IFI	International financial institute
IPA	Institution for preaccession
ITA	Indirect Taxation Authority
KfW	Kreditanstalt für Wiederaufbau
KM	Konvertible Mark (approx half a Euro)
LEAP	Local Environment Action Plan
MHRR	Minister of Human Rights and Refugees
NGO	Non-government organisation
PRSP/MTDS	Poverty Reduction Strategy Plan/Medium Term Development Strategy
OHR	Office of the High Representative
OSCE	Organization for Security Cooperation in Europe
PAR	Public Administration Reform
PfP	Partnership for Peace
REC	Regional Environmental Centre
RS	Republika Srpska
SAA	Stabilization Association Agreement
SAP	Stabilization Association process
USAID	United States Agency for International Development
VAT	Valued Added Tax
WB	World Bank
UN	United Nation
UNDP	United Nation Development Program
UNICEF	United Nations International Children's Emergency Fund.

Published by Sida 2005

Department for Europe

Author: The Embassy of Sweden in Sarajevo

Printed by Edita Communication AB, 2005

Art. no.: SIDA4806en

This publication can be downloaded/ordered from www.sida.se/publications

1. Executive Summary

Bosnia and Herzegovina (BiH) continues to make progress regarding post conflict reconstruction, social integration and state building. Structural reforms, though, shows a mixed picture with the highlight being that the financial sector is now considered to be successfully transformed and the fiscal and macroeconomic situation are positive. However, public expenditure consumes more than half of the GDP, privatization has basically stopped and the business-enabling environment is not yet adequate. The informal economy is large and is apparently not decreasing and links between politics and organized crime have not been severed. Poverty, although not in the extreme form, remains a problem as roughly half the population is near or below the poverty line. Income generation or labour market development remains quite relevant in this context. However, it is also important to work on achieving better sustainability (primarily through increased ownership) of these interventions.

The present country strategy doesn't emphasize a concentration of sectors but on the number of interventions within them. This is what we try to achieve by closing down questionable projects, emphasizing exit strategies to attract true ownership by the recipients and above all by contemplating sizeable sector programs in close cooperation with other major donors (like EU, USAID, WB, KfW, GTZ, DFID) and the owner.

Public administration reform and corresponding fiscal reforms is becoming a priority for the donor community. However, many uncertainties exist as to how these reforms can be implemented due to the complicated constitutional structure.

Coordination and harmonization with other donors and the owner have already been incorporated into Sida's short and medium term plans. Indeed they have become essential in order to increase ownership and reform capacity. Sida has started to focus on the lowest layer of administration and will, pending completion of EU functional review, look into potential interventions at the central level. Close cooperation is already in place with the EC delegation.

The aggregate status of commitments and disbursements remains largely the same financially while the structure of the portfolio is moving toward higher concentration. Sida was in 2004 the largest bilateral donor to BiH.

2. Strategic Country Development (Trends)

The past year has seen only halting progress in economic and political reform and what reform that has occurred has been largely the result of heavy pressure from the OHR. This highlights one of the fundamental weaknesses in BiH: s developmental process, namely the lack of local ownership. Some positive developments during the year have however occurred, not the least the adoption of a single rate VAT system.

The European Union will take on a more prominent role as BiH continues on “the road from Dayton to Brussels”. However, the main stumbling block towards the completion of EU: s feasibility study, the signing of an SA-Agreement with the EU, and PFP membership, continues to be Republika Srpska’s non co-operation with the ICTY. During the year the High Representative has on two occasions decided to remove officials from the RS government and administration as he deemed they had been obstructing the work of the Haag tribunal.

Sida programming in BiH has been and continues to be well-matched with the requirements of the EU feasibility study and the European Partnership (the SA-process) The EC Head of Operations, Mr Lys, stated that he does not see that bilateral donors shall either implement SAp activities or MTDS activities as there are no obstacles of doing both. The MTDS is perfectly compatible with SAp/SAA and the MTDS very much addressed the issues in the EU economic chapter. The implementation of these two processes shall be harmonised, namely through BiH’s European Integration Strategy under preparation.

The slow reform process, structural economic weaknesses, together with continuing difficulties to establish efficient cooperation between the political parties representing the three constituent peoples, have during the year invigorated the discussion on the need for constitutional changes.

The socio-economic situation is mixed. Low inflation, a stable currency and a relatively well functioning financial sector are important achievements. On the other hand, a high unemployment rate of approximately 20% and the fact that nearly 50% of the population live under or close to the poverty line indicates the need for fundamental economic reforms. A central issue in this context is the fight against organized crime which is widespread and in some cases closely connected to the political sphere.

The main trend regarding human rights is positive. Harassments of returnees are constantly declining. The State Court has been established and a number of important cases are under investigation. Preparations

for transfer of cases from ICTY to the court have been undertaken during the year, and the first trials are expected to start at the beginning of 2005. The single High Judicial and Prosecutorial Council at state level started to work in June.

3. Swedish Development Cooperation

3.1 Strategic Assessment and Considerations

Relevance of the strategy in the light of country development

As the focus shifts from post-war reconstruction and direct peace building to sustainable social, economic and political development and future EU accession, three key arenas may be identified.

- creating conditions for sustainable and broad-based economic growth and social development,
- reforming the institutional framework and public sector, and
- continued national integration, economically, socially, institutionally and politically

The present Swedish strategy is still relevant on all three.

The financial sector is now considered to be successfully transformed, although efforts are ongoing in local economic development via micro credit support. However since the financial sector is liquid, capital support projects on the wholesale level may slowly become redundant, particularly if channeled without appropriate links to national policy which at the current time is not adequate. Note however that income generation or labor market development projects are still quite relevant in areas where economic activity is particularly depressed. The Integrated Area Programmes (IAP) are continuing to perform their role in mitigating the effects of extreme poverty by careful targeting of such areas. One issue however is that government capacity needs to be developed at the local (municipal) levels in order to make income generating project more sustainable. Sida has thus begun plans for gradually scaling down and transferring the IAP to local and state authorities. At the same time, the scope of the IAP is gradually being widened to encompass not only returnees but also local population and their services rendered by local authorities as well as job creation for these target groups. Worth noting is that the IAP has shown to be a good example of a poverty reducing programme (direct support to PRSP) and also a programme directly supporting capacity in agriculture as direct support to EU integration (the SAp).

The socio economic situation as described in the present country strategy has been updated by new analysis from POM's Per Ronnås, particularly regarding poverty. In his analysis he concludes that material

poverty is a consequence of a low level of economic development, rather than inequality, and that the main priority therefore must be found in economic and social development. Along those lines, an agreement with Sida HQ was made to investigate agriculture and forestry as potential sectors of priority for employment generation.

The ambition is to mainstream impacts on the environment and gender equality in all Sida funded projects and programmes when relevant. This ambition does not include HIV/AIDS and human rights yet. Specific projects aiming at increased gender equality and strengthening of human rights are carried out within the framework programmes. Two HIV/AIDS prevention programmes have been carried out during the reporting period.

Other key issues

- What would be required to put BiH on a faster, sustainable growth track? What would be needed to integrate the (non-crime related parts of the) grey economy into the formal economy.
- Organised crime and unsavoury links between politics, corruption, business of all shades and crime remains a serious problem. What can be done to break these links and to stamp out the criminal tail of the economy.
- BiH is increasingly developing into a migration- and remittance-based economy and society. In addition to the large existing Bosnian expatriate community, the young in particular are leaving the country in increasing numbers. Remittances sent back by overseas Bosnians amount to around one billion Euro per year or about 250 Euro per person living in Bosnia. This flight to greener pastures abroad and the resulting large return flow of money in the form of remittances has major implications for the development of the country as well as policy-making, yet it is barely mentioned in any analysis or policy document.
- How severe are the risks of political unrest and a possible break-up or division of the country?

Strategic adjustments, alternatives and choices ahead

The aggregate status regarding commitments and disbursements remains basically the same financially while the number of projects is decreasing. We think however that it is needed to improve the budget planning process as well, in order to have better planning for larger programmes. There has been a conscious move the last few years from projects to programmes, from bilateral to joint cooperation and to improved coordination and ownership. This process of harmonizing and alignment will continue and lead to fewer but bigger programmes with other major donors and increased ownership. However, in order to achieve this, a better knowledge about our partners (donors and owners) and an improved flexibility to adopt our own Sida administration (e.g. procedural and project agreements and procurement) to these needs is necessary.

Sida was during 2004 the biggest bilateral donor to BiH with some 30 M euro in total. This volume is appreciated by BiH and EC for the next few years as well and until the EU institutions for preaccession (IPA) contributes with increased donor aid from 2007. The Berner/Eduards report recommends an increase.

Major donors and IFIs are focusing their programming on public administration reform (PAR). Following on this track, Sida has started to focus on the lowest layer of administration and will pending completion of EU functional review also look into potential interventions at the central level.

The present public administration has shown not to be sustainable. To paraphrase OHR's Ambassador Hays, steps must be taken to decrease the cost of government, while ensuring that institutions necessary for EU accession are put in place. BiH can only do this if it eliminates unnecessary layers of government while improving the effectiveness of government at each level. Is this possible without constitutional change? Is fiscal reform (VAT) possible without a constitutional change? Can fiscal reform begin before public administration reform is completed? Can we start any of these deep reforms before a census is made (demographic situation is very uncertain)?

Key issues for dialogue with partner country and partners

As envisaged above Sida has devoted a lot of time and effort to create an improved and realistic coordination encompassing major donors as well as national and local authorities. The international community needs a common approach/work- and time plan to carry out complementary thematic coordination with and for potent agencies and the authorities/owners to be invited to participate and gradually take over. The establishment of the Directorate for European Integration (DEI) and Economic Policy and Planning Unit (EPPU) has made a promising start. It's presently being discussed whether EPPU will coordinate bilateral and other donor support and how it will itself relate to DEI which is coordinating the EU program.

Sida has established a close cooperation with EC/CARDs through repeated planning meetings in order to make our different interventions matching (Two examples are EC's and Sida common support of the establishment of five regional economic development agencies, and ongoing discussions regarding guarantees to commercial banks through KfW within a EC-financed grant program, see below). Another way of creating real ownership by BiH authorities and facilitate its coordination of all development interventions is to develop major sector programs instead of numerous projects. Under the reporting period Sida has elaborated the GAP together with USAID in order to strengthen local governments.

Secondments of Swedish experts to OHR, OSCE, EC and UNDP during the year increased. There were eight in December 2004.

3.2 Overall Country Portfolio Review

Sida is well advanced in taking measures aimed at concentration, increased ownership and focuses on exit strategies. More than 15 studies/evaluations have been taken to this effect during 2004. Concrete examples would be the PAR programme in preparation, new World Bank economic and social sector support programme in preparation, the GAP programme, the KfW programme in preparation and others. All of these programmes are designed to be harmonized with other donors and the owner resulting in greater efficiency, effectiveness, and sustainability. Sida is investing a lot of time and effort in maneuvering its IAP and Culture programmes towards exit solutions. It is worth mentioning that many small projects have been terminated and proposals rejected during the year in all sectors.

Mentioned below are sector highlights. Refer to attachment for direct comparison to country strategy priorities.

Economic and social development

- Sida is preparing a harmonized (DFID, Dutch and Sida) programmatic multi sector intervention in labour market development, corporate governance and social sector under the World Bank umbrella.
- Plans for a sector programme support (complementary to EU CARDS) continue for the micro credit/finance industry.
- Landmine clearance is once again being supported by Sida.
- Sida has investigated labour market development solutions in the forestry sector.
- Sida continued supporting micro credit and business development concepts as developed by two NGOs with economic development programmes.
- A new programmatic approach, complementary to EU CARDS, has been to support one of the newly established Regional Economic Development Agencies.
- The co-operation with the Department for Social Work at the University of Banja Luka continues and a complementary project harmonised with other donors is contemplated.
- Two studies (on poverty in BiH and on social sector in the region) have been carried out to serve as a basis for a regional social sector strategy.

Democratic Governance

- EC, Sida and DFID have started the preparation for a harmonised Programme in the area of Public Administration Reform (PAR).
- USAID and Sida signed up for a joint programme, called Governance Accountability Programme (GAP) targeting 40 municipalities out of the country's 143.
- Sida has successfully funded Swedrail in supporting the local railway entities in achieving a better legal framework and conducting several market studies.

Sida is currently considering including twinning programmes in the infrastructure sector (Road Directorates) as part of preparations for the new country strategy.

- Sida and the Austrian Development Agency are co-funding a strategically important joint programme with GTZ to develop the land registration system.
- Sida co-operates with the Council of Europe to implement the BiH strategy for combating crime and corruption in the MTDS.
- Secondments of Swedish legal experts to the OHR and the State Court have been successful. A number of high profile cases are under investigation.
- Sida continues to support some 30 projects to strengthen human rights and democracy.

Reconstruction (integrated area programme) and return

- Sida has supported the Ministry of Human Right and Refugees in creating Regional centres. Support is planned to continue with preparations for a new municipal capacity building project.

- Sida continues to fund four Integrated Area Programmes directly supporting housing and sustainable return. From 2005 and onwards it will be reductions in funding.
- Sida supported BiH membership in the Council of Europe Development Bank.
- Sida supported two housing micro credit schemes.
- Sida continues to support rural development agriculture projects. Job creation in agriculture has been added to a project for job creation of former soldiers.
- Two evaluations have been carried out (in agriculture and IAP).

Health care

One HIV/AIDS prevention (HOPE) programme is continuing. The UNICEF programme was successfully concluded.

Culture

Exit strategies have been completed for ongoing activities.

Environment

- Sida supports the municipal level in creating their environmental action plans.

It is a part of the regional project for WB, implemented by REC and with participation of six municipalities from BiH.

- The infrastructure (district heating) improvement with highlight on environment is about to commence in Zivinice after lengthy negotiations.

3.3 Sector wise analysis

This has already been completed; refer to Follow up report. As far as analysis of deviations is concerned, Sida sees no deviations occurring.

4. Office and administrative issues

Presently, Sida BiH employs two Sida posted staff (Director and Programme Officer) on programme funds, three National Programme Officers and one assistant. Considering the present and expected workload, we foresee that the same manpower resources will be needed during the period 2005–2007. However, the present situation is such that it allows very little unforeseen leave on any of the staff, i.e. the reserves are small. In addition, the focus on concentration, harmonization and exit strategies is much more demanding than regular portfolio maintenance.

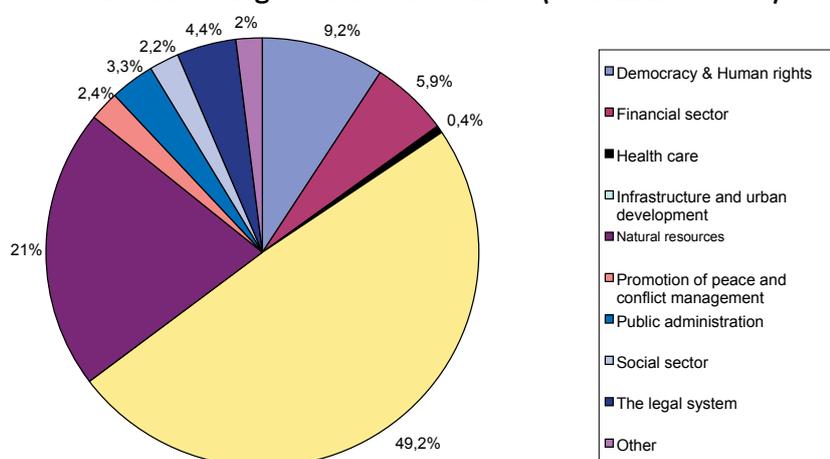
All in all Sida completed and/or initiated 18 evaluations and/or reviews during the course of last year. The embassy also organized several high level visits, including that of the Minister of Development Cooperation and Sida Director General.

Additionally, two regional seminars were implemented, one in Neum and one in Sarajevo. Following the archiving workshop, a new open archive system was established within the embassy, and hiring of a part time person as additional archive resource is contemplated.

Lastly, and finally, the info material was successfully prepared.

Appendix A

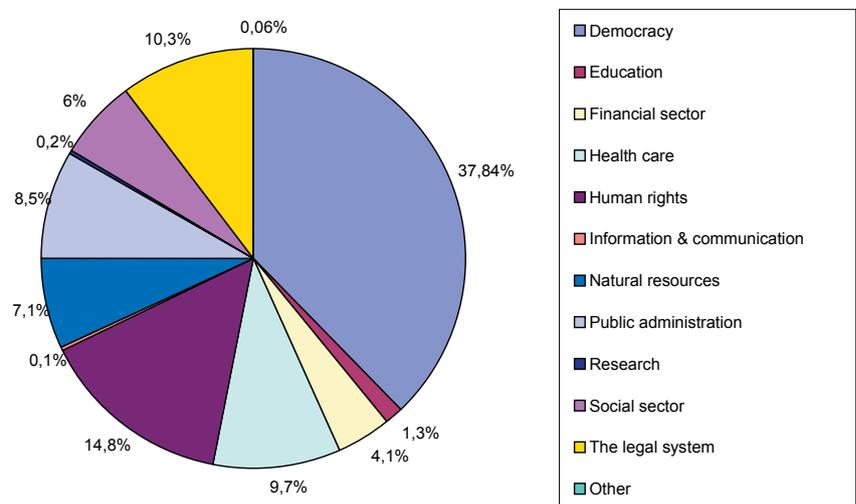
Bosnia-Herzegovina: Disbursed 2004 (Total 212 606 874)



Sector	SEK	%
Democracy & Human rights	19 484 115	9,2
Financial sector	12 611 296	5,9
Health care	980 000	0,4
Infrastructure and urban development	104 572 886	49,2
Natural resources	44 641 622	21
Promotion of peace and conflict management	5 000 000	2,4
Public administration	7 051 862	3,3
Social sector	4 589 678	2,2
The legal system	9 451 446	4,4
Other	4 223 969	2
Grand Total	212 606 874	100

Appendix B

Regional Western Balkans: Disbursed 2004 (Total 103 195 507)



Sector	SEK	%
Democracy	39 048 000	37,84
Education	1 375 000	1,3
Financial sector	4 231 658	4,1
Health care	10 000 000	9,7
Human rights	15 309 818	14,8
Information & communication	140 358	0,1
Natural resources	7 173 513	7,1
Public administration	8 802 068	8,5
Research	210 629	0,2
Social sector	6 248 586	6
The legal system	10 586 792	10,3
Other	69 086	0,06
Grand Total	103 195 507	100

Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.



Sida

SWEDISH INTERNATIONAL
DEVELOPMENT COOPERATION AGENCY

SE-105 25 Stockholm Sweden
Phone: +46 (0)8 698 50 00
Fax: +46 (0)8 698 56 15
sida@sida.se, www.sida.se