



DONOR MAPPING REPORT 2006

Donor Coordination Forum of Bosnia and Herzegovina



DONOR MAPPING REPORT 2006

Donor Coordination Forum of
Bosnia and Herzegovina

April 2007

Overall Supervisor:

Stefan Priesner

Task Manager:

Thomas Vanke

Authors (in alphabetical order):

Donor Coordination Forum and EIB

Hanne Kristoffersen

Richard Marshall

Susanne Milcher

Thomas Vanke

Review:

Authors

Stefan Priesner

Tim O'Brien

Editor:

Lynne O'Donoghue

Translation:

Ivona Zekić

Cover design, DTP and Layout:

TRIPTIH

Disclaimer

This report has been mandated by the Donor Coordination Forum (DCF), a platform for information exchange of 17 major donors. It therefore focuses on the activities and financial portfolios of these donors and it does not encompass all donor activity in BiH.

The information and statistics presented in this report are based on the responses of the individual donors. Although the data has been verified by the donors themselves, there is still the possibility of error. The same applies to the information provided in the narrative parts of the report.

With regards to the analysis by sector, the donors have selected the DAC (Development Assistance Committee) code for each of their projects. As the different DAC codes vary between very broad and very detailed classification, some projects may not entirely fit into the allocated DAC code. In addition, some projects span over several DAC codes, or contain components that are relevant in other sectors as well, making a definitive placement difficult.

TABLE OF CONTENTS

ABBREVIATIONS	1
FOREWORD	5
CHAPTER 1: INTRODUCTION	7
CHAPTER 2: GENERAL COMMENTARY	11
CHAPTER 3: SECTORS	21
3.1 Education	21
3.2 Health	27
3.3 Good Governance and Institution Building	33
3.3.1 Legal and Judicial Development	36
3.3.2 Human Rights	37
3.3.3 Public Administration Reform (PAR)	38
3.3.4 Strengthening Civil Society	39
3.4 Conflict Prevention and Resolution, Peace and Security	43
3.4.1 Security System Management and Reform	44
3.4.2 SALW Control	45
3.4.3 Mine Action Programme	46
3.5 Infrastructure	49
3.6 Economic and Social Development	57
3.7 Agriculture and Forestry	67
3.8 Environmental Protection	73
3.9 Emergency Assistance and Reconstruction	79
3.10 Multisector/Cross-cutting	85
CHAPTER 4: DONOR PROFILES	91
4.1 Bilateral Donors	91
4.1.1 Austrian Development Agency (ADA)	91
4.1.2 Canadian International Development Agency (CIDA)	94
4.1.3 France	97
4.1.4 Germany	99
4.1.5 Italy	103
4.1.6 Japan	106
4.1.7 The Netherlands	110
4.1.8 Norway	112
4.1.9 Spain	114
4.1.10 Swedish International Development Agency (Sida)	117
4.1.11 Switzerland	119
4.1.12 United Kingdom Department for International Development (DFID)	122
4.1.13 United States Agency for International Development (USAID)	124

4.2	Multilateral Donors.	126
4.2.1	European Bank for Reconstruction and Development (EBRD)	126
4.2.2	European Commission (EC)	130
4.2.3	European Investment Bank (EIB)	134
4.2.4	United Nations Development Programme (UNDP)	137
4.2.5	The World Bank.	140
CHAPTER 5: APPENDICES		145
5.1	Methodological Note	145
5.2	Donor Coordination Forum TOR	146

ABBREVIATIONS

ADA	Austrian Development Agency
ADC	Austrian Development Cooperation and Cooperation with Eastern Europe
AECI	Spanish Agency for International Cooperation
AFBiH	Armed Forces of BiH
BHMAC	BiH Mine Action Centre
BiH	Bosnia and Herzegovina
BMZ	German Federal Ministry for Economic Cooperation and Development
CAD	Canadian Dollar
CARDS	Community Assistance for Reconstruction, Development and Stabilization
CAS	Country Assistance Strategy
CCM	Country Coordination Mechanism
CEDAW	Committee on the Elimination of Discrimination against Women
CIM	Centre for International Migration and Development
CoE	Council of Europe
CoM	Council of Ministers
CIDA	Canadian International Development Assistance
DAC	Development Assistance Committee
DCF	Donor Coordination Forum
DED	German Development Service
DEG	German Investment and Development Company
DEI	Directorate of European Integration
DEP	Directorate for Economic Planning
DFID	Department for International Development (UK)
DPA	Dayton Peace Accords
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECOSOC	Economic and Social Council
EIB	European Investment Bank
EKN	Embassy of the Kingdom of the Netherlands
EPPU	Economic Policy and Planning Unit
EU	European Union
EUFOR	European Union Force
EUPM	European Union Police Mission
EUR	Euro Currency

EUSR	European Union Special Representative
FBiH	Federation of Bosnia and Herzegovina
GAP	Governance Accountability Programme
GDP	Gross Domestic Product
GoJ TF	Global Justice Trust Fund
GTZ	German Technical Cooperation Agency
HJPC	High Judicial Prosecutorial Council
IBRD	International Bank for Reconstruction and Development
ICMP	International Committee for Missing Persons
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFC	International Financial Corporation
IOM	International Organization for Migration
IPA	Instrument for Pre-Accession Assistance
JBIC	Japanese Bank for International Cooperation
JICA	Japan International Cooperation Agency
KfW	KfW German Development Bank
LED	Local Economic Development
MDG	Millennium Development Goals
MEA	Multilateral Environmental Agreements
MFA	Ministry of Foreign Affairs
MoJ	Ministry of Justice
MoFTER	Ministry of Foreign Trade and Economic Relations
MoD	Ministry of Defence
MTDS	Mid-Term Development Strategy
NATO	North Atlantic Treaty Organization
NDP	National Development Plan
NGO	Non-Governmental Organization
ODA	Official Development Assistance
OHCHR	Office of the High Commissioner for Human Rights
OHR	Office of the High Representative
OECD	Organization for Economic Co-operation and Development
OSCE	Organization for Security and Co-operation in Europe
PAR	Public Administration Reform
PARCO	Public Administration Reform Coordinator Office
PIC	Peace Implementation Council

PPP	Public Private Partnership
PRSP	Poverty Reduction Strategy Paper
RDA	Regional Development Agencies
RS	Republika Srpska
SALW	Small Arms and Light Weapons
SDC/SECO . .	Swiss Development Cooperation
Sida	Swedish International Development Agency
SME	Small and Medium Size Enterprise
SAA	Stabilization and Association Agreement
SWA	Sector Wide Approaches
TA	Technical Assistance
UN	United Nations
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNOHCHR . .	United Nations High Commissioner for Human Rights
UNV	United Nations Volunteers
USAID	United States Agency for International Development
UTL	Local Technical Unit
WHO	World Health Organization
WME	Weapons and Military Equipment

FOREWORD

International best practice identifies three dimensions needed for sound aid management: coordination among donors, coordination between donors and the government, and coordination among different Government Ministries and official institutions. To address the first dimension and guided by the principles of the Paris Declaration a donor coordination forum was established among 18 of the largest donors in Bosnia and Herzegovina in December 2005.

The objective of this forum is to enhance the efficiency of the use and allocation of official development assistance in Bosnia-Herzegovina and thus secure better aid effectiveness. The Forum contributes to the objective of government-led aid coordination, since improved coordination among donors makes it easier for the government to deal with the variety of international partners, and steward parallel resources.

With this aim in mind the donor coordination forum embarked on a donor mapping exercise in May 2006. As host of the secretariat for the donor coordination forum UNDP coordinated the donor mapping. It was a more complex exercise than expected, since a tailored and user-friendly format had to be developed, large amounts of substantive and financial donor information harmonized, loan and grant flows accommodated, and bilateral and multilateral aid reflected in comparable terms. Despite these challenges the 18 participating donors in cooperation with the Ministry of Finance and Treasury (MoFT) and the Economic Policy and Planning Unit (EPPU) embarked on this exercise with great enthusiasm and collaborated closely until the finalization of the exercise in January 2007. Hence, I am proud to present the first donor mapping report for Bosnia and Herzegovina on behalf of the donor coordination forum as testimony of the excellent cooperation of key members of the donor community. It is intended to periodically update the information and analysis on donor activity and a website is being set up for this purpose (www.donormapping.ba).

However, this donor mapping can only be an interim stage to a comprehensive Government-led aid information system. In November 2006 the Council of Ministers approved a EC-UNDP joint project to establish a Grants Resource Management System (GRMS), which will enable the Government to manage grant resources, through establishment of processes for tracking and reporting to key stakeholders on the availability and actual usage of grant assistance made available to the public sector in BiH. It is envisaged that the system will be integrated with the budgeting systems of the country. As such, it will enable the Government to have a comprehensive picture of resource availability and strengthen its capacity for strategic planning and public finance management.



Stejan Priesner
Deputy Resident Representative
UNDP Bosnia and Herzegovina

CHAPTER 1: INTRODUCTION

a. Context

Bosnia and Herzegovina (BiH) is undergoing four transition processes simultaneously: from post-conflict reconstruction to long-term development; from socialist autocracy to democracy; from a planned to a market economy; and from international supervision to full sovereignty.

In January 2006, BiH started Stabilization and Association Agreement (SAA) negotiations with the European Commission (EC). The conclusion of the SAA will represent the first contractual relationship with the EC; for now, however, it confirms BiH's path towards inclusion into Euro-Atlantic structures. This will contribute to a change in the country's political climate and the relationship between the international community and the national society, as the SAA negotiations require BiH to be the sole driver of the transition process with the role of the international community being rather more that of an advisor and less of a supervisor. As the EC requires the reforms need to be locally driven, the Bonn Powers¹ of the High Representative will not be used to anticipate or finalize the reforms necessary to sign an SAA; the reforms need to be locally driven, as required by the EC.

1. *Elaborating on Annex 10 of the Dayton Peace Agreement, the PIC in late 1997 requested the High Representative to remove from office public officials who violate legal commitments and the Dayton Peace Agreement, and to impose laws as he sees fit if Bosnia and Herzegovina's legislative bodies fail to do so. These became known as the 'Bonn Powers'.*

The 2004-2007 Mid-Term Development Strategy (MTDS) was adopted in 2004 and sets out the overall policy framework for development. This document was recently superseded by the revised MTDS of May 2006.

During the process of preparing the initial MTDS, the BiH Council of Ministers (CoM) and Entity governments decided to establish an Economic Policy Planning Unit (EPPU). The main aim of this unit was to enhance coordination, monitoring and implementation of the MTDS and provide high quality economic analyses and policy recommendations. The unit was formally established in 2004 on the basis of a CoM decision. In 2006, it evolved from being an administrative unit under the Office of the Chairman of the BiH CoM to become the Directorate for Economic Planning (DEP).

The Directorate is therefore the main coordinating body which ensures, both through the MTDS implementation and close cooperation with the donor community, the alignment and coordination of Official Development Assistance (ODA) delivery. To assist in this process, UNDP and the Directorate for Economic Planning worked together on this donor mapping report.

b. The Donor Coordination Forum (DCF) in BiH

In the Paris Declaration² of March 2005, ministers of 91 nations, 26 multilateral bodies and 14 international civil society organizations jointly committed themselves to undertake far-reaching reforms to better deliver and manage ODA. This declaration marks the latest milestone in a process that began with the aid commitments made at

2. See: <http://www1.worldbank.org/harmonization/Paris/FINALPARISDECLARATION.pdf>

Monterrey 2002³ and re-affirmed at the Rome Summit⁴ in 2003. It calls for a renewed focus on aid effectiveness rooted in the principles of ownership, alignment with national development strategies, harmonization, management based on results, and mutual accountability.

In addition to signalling the growing international resolve to tackle these issues, the Paris Declaration enumerates a series of practical steps. At the heart of these proposals is the recognition that donors and recipients have a shared responsibility to ensure that aid is used to its best effect. Experience shows that best-case outcomes can only be secured through active steps to coordinate and harmonize the ODA process. Both recipient government and donor action is required to achieve this.

The Donor Coordination Forum (DCF) in BiH was established at a meeting in December 2005 as a semi-formal platform of information exchange among major donors in BiH. The members of the Forum are: The Austrian Development Agency (ADA); Canadian International Development Assistance (CIDA); the European Bank for Reconstruction and Development (EBRD); the European Commission Delegation (EC); the Italian Cooperation Agency; the Spanish Agency for International Cooperation (AECI); the Swedish International Development Agency (SIDA); the Swiss Development Cooperation (SDC/SECO); the United Kingdom's Department for International Development (DFID); the United Nations Development Programme (UNDP); the United States Agency for International Development (USAID); The World Bank; and the Dutch, Japanese, Norwegian, German, Spanish, and French diplomatic missions to BiH.⁵ For the meetings of the Forum to be manageable, the number of donors has been limited to the original 17. Representatives from the government and other international community players are, however, invited to attend meetings or give briefs as required.

Guided by the principles of the Paris Declaration, the objective of the BiH DCF is to enhance the efficiency of the use and allocation of ODA in the country and thus secure better aid effectiveness. The Forum also contributes to the objective of government-led aid coordination because improved coordination among donors makes it easier for the government to deal with the variety of international partners and steward parallel resources. As such, the Forum is not merely a service for the donor community, but a crucial service for the recipient government, assisting it in obtaining the maximum benefit from diminishing ODA flows.

Forum meetings are the major instrument through which donor coordination is achieved. The Forum meets quarterly, with the chair rotating among the membership. The secretariat of the DCF is hosted by UNDP. Agenda setting for each meeting is done by the secretariat in consultation with the incoming chair. Agenda points are guided by the overall objectives and relate to the following categories:

- Aid modalities, especially as defined by the Paris Declaration (e.g. managing for results);
- Substantive or cross-cutting development issues (e.g. poverty, gender, human rights);
- Government or international community agency-related issues (e.g., an overview of the EC's work and strategy);
- Sector-specific issues.

3. Refers to the 2002 Monterrey Conference, where DAC nations re-committed themselves to the pre-established ODA target of 0.7 percent of GDP.

4. Refers to the Rome High Level Forum on Harmonization, held in 2003.

5. Representatives from the KfW Entwicklungsbank (the German Development Bank) and the German Technical Cooperation Agency (GTZ) are also members of the forum.

c. The Donor Mapping Exercise

As a basis for enhanced donor coordination, the DCF decided to carry out a mapping exercise on ODA-supported activities by its members in BiH. The rationale of the exercise is to reduce duplication, promote better synchronization and facilitate partnership building between international community actors in support of the BiH Government's plans and priorities.

After the exercise was agreed upon at the DCF held in February 2006, it was launched at the end of March 2006, to be carried out by the DCF Secretariat. From the beginning, mapping has been carried out with the close cooperation of the secretariat and donors. The donors submitted their project data to the secretariat which processed this information, conducted follow-up interviews and drafted the report. As such, the report in itself is a manifestation of donor cooperation in BiH. The final report has been approved by all member donors prior to publication.

d. The Report Structure

This donor mapping report is based on the information of programmatic activities and budget allocations sourced from a survey of the 17 DCF donors and the European Investment Bank (EIB)⁶. The full survey data will be accessible on a forthcoming interactive donor coordination website which is planned to be updated regularly. In addition, qualitative information on the state of the different sectors in BiH and donor profiles has been gathered through semi-structured interviews. Thus, the information and statistics presented in this report do not provide a comprehensive overview of the donor community in BiH but rather a snapshot of activities and budgetary portfolios of those donors cooperating in the framework of the DCF, plus the EIB.

Following this introduction, Chapter 2 provides an overall analysis of donor assistance in BiH based on the quantitative data provided by the survey. Chapter 3 analyses donor assistance and coordination by individual sector as well as the sectors' key challenges. Finally, donor profiles, including information on the donor's structure, policy and work, both globally and in BiH, are examined in Chapter 4.

6. The EIB has been included in the exercise due to the significance of its contribution.

CHAPTER 2: GENERAL COMMENTARY - OVERSEAS DEVELOPMENT ASSISTANCE IN BIH

a. Introduction

This first substantive chapter provides a macro-level analysis of donor assistance in BiH, giving a 'broad brush' appraisal of the overall ODA position and outlining the key dynamics that are emerging. The supporting data and analysis are based on the individual returns supplied by members of the DCF.

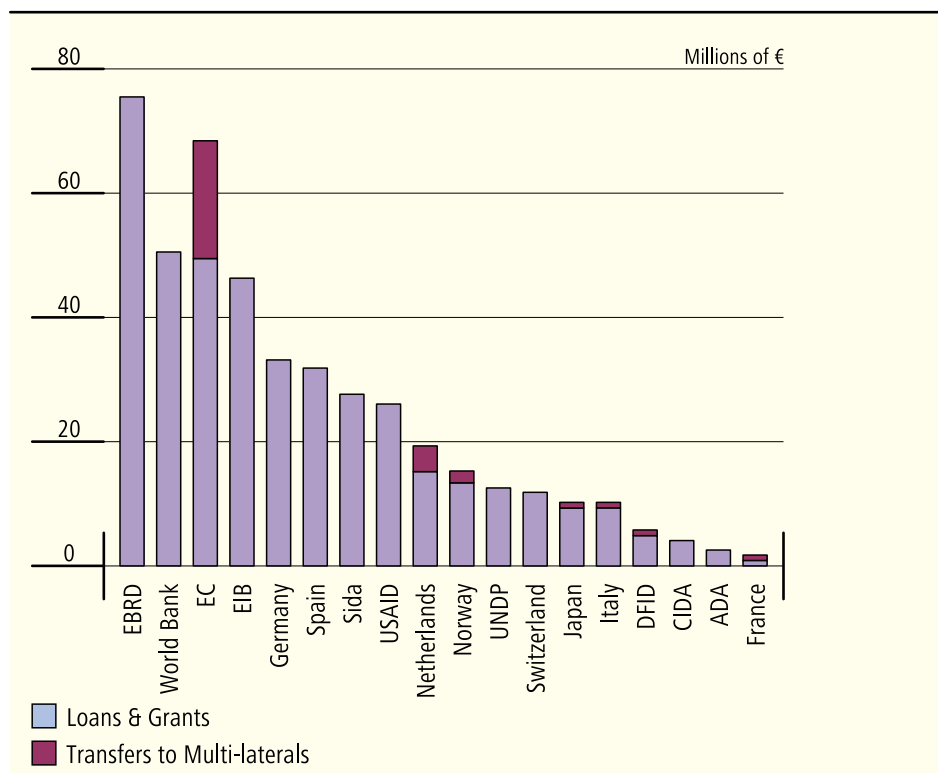
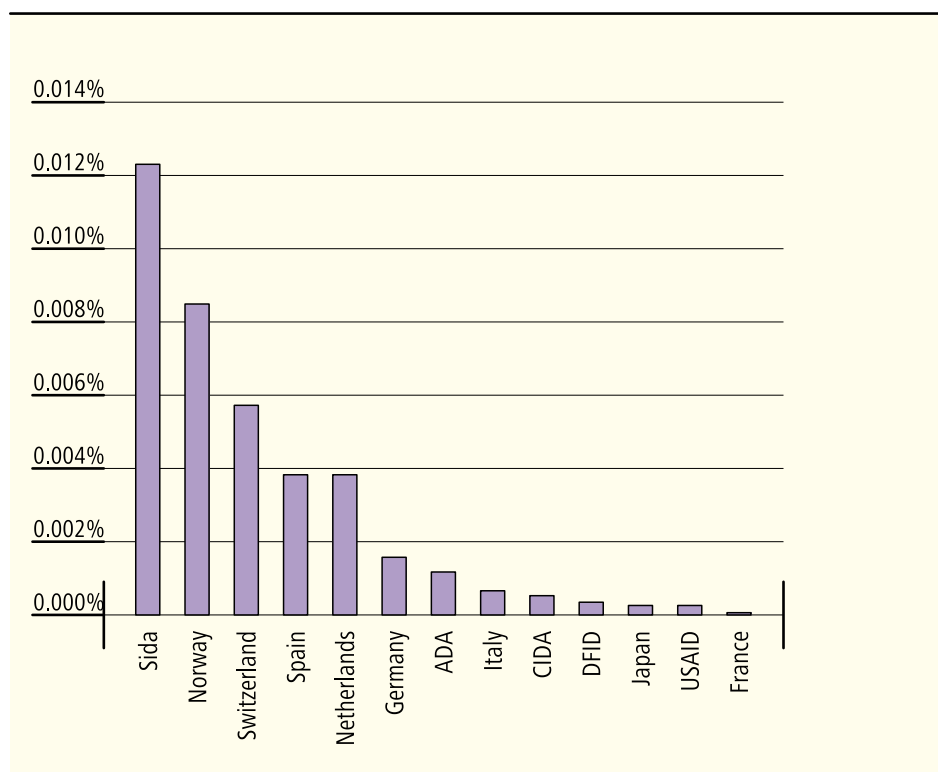
The chapter has three principal sections. The first reports on the scale of individual donor and multilateral contributions and the type of assistance given (principally grants in aid versus concessional loans). For reasons of data reliability this is done with reference to the current year only. The second part examines the sectoral composition of ODA and trends over time. The third and final part provides commentary on relevant current and emerging issues.

b. Donor and Multilateral Organization Contributions

The 18 contributors to this exercise have indicated that they will disburse approximately €424 million within BiH during 2006. This represents the estimated total activity level, including both concessional loans and grant aid. The latter amount is also made up both of core spending and transfers between donors and multilaterals – indeed also between multilaterals.

The pattern of activity is summarized in Chart 2.1 below and the data is presented in Table 2.1. The red portion represents sums transferred to multilaterals and net spending is represented by the blue portion. The level of multilateral support varies considerably between donors, with the Netherlands and the EC being the major in-country supporters of the multilateral agencies, with UNDP and the World Bank the main recipients. Table 2.2 shows the ranking of bilateral donors according to the relative contribution to BiH of each country's GDP⁷. Sida and Norway, joined by Switzerland, provide the largest share of ODA relative to their GDP.

⁷ 2006 GDP figures from:
CIA – 'The World Factbook'

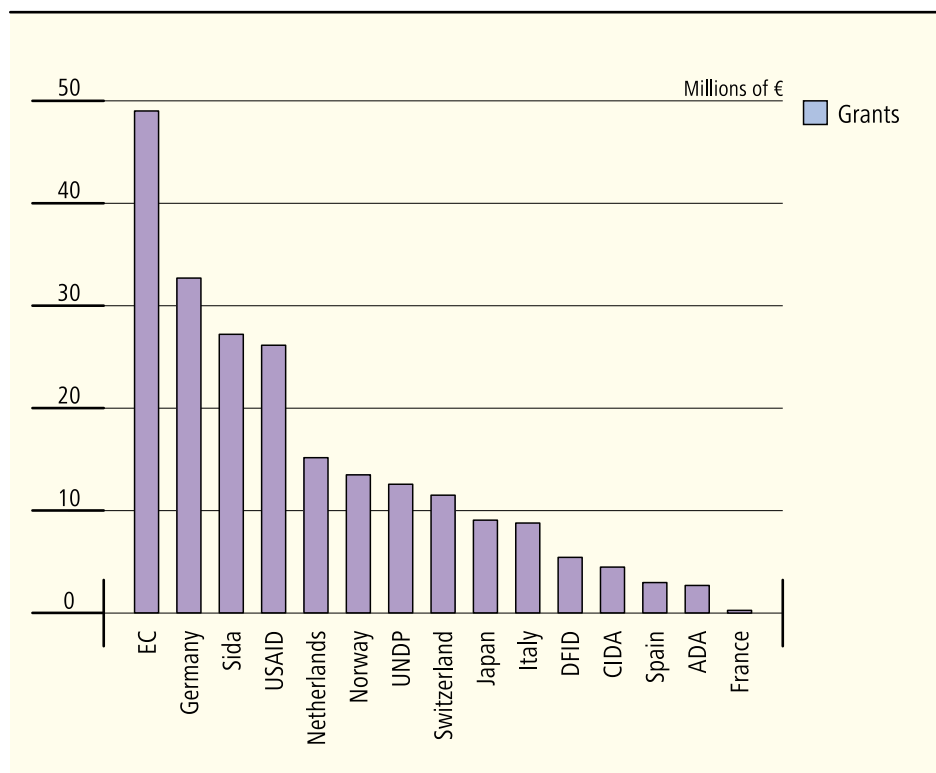
Chart 2.1: Ranking of bilateral and multilateral organizations (by total activity) 2006

Chart 2.2: Ranking of bilateral donors according to the relative contribution to BiH of each country's GDP (2006)


8. Loans refer to soft loans only, according to the definition: 'Soft loans are those where the grant element is at least 25percent', OECD Factbook - Economic, Environmental and Social Statistics (OECD 2006).

Table 2.1: Loans⁸ and grants by donors and multilaterals in BiH for 2006

Donor / Agency	Loans	Grants	Total	Multilateral support
	€m	€m	€m	€m
EBRD	75.7	0.0	75.7	0.0
World Bank	50.9	0.0	50.9	0.0
EC	0.0	49.4	49.4	19.0
EIB	46.3	0.0	46.3	0.0
Spain	29.0	3.1	32.1	0.0
Germany	0.0	32.4	32.4	0.0
Sida	0.0	27.5	27.5	0.6
USAID	0.0	26.3	26.3	0.0
Netherlands	0.0	15.2	15.2	4.4
Norway	0.0	13.8	13.8	1.4
UNDP	0.0	12.5	12.5	0.0
Switzerland	0.0	11.4	11.4	0.0
Japan	0.0	9.1	9.1	1.3
Italy	0.0	8.9	8.9	0.8
DFID	0.0	4.4	4.4	0.1
CIDA	0.0	5.5	5.5	0.5
ADA	0.0	2.6	2.6	0.0
France	0.0	0.4	0.4	0.9
	201.9	222.5	424.4	28.9

In terms of ranking, the large regional international financial institutions figure strongly alongside the lending activities of the World Bank. The importance of loan finance greatly influences the ranking. Spain's relatively high ranking results from its large transport aid (FBiH Railways) and trade credit. The donor picture excluding loans is rather different, as Chart 2.3 reveals below. Here the major regional banks and the World Bank fall out of the distribution, and the EC and BiH's other traditional major donors (Sida and Germany) become more significant.

Chart 2.3: Grant-only ranking 2006

As we will see in our later discussion, underpinning the growth of loan support is a change in the nature of ODA in BiH and in turn, the country's changing development needs.

c. Sectoral Composition and Trends

The mapping exercise made use of a sector categorization based on the standard Organization for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC)⁹ coding structure. The principal categories, given in Table 2.2 below, were used throughout the process. Additionally, for the purpose of highlighting the key trends, the analysis in this Chapter has effectively merged four of the categories: education with health; and economic and social development with agriculture and forestry. However, each of the ten sectors will be individually analyzed in Chapter 3.

9. The Development Assistance Committee of the OECD provides a standard categorization for aid flows and maintains international records of donor support.

Table 2.2: Summary DAC based on ODA categories

DAC Codes	Mapping Category
110-114	Education
120-130	Health
151nn excluding 15110	Governance and Institutions
152nn	Conflict Prevention and Resolution, Peace and Recovery
210,220,230 & 140	Infrastructure
160, 250, 321, 240, 331, 15110 & 332	Economic and Social Development
311 & 312	Agriculture and Forestry
410	Environmental Protection
400, 998, 151163 & 420	Multisectoral
700 & 520	Emergency Assistance

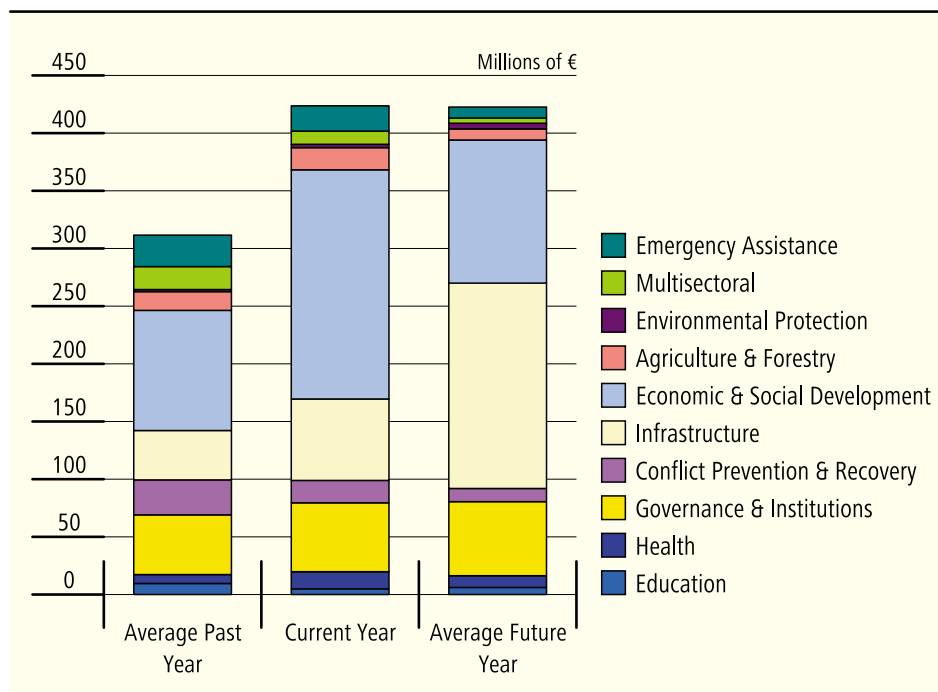
The sectoral composition, along with the total value of aid, has changed considerably in recent years. The following charts and tables depict these changes. The analysis has relied upon calculating an annual average value for the total, and sector-specific activity for both recent past years (based on out-turn data), and future years (based on firm planning assumptions).¹⁰ These were then compared against the data for the focus year (2006). No re-pricing adjustments were made as the returns did not permit this.

10. The self-declared returns for past and future spending for each project have been divided by the duration of the project (number of years). This provides a projected annual value for 2005 and 2007 based on the total project duration and budget value. This has been done to allow comparison with the focus year 2006.

It is important to recognize the limitations imposed by the base data available. Analysis draws on self-declared returns for past and future spending on current sectors of activity, and no allowance has been made for inflation. Closed projects as well as future planned activities yet to be contracted have not been accounted for in this analysis. The results are therefore illustrative rather than definitive. However, regular updating of the database is planned from 2007 onwards, which will provide more accurate quantitative trend data. The database will be made publicly available on an interactive website.

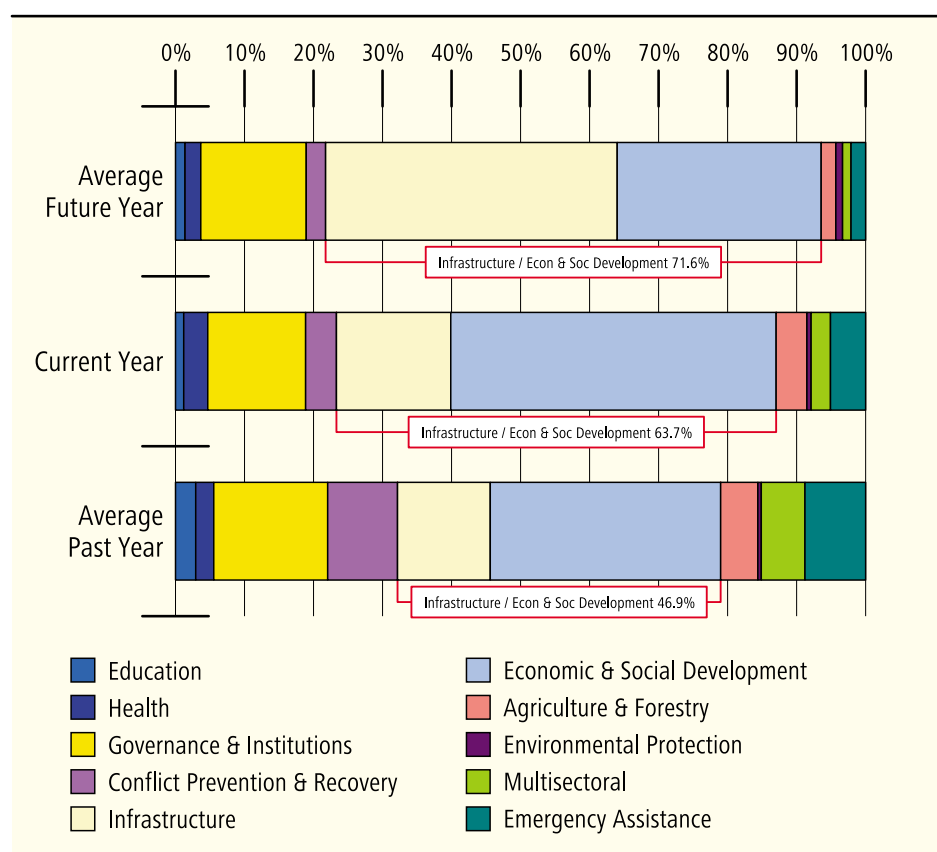
Our comparative approach using average past and future years also tends to over-dramatize the changes which are taking place. An annual analysis would most likely depict a far smoother transition. In addition, the lack of re-pricing builds in a tendency for the future years' expenditure to be overvalued, and past data undervalued. Although equally, uncertainties in the planning cycle versus out-turn data, may offset this.

Chart 2.4 presents the overall picture broken down into sectors. While the calculations were somewhat crude, these nominal moving averages illustrate the changing dynamics. The totals suggest ODA has risen compared to past years, and that much of the growth is in infrastructure, the broad category of economic and social development, and governance and institutions. Indeed, most other sectors are either static or in decline. The health and education sectors buck this trend in cash terms, yet the sums involved here are also small by comparison, and growth appears to tail off somewhat. However, there may be a phenomenon of differing planning horizons at work here, in that capital intensive projects are firmed up well in advance of implementation.

Chart 2.4: Activity by sector in average past and future years, with 2006 as the focus year

Due to the limitations of data, a more realistic method of representing changes is by way of quoting the sectoral shares of the total ODA which is given in Chart 2.5. This reflects even more clearly the growth in combined infrastructure and economic and social development allocations, and the decline of the others. These two aggregate sectors averaged about half of all BiH ODA in past years, and it is estimated that they will climb to over 70 percent in an average future year.

It is particularly instructive to note the very small share allocated to environmental protection. In the current year these allocations are running at less than 1 percent and on current plans will not surpass this figure in the future. We also observe, as might be expected, an ongoing decline in emergency assistance. A full overview of the sector shares in different periods is provided in Table 2.3.

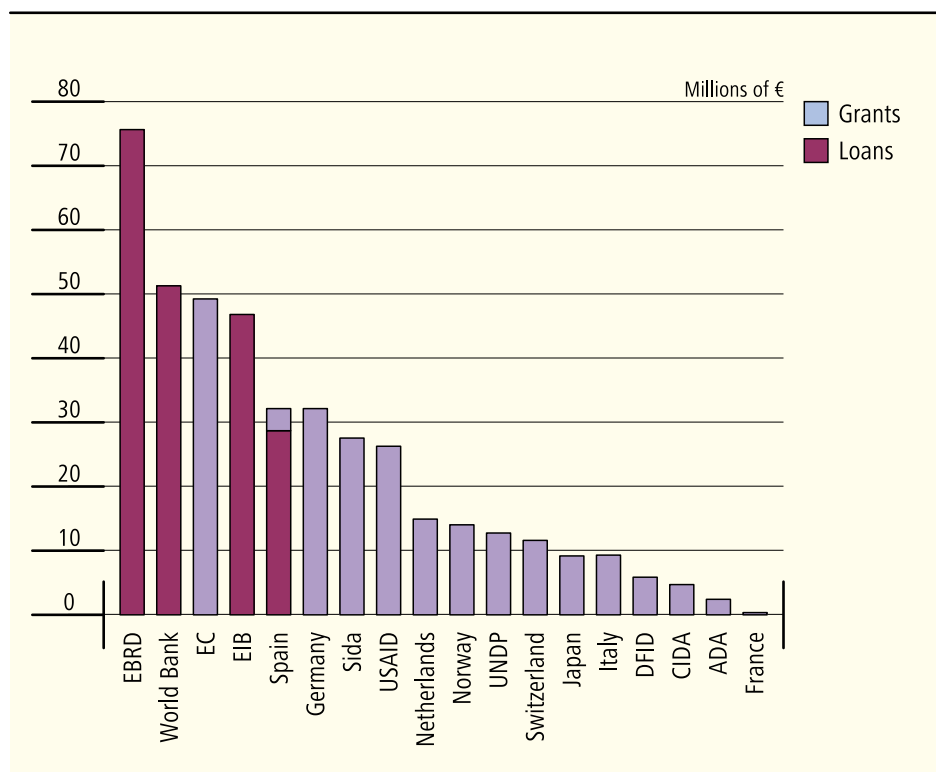
Chart 2.5: Sectoral shares of ODA in average past and future years**Table 2.3:** Sector shares of aid in different periods

	Average Past Years	Current Year (2006)	Average Future Years
Education	2.9%	1.2%	1.4%
Health	2.6%	3.4%	2.4%
Governance & Institutions	16.6%	14.2%	15.3%
Conflict prevention and resolution, peace and security	10.0%	4.4%	2.8%
Infrastructure	13.5%	16.5%	42.2%
Economic and Social Development	33.4%	47.1%	29.5%
Agriculture & Forestry	5.4%	4.5%	2.3%
Environmental Protection	0.6%	0.6%	0.9%
Multisectoral	6.3%	2.7%	1.2%
Emergency Assistance	8.8%	5.1%	2.1%
	100.0%	100.0%	100.0%

d. Commentary on Key Issues and Dynamics

As our first section demonstrates, BiH has a large and varied set of donors and multilateral institutions. These also vary greatly in size, yet the larger sums being allocated are being provided predominately by loan-giving institutions – the World Bank, EBRD, and EIB. Additionally, the bilateral donor Spain is providing soft loans. Although the degree of concessionality varies and has not been analyzed, it is clear that the bulk of finance is increasingly being dispersed via the quasi-commercial facilities offered by the two European banks.

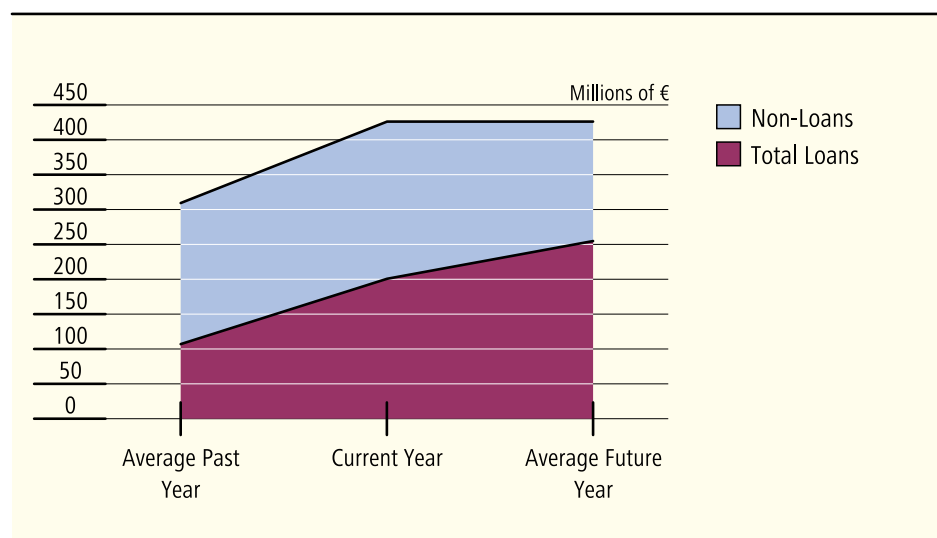
Chart 2.6: Ranking of bilateral and multilateral organizations with a loan-grant split



In terms of grant aid, the operating environment is dominated by the major aid operations undertaken by the European Union; USAID; Sweden's Sida and the German aid agencies KfW and GTZ. UNDP also ranks as an important player, but equally, the majority of its resources are sourced from in-country bilateral donors.

Overall, and contrary to widely held assumptions, ODA activity levels in the near past and future appear to be growing and considerably so.¹¹ Average allocations have risen €100 million on average past years. This is a significant change even allowing for the approximate nature of the data. But crucially, the bulk of this rise comes from large increases in loan finance associated with major infrastructure projects and economic development initiatives. Chart 2.7 clearly illustrates this point, showing the approximate trends in loan and non-loan allocations.

11. This growth in ODA should be taken with caution, as the data only captures projects from past and future years that are currently (2006) ongoing.

Chart 2.7: General trend in loan versus non-loan ODA

The flipside of this growth is the relative reduction in grant-based and non-infrastructure or economy related ODA. While it is uncontroversial that emergency assistance and peace-building activities are in decline, it is perhaps of concern that other allocations, for example to the all-important health and education sectors, are receiving less attention. Most troubling of all are the minimal devoted to environmental protection, which remains something of a Cinderella activity.

Driving these changes is a number of factors. The most significant is BiH's changing developmental position – its emergence from the post-war reconstruction phase and its transition to a market economy. Moreover, the level of public investment taking place on near-commercial terms is a validation of the progress made. Indeed, it might be argued that since BiH has acquired a certain degree of sustained economic stability, the social sector and the task of institution-building should now rightly become the sole province of national authorities and thus be accommodated through the recurrent budget. It further has to be recognized that although other sectors show a relative decline as a share of total ODA, many allocations are increasing in absolute cash terms.

In closing, it must be appreciated that our analysis here is not only limited by incomplete data, but also by its concentration on aggregates and headline figures. It is likely that the focus of grant-funded support is also changing in BiH, to emphasize qualitative and technical inputs as opposed to major projects. A comprehensive appraisal can only be gained by taking stock of the individual sectors and specific donor programmes. This task is addressed by the remaining sections of this report.

CHAPTER 3: SECTORS

12. The reasoning behind the choice of these sectors is outlined in Table 2.2 in the previous chapter.

This chapter will provide a general analysis of donor assistance divided into the ten following sectors¹²:

1. Education
2. Health
3. Good Governance and Strengthening of Institutions
4. Conflict Prevention and Resolution, Peace and Security
5. Infrastructure
6. Economic and Social Development
7. Agriculture and Forestry
8. Environmental Protection
9. Emergency Assistance
10. Multisector/Cross-cutting

3.1 Education

a. Introduction and Overview

According to DAC codes, the education sector includes basic education, secondary education and post-secondary education.

The educational sector in BiH reflects the constitutional system; it is fragmented and divided between the different levels of authority with poor coordination and cooperation mechanisms. Although the BiH Ministry of Civil Affairs is the state-level institution coordinating all issues relevant to education, it has no authority to influence the work of lower level institutions. Competencies lie entirely at Entity level in Republika Srpska (RS), and mainly at the cantonal level in the Federation (FBiH). As a result, BiH has 13 ministries of education with 13 different educational policies, set of standards and curricula. This system has not helped to reduce the problems of ethnic segregation in schools.

Due to institutional rigidity, corruption (especially at university level) and the consequences of a segregated school system, the education sector is very expensive. In 2004 some 5.6 percent of official GDP was allocated for education (6.7 percent in FBiH and 4.6 percent in RS).¹³ Despite the extensive state expenditure, the system is producing mediocre results. For example, forty percent of pupils in the fourth grade (age 10) have failed to meet the minimum standards in mathematics and less than five percent of university students at the University of Sarajevo graduate within the respective time range. Yet efforts to rationalize the sector are met with a complete reluctance to reform by BiH authorities largely from political grounds and continuing inter-ethnic tension.

A lack of expertise and professional capacity also holds back progress towards modernization and the adoption of European standards in this sector. Education reform was therefore

13. 'A Public Expenditure and Institutional Review,' the World Bank, 2006.

identified as one of the essential obligations for BiH when joining the Council of Europe (CoE). The BiH parliament adopted the Framework Law on Primary and Secondary Education, which came into force in mid-2003. However BiH has still to fulfil all its obligations. As for the Bologna process, higher education reform is required to improve the quality of universities and make BiH more competitive in a European context. It also allows for BiH university qualifications to be recognized within Europe. However, the implementation of basic principles vested in the Bologna reform process has not been carried out.

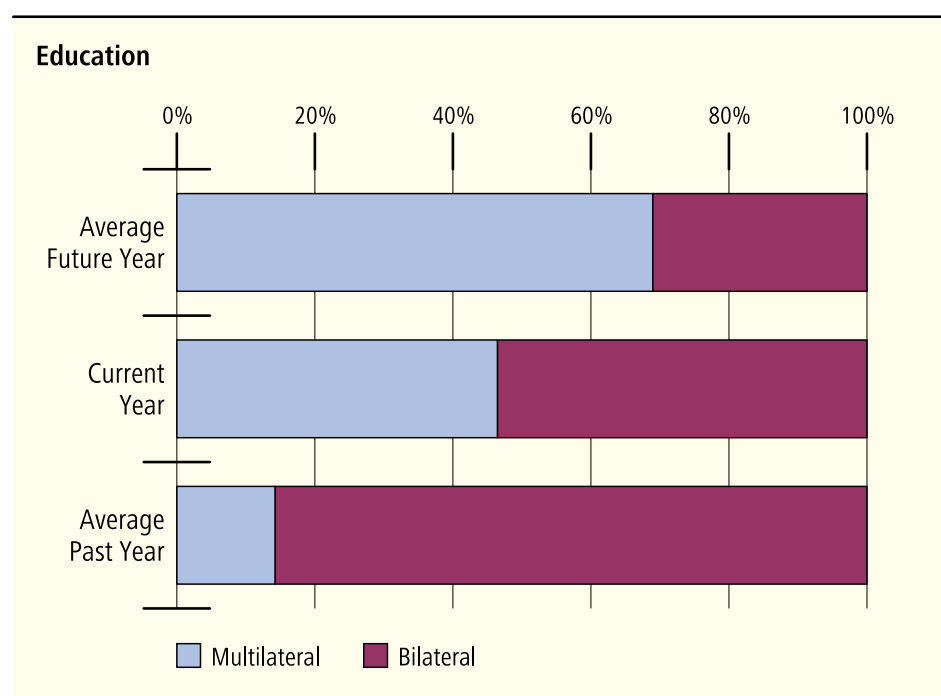
b. The BiH Government's View

The revised MTDS¹⁴ prioritizes measures to strengthen the public administration of education at state level; high-quality basic education; implementing a common core curriculum; and ensuring education for all children. Although the MTDS contains a large number of priorities, the implementation process has generally been very slow. A telling example of the status of BiH universities is shown in the fact that funding for research and development makes up just 0.05 percent of GDP (the EU average of GDP is almost 3 percent), which is extremely low. BiH's universities are under funded, leading to little quality research and deterioration in qualification standards. In light of plans for future EU accession, reforms to adopt the Bologna standards are necessary for progress, although difficult to implement.

14. EPPU (2006), *BiH Medium Term Development Strategy 2004-2007 (MTDS) - Revised document*. The "BiH Government's View" section is drawn from the MTDS throughout the report.

c. Key Facts and Figures

Chart 3.1: Distribution of aid flows to the education sector

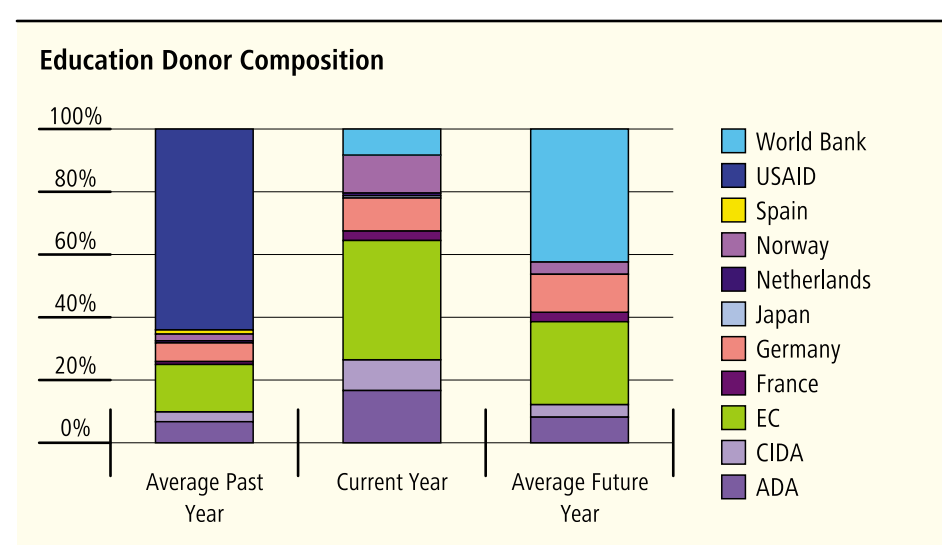


The education sector accounted for 1.2 percent of all aid activity in the focus year representing an expenditure of approximately €4.9 million. A variety of donors are active in this field and the proportion of contributions from multilateral sources compared to those from bilateral sources seems set to increase.

Activities in this sector include an integrated programme for higher education improvement in BiH with a special focus on capacity-building measures to move the Bologna process forward. This also includes policy development support to the State level Ministry of Civil Affairs. International cooperation between universities and general start-up programmes for graduates who want to become entrepreneurs receive donor-support. Japan and Norway are supporting educational interventions with the aim of integrating classes in the so-called 'two schools under one roof' programme in the Mostar Gymnasium and are planning to carry out similar activities in other schools if supported by local authorities.

d. Major Donors

Chart 3.2: Donors active in the education sector



The main international actors in the education sector are the EC, World Bank, Germany, ADA, CIDA, USAID and Norway. The Organization for Security and Co-operation in Europe (OSCE) has a political coordination role. Both the CoE and the Office of the High Representative (OHR) have been involved in trying to overcome the overriding political issues.

The EC, CIDA, Germany, ADA, and Norway have major programmes running in specific sub-areas. These include providing support to Masters Programmes, school equipment, e-learning programmes, the development of an E-Net Centre at the University of Sarajevo as well as exchange programmes between the University of Sarajevo and other western universities.

Grants are the main source of finance. However, there is an increasing tendency towards lower levels of grants, with an increase in loans (such as from the World Bank). One explanation may be that donors have been giving conditional grants. Until the politicians make progress on reform, donors will not be forthcoming with additional grant funding.

e. Donor Coordination Mechanisms/Instruments

The OSCE chairs a donor coordination group on education – the Education Issues Set Steering Group (EISSG) – in which all the relevant actors, including OHR, EC, CoE, World Bank, UNICEF, CIVITAS, DFID, Germany, ADA, USAID and Norway participate. Addressing higher education is a Higher Education Working Group chaired by CoE. This, however, takes the form of a more informal group which also includes local stakeholders.

The donors view the forums as positive, although headway has not been made as the main obstacle lies not in donor coordination, but rather in resolving the complex inter-ethnic issues dividing education, coordination between the state and Entity educational bodies, and overall educational reform.

f. Governmental Partners and ODA Coordination

The education sector lacks coordination among the governments with no effective forum for ministers to discuss and agree on reform. The various education ministries do meet in various formats, but coordination needs to become far more focused. However, some of the donors, such as the OSCE, CoE, OHR, World Bank and EC maintain regular contact with the authorities on educational issues.

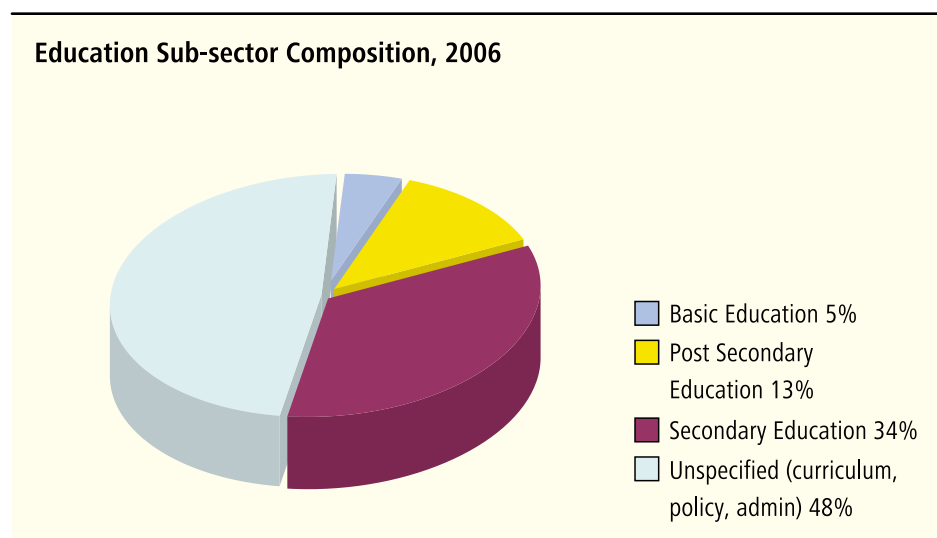
The impact of the MTDS on the educational sector is considered small. International agencies have supported a number of strategies for BiH, all of which have had little impact due principally to a lack of local ownership problems created by overly-ambitious agendas. International agencies have also prepared studies of the sector, such as the EC's 'Functional Review of the Educational Sector' and the World Bank's 'Public Expenditure and Institutional Review'.

g. Key Priorities and Issues

A major focus of the donors is the implementation of a strategic plan to strengthen state-level bodies enabling them to monitor, implement and coordinate the education sector. With the main focus on developing a functional education sector, there is little donor activity on the more detailed issues, such as curricula. The main challenge here is to enhance the overall coordinating capacity of the Ministry of Civil Affairs.

Other challenges include the apparent lack of sufficient human resources and qualified staff alongside limited policy formulation and implementation capacity at all levels. In addition, the sector suffers from outdated curricula and educational methods.

Since little progress on changing the overall structure of the education sector has been made, most bilateral donors are participating in educational projects involving cooperation between their own educational institutions and those of BiH. Bilateral donors are also seen as an important pressure group to safeguard and protect the rights of marginalized groups to education. Unfortunately, donor coordination of these more operational activities does not exist.

Chart 3.3: Proportional aid flows in sub-sectors

Overall, donors allocate 13 percent of aid flows in this sector to post-secondary educational activities and 48 percent to mainly policy development, while 34 percent is allocated to secondary education programmes. Only 5 percent of aid flows in this sector concerns primary education.

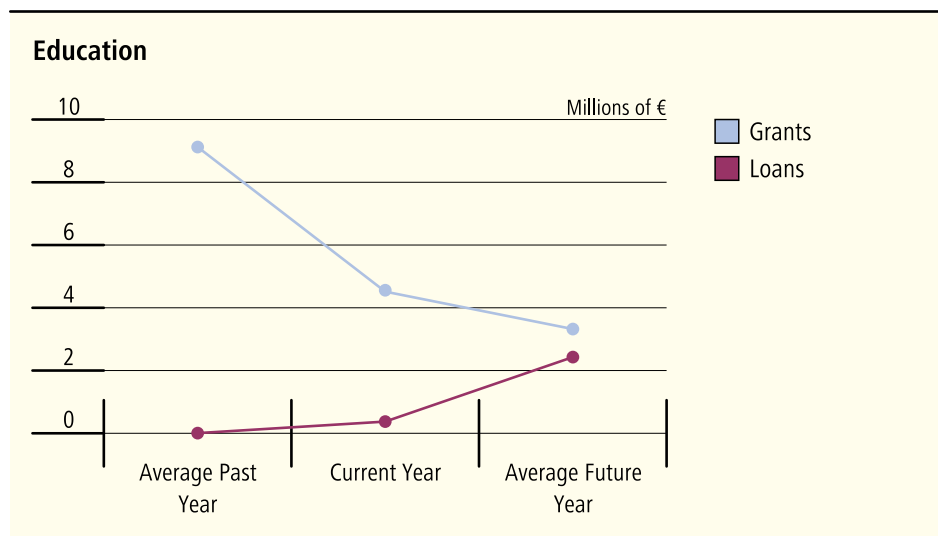
The post-secondary education percentage mainly consists of World Bank, EC and ADA projects intended to strengthen BiH capacities according to the requirements of the Bologna reform process. The unspecified sub-sector proportion refers to projects aiding the development of a common curriculum, governmental policy-making and administrative capacities to meet the demands of the segregated school system, and technical equipment. It also includes other individual projects such as the establishment of a United World College in BiH. Secondary education is dominated by vocational training. The priority of donors is also to encourage students to pursue a four-year secondary education, improve the quality and relevance of the secondary education and promote lifelong learning¹⁵.

15. The leaving age for the four year secondary education is 19.

There are ongoing donor initiatives in all of the above mentioned areas. But all challenges are exacerbated by the unsustainable structure of the education sector and the politicization of education by all three constituent peoples. This is also mirrored in an inflation of staff numbers, mainly due to ethnic segregation, and the non-compliance with relevant legislation. Donor focus to date has been on the preparation and passage of legislation but without a stronger focus on implementation capacity (which can be enhanced with or without legislative change) no significant reform will be achieved. Future support depends on the political development and whether the parliament manages, for instance, to pass the law on higher education and other important legislation in the near future.

Dynamics and Trends in the Sector

Chart 3.4: Aid flows to the education sector



The data shows that grant spending is declining while loan financing is on the rise. As outlined above, the main reason for this trend is the structure of the education system which has led to the failure to achieve goals from grant-aid financed projects.

Overall, the analysis shows the education sector is not among the top priorities of donors, as allocations are rather small on a relative basis. The sector accounted for 2.9 percent of all activity in past years and is expected to account for only 1.4 percent in future years, according to planned allocations. Until the comprehensive reform of the educational sector is achieved through a shift in approach from the BiH authorities, this sector will probably continue to receive little donor funding.

3.2 Health

a. Introduction and Overview

This sector covers a broad range of activities, from the training of personnel, research and policy planning and the procurement of proper equipment, to achieving adequate healthcare provision. Information campaigns and HIV/AIDS research are also included.

The healthcare system comes under the authority of the FBiH Ministry of Health, the RS Ministry of Health and Social Protection and the Brčko District Department of Health. Administration of the healthcare system has proved to be difficult, not fully efficient and rather expensive.

b. The BiH Government's View

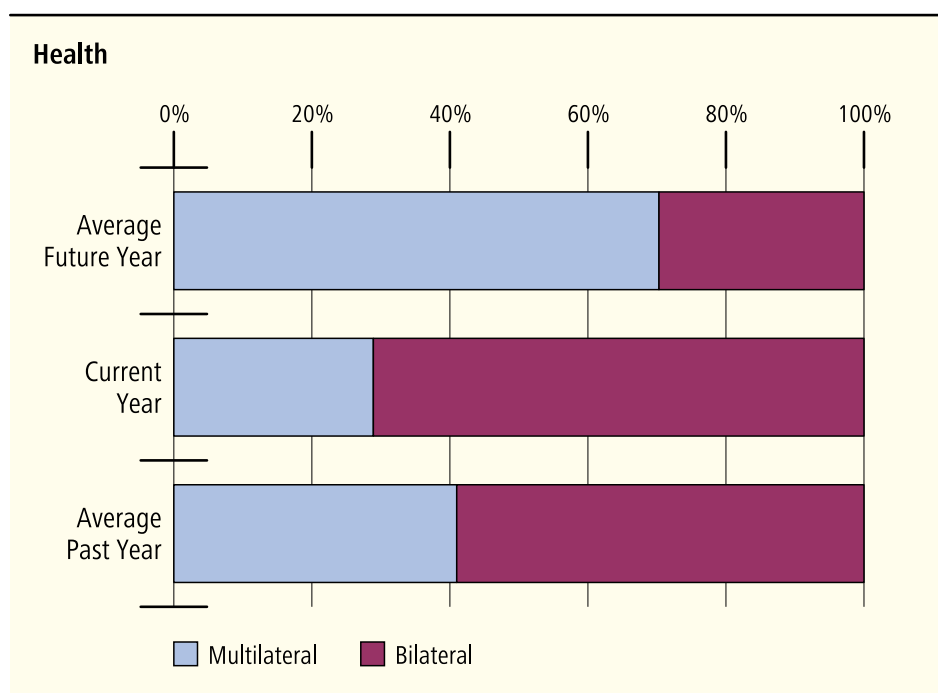
The main goal, as outlined in the revised MTDS on this sector, is to provide an accessible healthcare system for all citizens, enabling vulnerable groups to have access to a guaranteed basic package of health rights and services. Further, the system should be oriented towards quality health protection and supervision. The health sector also plays an important role in the EU's *acquis* and therefore future measures particularly focus on fulfilling these requirements.

According to the MTDS, significant progress toward the required reforms in this sector has been achieved. Despite this, realization of the designated policies is not developing at a satisfactory pace. This is due to some of the same obstacles facing the education sector, such as inefficiency caused by a decentralized system and high expenditures. The retention of responsibility at Entity level makes it difficult to guarantee a minimum of basic health rights for each citizen of BiH regardless of the place of residence.¹⁶

16. UNDP (2004), *MDG Update Report for BiH, PRSP, Europe and Beyond*, Sarajevo, p.38.

c. Key Facts and Figures

Chart 3.5: Distribution of aid flows to the health sector

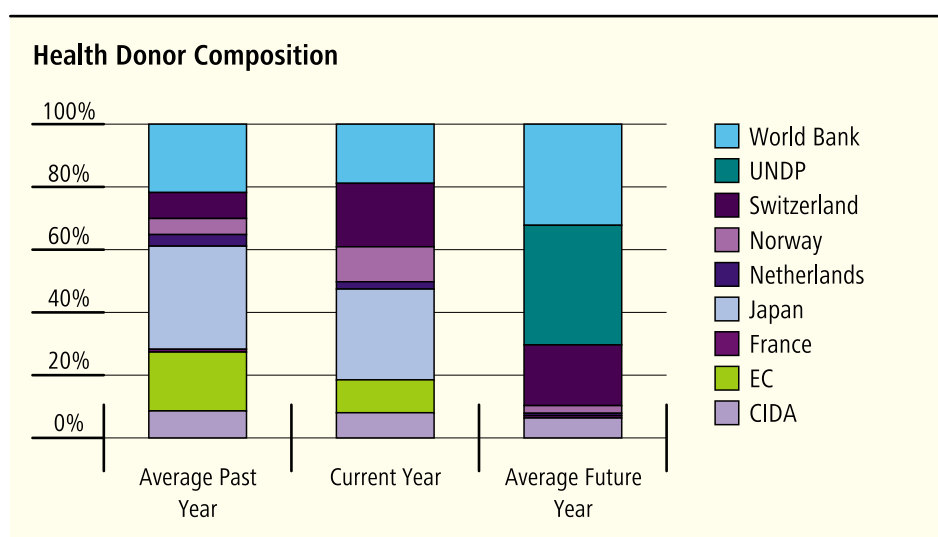


The health sector accounted for 3.4 percent of all aid flows in the focus year, amounting to approximately €14.6 million. Bilateral distribution is dominant in this sector but the proportion of multilateral activities is expected to increase over that of bilaterals in the future.

Activities in this sector have thus far included equipment investment for hospitals and support to rehabilitation centres. There has also been an increased emphasis on the training of healthcare professionals, health education and HIV campaigns.

d. Major Donors

Chart 3.6: Donors active in the health sector



At present, the most influential donors in the health sector are: Japan, World Bank; Switzerland, Norway, CIDA and EC. Japan has focused mainly on medical equipment, while Norway, CIDA and Switzerland are more involved in health education and training. CIDA is also involved in primary healthcare (human resources), youth and health, and public health associations. The World Bank has placed its emphasis on programmes for adequate health insurance development. UNDP, as managers of the Global Fund HIV/AIDS programme, will become a major donor from next year onwards.

e. Donor Coordination Mechanisms/Instruments

No formal donor coordination mechanisms are in place in the overall health sector. Cooperation is achieved through informal and *ad hoc* information sharing between donors. However, for HIV/AIDS there is a functioning donor coordination forum, the HIV/AIDS Country Coordination Mechanism (CCM), which brings together national authorities – the Ministry of Civil Affairs, the Entity Ministries of Health, Brčko District, all relevant UN Agencies and a number of specialized non-governmental Organizations (NGOs).

The International Task Force on Avian Influenza (AI) was established in 2006. This forum is chaired by the World Bank with the aim of strengthening BiH's national response to a potential avian influenza outbreak. Other members of this forum are USAID, EC, UNDP and WHO.

f. Governmental Partners and ODA Coordination

According to the Dayton Peace Accords (DPA), responsibility for healthcare lies at Entity level. In FBiH, this competency is further divided between the Entity and the ten cantons. The FBiH consequently has a system with 11 health ministries and 11 health insurance institutes.

The main government partners are: 1) the state-level BiH Ministry of Civil Affairs and its Departments of Health, Social Welfare and Pensions; 2) FBiH Ministry of Health; 3) RS Ministry of Health and Social Welfare; 4) Brčko District Department of Health; and 5) cantonal ministries of health. In addition to these, there are public health institutes at Entity and cantonal level, universities/faculties of medicine, and various civil society organizations.

There is no overall ODA coordination by BiH governments at any level. A national strategy on health does not exist. Donors follow the MTDS chapter on the health system or the EC-funded 'Functional Review on the Health Sector in Bosnia and Herzegovina'.¹⁷

The first steps made by state and Entity governments on coordination have been, as with the donors, in the area of HIV/AIDS (CCM) and AI. The Crisis Committee for AI was established in 2006, which consists of national healthcare authorities at Entity and state-level. The Committee is a decision-making body made up of political representatives. Giving advice to the Crisis Committee is the Inter-Sectoral Working Group for AI, which is made up of professional healthcare and veterinary staff.

17. Europe Aid, 2005
– 'Functional Review on the
Health Sector in Bosnia and
Herzegovina'

g. Key Priorities and Issues

The EC-funded Functional Review concluded that the administration of the health sector in BiH is not very efficient and characterized by the duplication of some functions on the one hand and the lack of functions on the other. The report suggests that human resource management, consistent planning, policy development, coordination and mechanisms for European Union integration are weak or not identified. Consequently, the EC continues to support those activities which move forward implementation of the Functional Review recommendations.

In RS the various health sector challenges include the unsatisfactory health status of the population (high prevalence of cardiovascular and malignant diseases); inadequate access to health services (financial and organizational obstacles for certain categories of population); the quality of healthcare; the lack of universal health insurance coverage and human resource planning; inadequate contracting between the Health Insurance Fund and healthcare providers; and the lack of community and citizen participation in the design and delivery of healthcare.

Improvements have been made in the area of health policy development, with some recently adopted legislation assisting the sector's needs. However, a mediocre outcome is still the case due to a lack of communication between policy makers and healthcare providers, coupled with the lack of financial implementation mechanisms. An additional problem is the weak environment (financial stimulus and accountability culture) which cannot support health management and discipline among health institutions. The healthcare that is provided is not always appropriate and relevant to the needs of the population and therefore the referral rate to other countries, such as Serbia, is high.

In this context of multiple and significant challenges, the RS is implementing measures related to healthcare reform. In addition, measures have been sought with regard to health sector reform. The World Bank has been supporting some of these initiatives through the Social Sector Technical Assistance Project (SITAP). Other activities include reform of the financing and payment mechanisms in the health sector. There are also projects being undertaken related to capacity-building in the area of human resources.

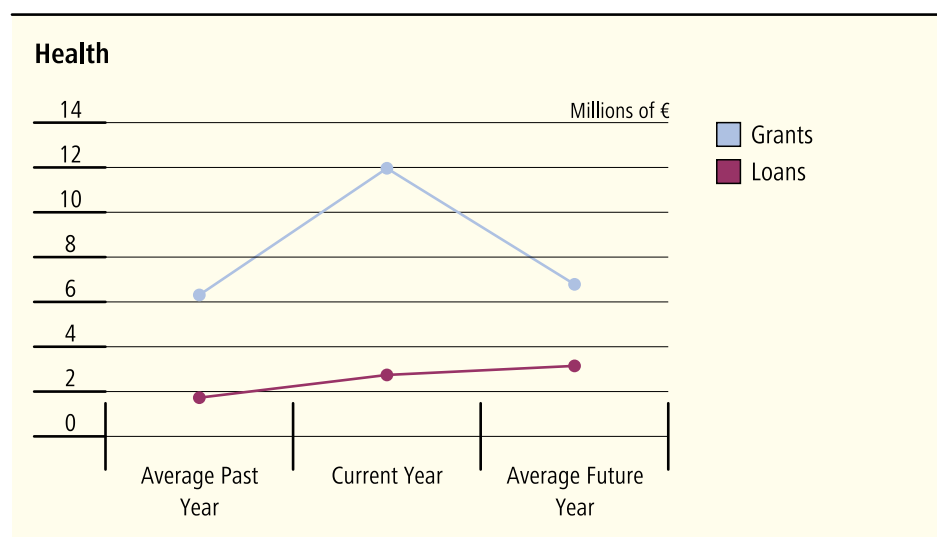
In FBiH, the major challenge is to improve the functioning of the healthcare system. Measures include adjusting the legal framework and regulation in the health sector in accordance with EU standards, improving financing through efficient collection of healthcare contributions, strengthening the organization of the health sector at the macro and micro level through improved allocative and technical efficiency respectively, and improving the provider payment mechanisms by introducing a more efficient and effective contracting process based on output and quality indicators. The World Bank is addressing some of these issues in the Federation.

The decentralization in FBiH has led to the excessive division of the healthcare system, with duplication of service delivery, lack of economies of scale, and inadequate risk pooling. The limited institutional capacity is further exacerbated by the duplication of roles and responsibilities of the various institutions in the system. The decentralization of services and bureaucracy in FBiH also poses a challenge for the development of accessible, equitable, efficient and cost-effective health services throughout the Entity.

The Strategic Plan for Health Sector Reform for the FBiH, drafted in 2000, has not yet been adopted by the Federation Government. There is also limited institutional and human resource capacity to address the complex issues of health sector reform. This is compounded by political complexity, financial instability and constrained public sector finances.

Dynamics and Trends in the Sector

Chart 3.7: Aid flows to the health sector



Grant allocations are set to decline in the coming years; the sector will account for only 2.4 percent of all planned activity in the future, compared to 2.6 percent in past years and 3.4 percent in the current year. However, the importance of the health sector for the European Community's *acquis* will likely be the reason for significant growth in this sector. Further, the fragmented institutional system will require a substantial reform period. Subsequently, loan interventions will become even more important.

3.3 Good Governance and Institution Building

a. Introduction and Overview

This sector consists of providing support to enhance a better democratic climate by strengthening good governance and the state's institutions. It encompasses improvements in the BiH Government's ability and capacity to deliver better services to its citizens, as well as capacity-building measures to meet the requirements put forward in the SAA negotiations. This sector therefore covers a wide range of activities linked to all levels of governance.

The various areas have been separated into the following sub-sectors: legal and judicial development; human rights including anti-trafficking; public administration reform; and strengthening civil society. Each sub-sector will be discussed separately.

The Dayton Peace Accords (DPA) resulted in the development of atypical and complex political and administrative structures in BiH. The central government is given very limited powers, while most of the administrative authority rests with the two Entities. In the Federation this authority is further delegated to the level of ten cantons. Furthermore, until very recently overall authority, most tangibly evident with the Bonn Powers, has rested with the OHR.

Government institutions also play a key role in the creation of political, administrative and social preconditions for the transition to a market economy. In addition, this institutional structure makes both governance and the judicial sector extremely complex, with 14 separate jurisdictions, ministries of justice, and several courts, and prosecutorial offices.

Due to its pivotal role in ensuring progress in achieving the country's European aspirations and creating preconditions for economic development, the good governance and institution building sector is a crucial factor in BiH's national development.

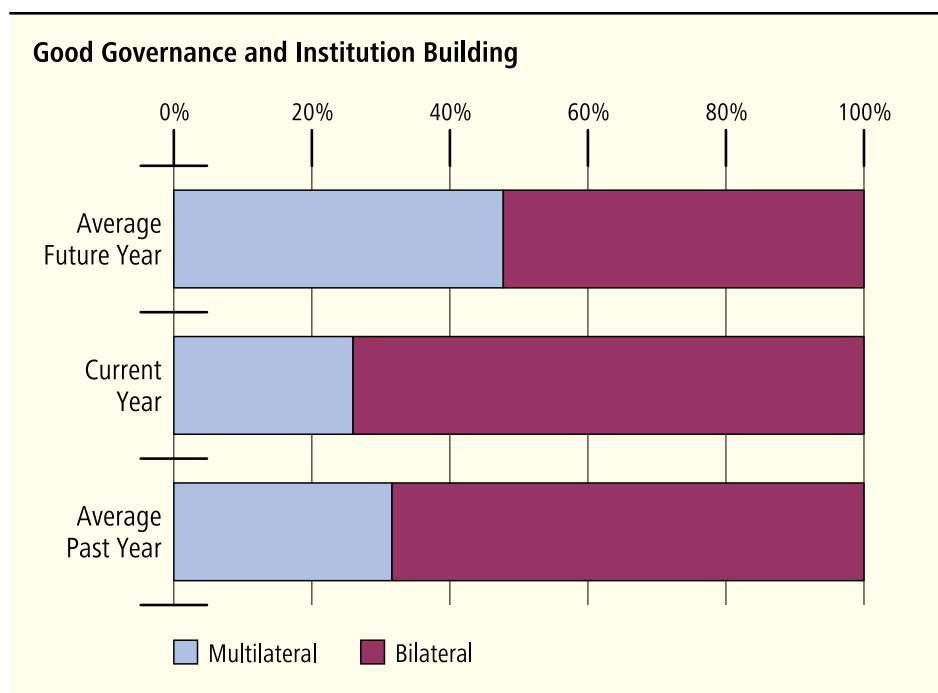
b. The BiH Government's View

The MTDS states that the establishment of adequate institutional and administrative structures, the adoption of best practices, and the employment of new personnel trained according to European standards will significantly speed the development processes in society and make their implementation more straightforward.

The MTDS further suggests measures that would positively affect all sectors with an administrative component – capacity-building, simplifying procedures, strengthening internal controls and procedures as well as the use of public funds, simple and applicable regulations, and the application of information technologies.

c. Key Facts and Figures

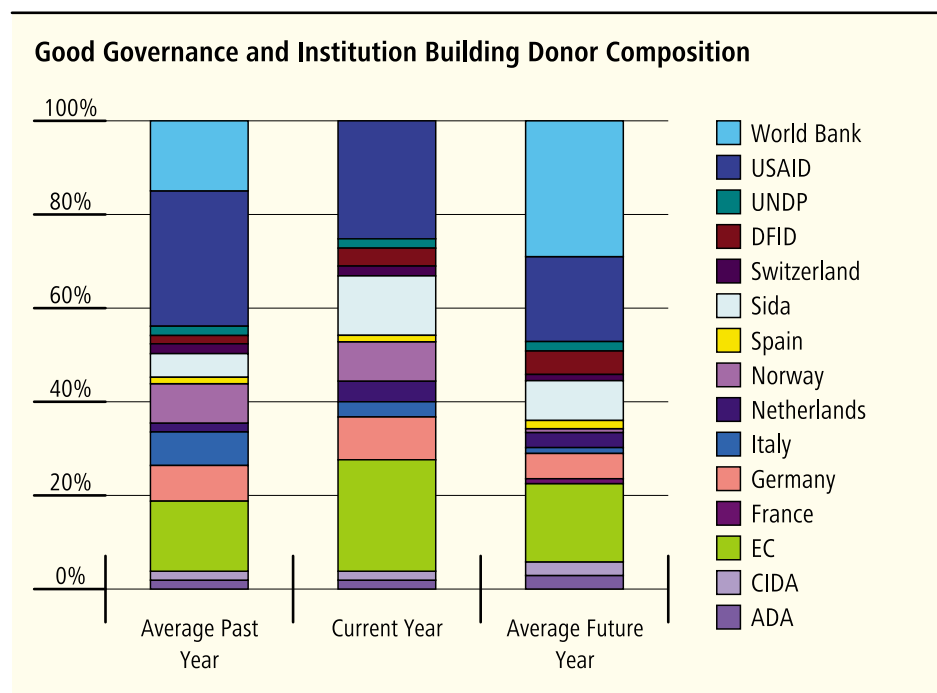
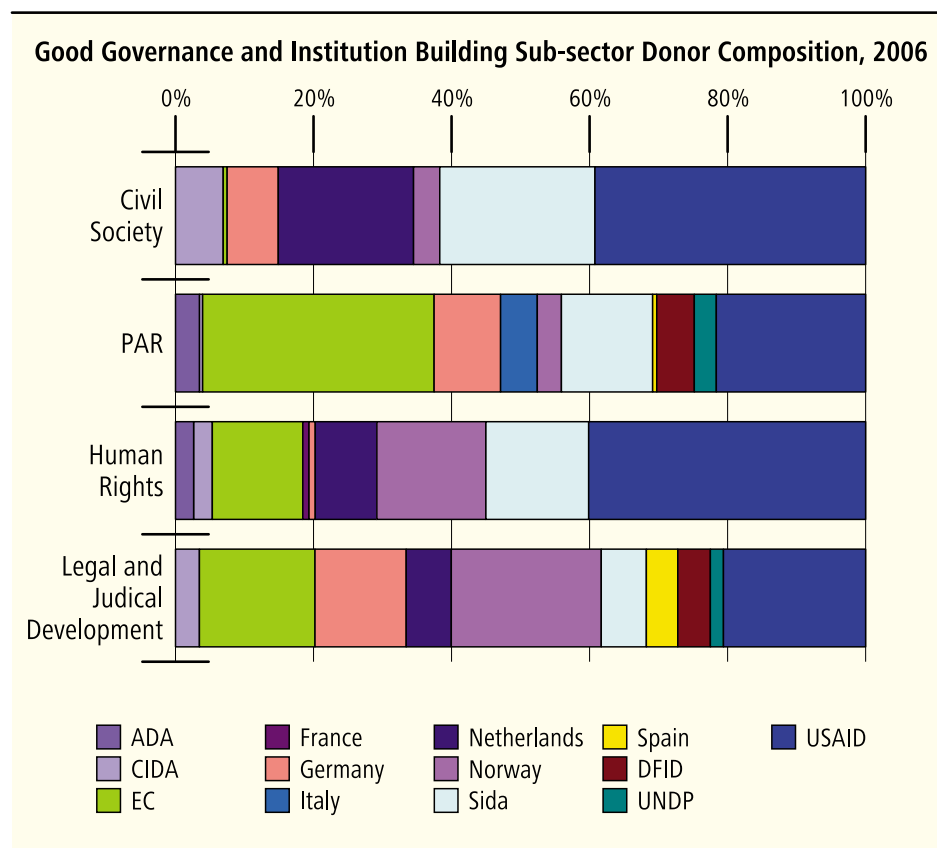
Chart 3.8: Distribution of aid flows to the good governance and institution building sector



The good governance and institution building sector accounted for 14.2 percent of all activity in the current year, with approximate spending amounting to €60.4 million. In the current year almost 80 percent of interventions came from bilateral donors, but the proportion of multilateral interventions looks set to increase in the future.

d. Major Donors

Many donors are active in this sector as shown in Chart 3.9. A more differentiated donor composition by sub-sector can be seen in Chart 3.10. In the civil society sector the main donors are CIDA, the Netherlands and Sida, while in the area of public administration reform (PAR), USAID and EC are the major donors. In the human rights sub-sector, Sida, Norway and USAID are playing an important role, while the main donors in the legal and judicial development sub-sector in the present year are the EC, Germany, Norway, CIDA and Sida.

Chart 3.9: Donors active in the good governance and institution building sector**Chart 3.10:** Sub-sector donor composition, 2006

3.3.1 Legal and Judicial Development

This sub-sector refers to constitutional development and legal drafting, including institutional strengthening of the legal and judicial systems; legal training and education; legal advice and services; and crime prevention. Further support is also given to ensure proper functioning of the judicial institutions in terms of equipment and personnel.

A key activity under this heading is providing support for the BiH Court. This is done by donors through direct budget support, capacity-building activities and personnel secondments.

a. Major Donors, Coordination Mechanisms and BiH Partner

In the legal and judicial development sub-sector, the EC, USAID, Norway, Germany, CIDA and Sida are considered the main donors. DFID and the Netherlands are also considerable donors. The Netherlands, Norway, Germany, Spain, ADA, UNDP Global Justice Trust Fund (GoJ TF) Sida, USAID, UK Foreign Ministry¹⁸ and EC have all been very much involved in the establishment and funding of the BiH Court.

18. Not reflected in data as the UK Foreign Ministry is not part of the DCF.

With regards to legal and judicial development, the donors to the state court are well-coordinated, with meetings called at regular intervals. This good coordination has led to the development of a sector-wide approach in the judicial sector based on having a national strategy. Coordination between donors in the sub-sector as a whole however, is weak. The High Judicial Prosecutorial Council (HJPC), OSCE, Sida and the state Ministry of Justice have each organized separate initiatives to strengthen donor coordination in this field, but most coordination efforts still take place through informal contacts and information exchange.

Until recently, OHR played a unique role as the coordinator of donors in the legal and judicial development field. This role has however diminished with the OHR's downscaling. At the same time, the EC is playing an increasingly important role as a donor and the arbiter of the ongoing EU accession process. However, most donor coordination is issue-driven, with donor working groups formed to address such issues as the state court, and judicial and court administration. A more formalized coordination mechanism is still needed, however, and the state Ministry of Justice may take the leading role in coordination with the High Judicial and Prosecutorial Council.

In the area of legal and judicial development, the BiH Ministry of Justice (MoJ),¹⁹ the HJPC²⁰, and the BiH Court are the main governmental partners. In response to donor suggestions, the state MoJ is to set up a department which will develop a national judicial sector strategy encompassing all areas, such as prosecution, legal aid, courts and the penal system.

19. Created in 2003.

20. Created in May 2002.

b. Key Priorities and Issues

While donors have been very much involved in funding the BiH Court, funding should also be allocated to lower-level rule of law institutions such as Entity, district/cantonal courts plus basic/municipal courts and prosecutors' offices. These institutions also need to become more involved in the implementation of new legislation and moreover, in coordination of legal and process related issues.

In order to build a strong and independent judicial system in BiH a coherent national strategy is needed, whereby Entities and the state agree on reform priorities. To implement such a strategy a single state budget for the sector should be established and the state should coordinate the donors to contribute to the strategy, preferably by contributing funds to the state budget for the judicial sector. There are, however, major political challenges to overcome before this can be realized. Furthermore, the state MoJ needs to be sufficiently strengthened, not least in terms of management capacity. Other weak areas within this sub-sector include the prosecution, legal aid and the penal system. There is also an obvious need for further infrastructure investment such as court buildings and prisons.

Overall, however, the sector is well-funded by the various international donors. The problem is rather that the funding of judicial institutions is uneven. Additionally, there is an apparent lack of BiH government ownership and funding for the sector. Future challenges lay in transferring the development of rule of law to the BiH government's remit and the development of a comprehensive national judicial strategy.

3.3.2 Human Rights

This sub-sector includes monitoring human rights, providing support for national and regional human rights bodies, the protection and facilitation of the return of ethnic, religious and cultural minorities, and anti-trafficking. Currently, donor activity in this area is limited. Efforts are mainly directed at supporting the BiH Ombudsman institution and providing support for anti-trafficking activities. The EC continues to support the work of the Human Rights Commission within the BiH Constitutional Court.

a. Major Donors, Coordination Mechanisms and BiH Partner

All essential funding for this area currently comes from the state and Entity budgets. This significantly reduces the need for external donations which are limited to one-off projects. The largest donors have been Norway (mostly for the state Ombudsman), USAID and Sida.

Cooperation on this issue mainly takes place between the OSCE, CoE and OHR. In the past, OSCE and the United Nations Office of the High Commissioner for Human Rights (OHCHR) have organized human rights coordination and information exchange, and meetings with bilateral and multilateral organizations, plus local and international NGOs.

The main BiH governmental partners in this area are the Ombudsman institutions at state and Entity level, and the Ministry of Human Rights and Refugees at state level. The state-level Ombudsman institution was set up by a new law adopted in 2006. In accordance with this law, there will be just one Ombudsman at state level with the Entity level offices to be disbanded.

To coordinate donors funding anti-trafficking measures, USAID and Sida will coordinate funding and oversee implementation of the 'Trafficking in Persons Prevention and Protection Programme'. The programme is designed to strengthen the capacity of the BiH government to combat trafficking in human beings.

The state-level Ministry of Security, the Office of the State Coordinator for Anti-Trafficking, education ministries, the Centres for Social Work, the BiH Prosecutor's Office and local NGOs are the main BiH counterparts for anti-trafficking. The state coordinator for anti-trafficking arranges regular referral meetings involving all donors in this sector.

b. Key Priorities and Issues

The past structure comprising three Ombudsman institutions along with the lack of clear coordination and cooperation among them has been a major challenge in developing a consolidated Ombudsman institute. Other issues include overlapping of jurisdiction and competencies. The creation of a state-level Ombudsman will possibly address this challenge. Donors have given strong support to the new law on Ombudsmen and the establishment of this institution which is being mainly implemented by OSCE.

As far as anti-trafficking is concerned, donors should work towards ensuring that the government of BiH, in cooperation with civil society, continues the progress made at the political and institutional levels and gradually take ownership of the anti-trafficking agenda in BiH.

3.3.3 Public Administration Reform (PAR)

Public administration reform (PAR) encompasses according to DAC the reform of all systems of government including parliament, local government, decentralization, civil service and civil service reform, including general services by or commissioned by the government. The sub-sector also encompasses public sector financial management.

a. Major Donors, Coordination Mechanisms and BiH Partner

DFID, Sida, the Netherlands, EC, USAID, CIDA, Germany, the World Bank and UNDP are the main donors in this sector. The first three have established a nationally-managed PAR fund with complimentary funding from the EC. The financial arrangement of the PAR fund also indicates an important institutional alliance in terms of programming and coordination of activities. The EC principally takes the lead in PAR, having carried out a comprehensive package of functional and systems reviews, following up with providing support to the PAR Coordinator's Office (PARCO) which has been setting out a PAR Strategy.

Monthly update meetings have recently been held with the representatives of the EC, DFID, the Netherlands, Sida, UNDP and OHR. These meetings are chaired by the BiH PAR Coordinator. The key national players are the BiH PARCO, which is part of the office of the CoM Chairman, the CoM General Secretariat, the Directorate of European Integration (DEI), DEP, civil services agencies at state and Entity level, the sub-unit for human resources in Brčko District, the Ministries of Justice, Finance and the legal offices at all levels of government.

The guiding strategy documents are the BiH Public Administration Reform Strategy and Action Plan, which has been prepared by PARCO with support of the EC. The PAR strategy will improve general administrative capacity through the reform of core horizontal systems and structures of governance. It also provides concrete directions for creating coherent administrative structures within and between various levels of administration. The reform is a pre-condition for the integration of BiH into the European Union, which considers sufficient administrative capacity and the ability to adopt and implement the core of the EU law (*acquis communautaire*) a key requirement for EU membership.

b. Key Priorities and Issues

The recently adopted BiH PAR Strategy reflects the requirement for the specific institutional arrangements made by the process of EU integration and the adoption and implementation of the *acquis communautaire*. PAR is a critical tool for consolidating the fragmented institutional structure through its focus on the reform of core horizontal systems and structures of governance, necessarily complemented by sectoral reforms, constructed through a system of specific capacity-building programmes. Given the difficulties of cross-cutting reform coordination, continuous support to the BiH PAR coordinator's office as an institutional anchor for this process is critically important for the success of the reform. A special challenge for the donors is to move towards a truly sector-wide approach, in which all donors agree that their work will be aligned by the local authorities.

The main challenges are the implementation of the PAR Strategy caused by weak leadership of the PAR office and lack of official support of its activities. Improving sector coordination and alignment of activities between the donors could contribute to tackling these obstacles. Through the establishment and further development of the PAR fund and the establishment of sound implementation structures for the PAR Strategy, many of these challenges will be addressed.

3.3.4 Strengthening Civil Society

This sub-sector refers to supporting community participation and development in the form of cooperatives and grassroots organizations, and the development of alternative participatory planning and decision-making procedures and institutions.

a. Major Donors, Coordination Mechanisms and BiH Partner

Principal donor support to civil society initiatives comes from CIDA, USAID and the Netherlands. A number of bilateral donors and, to a certain extent, multilateral organizations (EC, CoE, OSCE), are engaged in co-funding NGOs.

There are no formal sub-sector donor coordination mechanisms. The extent of coordination varies from issue to issue, but there are some strong informal networks and coalitions. In the survey, however, the response from several donors showed that there is still much room for improvement.

There is considerable contact and coordination between civil society actors and donors. An NGO council acts as an information-sharing body in which the main challenges of this sub-sector are discussed, donor initiatives presented and government officials invited for presentations. The Initiative for Civic Action (ICVA) is the most prominent organization in the field of NGO coordination, and their activities include the maintenance of an NGO database. Additionally, the NGO Coalition "To Work and Succeed Together" has existed for more than four years with a focus on networking and coordination amongst local NGOs in BiH. Additionally, a Resource Centre within the Civil Society Promotion Centre has been established with the goal of reaching civil society stakeholders in BiH more extensively through information provision and data archives.

b. Key Priorities and Issues

BiH civil society organizations (e.g. NGOs and associations) in BiH are still in the development stage. The process of an evolving civil society has specific dynamics influenced by the large number of international organizations and agencies present in the country, as well as the fragmentation of post-conflict BiH. As a consequence, civil society comprises numerous groups according to interests and priorities. International organizations and foreign donors continue to play a dominant role in NGO-sector funding. Support from local institutions still remains weak, although it is growing. In some areas, the local business sector has recognized NGOs as partners and is financing some activities. The lack of sustainable and continuous funding, however, results in frequent changes in the issue agendas of NGOs, which in turn leads to many NGOs being merely temporary and funding-driven. There are a number of strong and well-qualified organizations, notably women's organizations and victims' groups NGOs.

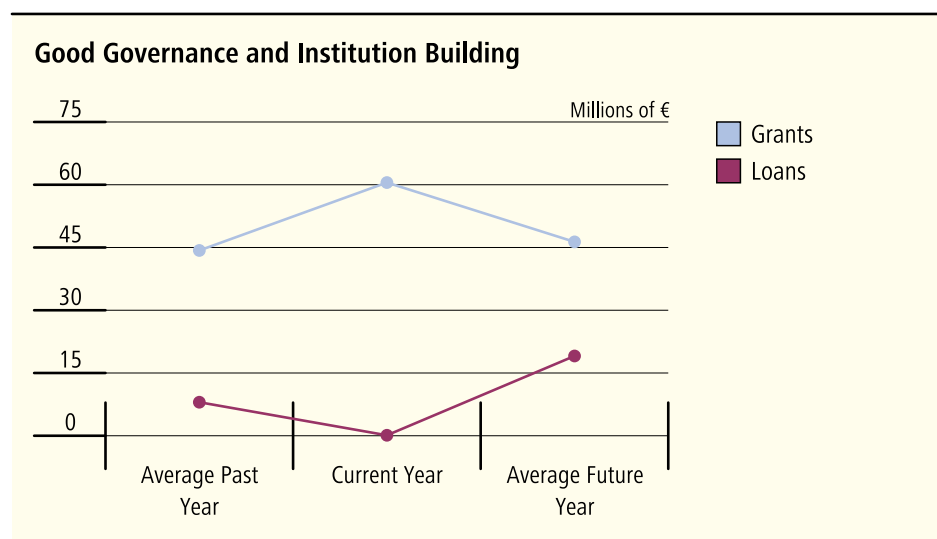
One key priority in this sub-sector is to empower NGOs to cooperate more and become a stronger force able to influence issues of a major or strategic importance to society as a whole. Furthermore, NGOs should be supported to establish and/or improve NGO interaction and cooperation with government structures. Ideally, the BiH NGOs should in future play a more visible and active role as watchdogs of the state.

The availability of local funds for NGO activities is increasing alongside the improved relationship between NGOs and the government. However, there are no regulations or clear guidelines on grant processes. Furthermore, local funds are not always disseminated through transparent processes.

In the past, OHR and the international community have played the major role in keeping the government accountable, which has in some respects crowded out civil society organizations. At the same time, post-war reconstruction brought a large amount of funds from different donors. This has had some negative effects on the efficiency and sustainability of the various NGOs, as projects often have not been targeted or cost-effective. Donor funding is now rapidly decreasing, further crystallizing the sector and hopefully leaving sustainable NGOs with genuine interest in their causes. The future challenges in the sub-sector are to establish and strengthen the existing networks of NGOs, and promote liberalization of institutional and legal frameworks for NGO operations. NGOs need to diversify their funding sources in order to compensate for the withdrawal of international donor funding and to prepare to access EU pre-accession funds.

Dynamics and Trends in the Sector

Chart 3.11: Aid flows in the good governance and institution building sector



The analysis shows that the good governance and institution building sector has been growing in past years in terms of absolute volume. Further, loan interventions are increasing, while grants are expected to decline in future years. Sectoral allocations have been stable, from 16.6 percent in past years to 15.3 percent in planned allocations for future years.

The main trend in the legal and judicial development sub-sector in the past 18 months has been the increased focus on strengthening state-level institutions such as the BiH Court, the BiH Ministry of Justice and the HJPC. In addition, better coordination of various players, both local and international, is visible. Some negative trends persist, however, including the lack of a clear vision on the part of the BiH government regarding policy-making in the judicial sector, and the equal position that the judiciary should have with other branches of the government, which impede future development.

Donor interest in human rights is likely to decline in future years while sub-sectors, including anti-trafficking work, will require further attention. Because PAR is an SAA requirement, overall this sub-sector's importance is likely to grow with progress towards EU accession. The institutional requirements that come with the adoption of the EU's *acquis* will largely drive this process. Finally, given the evidence of civil society sector contraction, both in terms of size and activity, coalitions and networks will increase, improving coordination and collaboration among NGOs.

3.4 Conflict Prevention and Resolution, Peace and Security

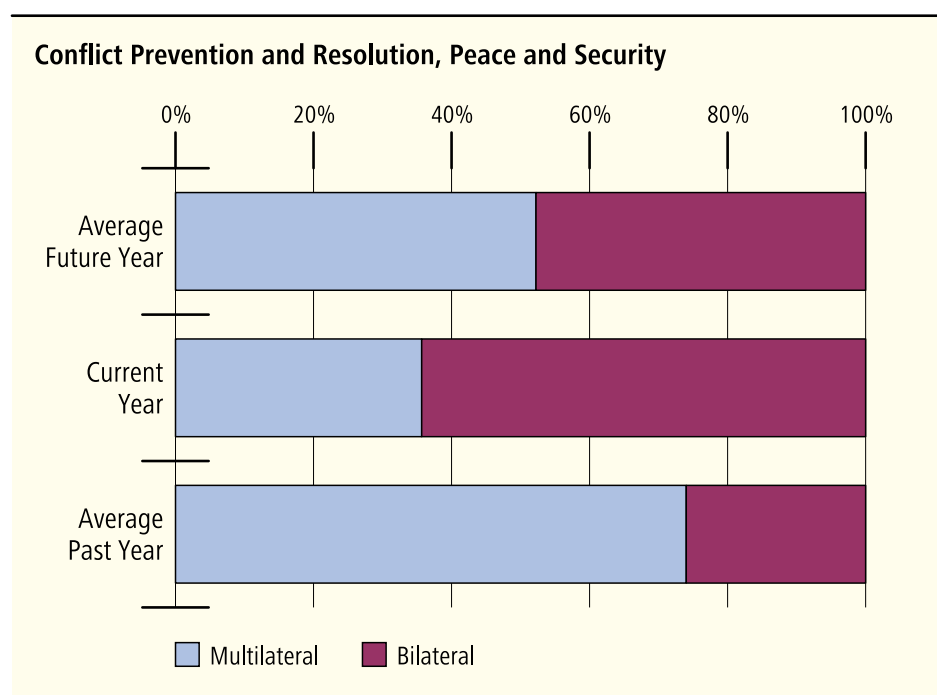
a. Introduction and Overview

The sector of conflict prevention and resolution, peace and security is made up of the following sub-sectors: security system management and reform, the control of small arms and light weapons (SALW), and mine action.

b. Key Facts and Figures

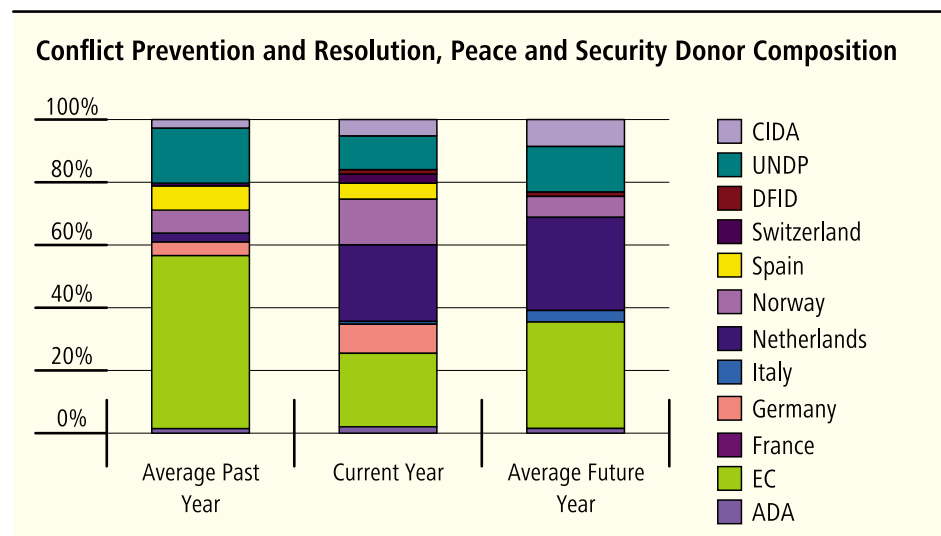
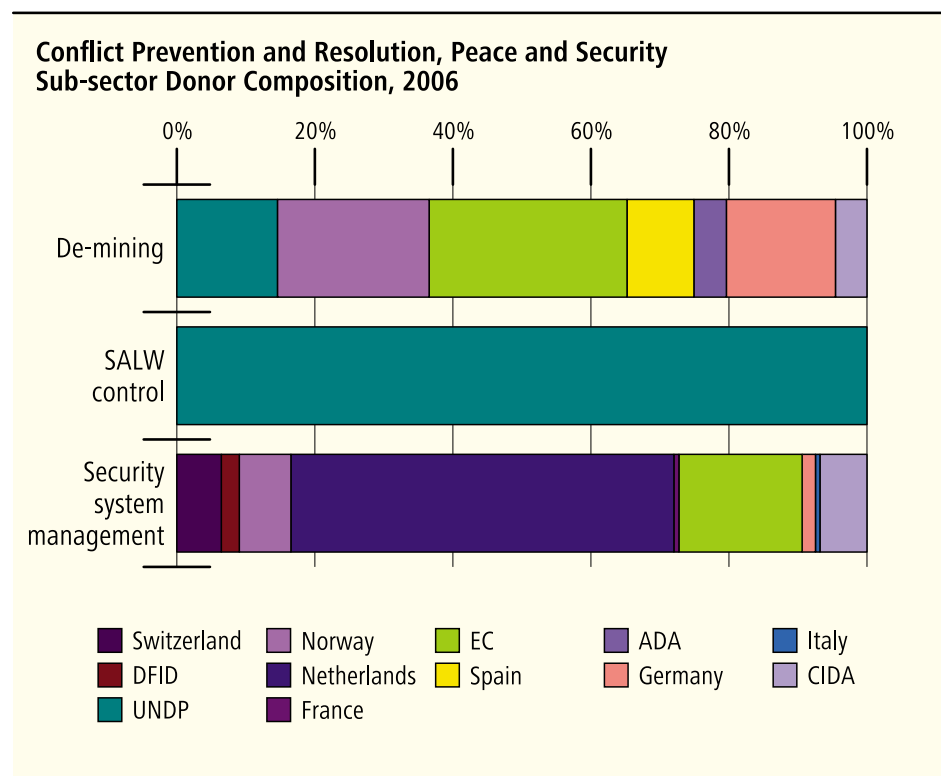
This sector accounted for 4.4 percent of all activity in the current year with an approximate cash expenditure of €18.8 million. A variety of donors are active in this area. In the current year almost 60 percent of interventions will come from bilateral donors.

Chart 3.12: Distribution of aid flows in the conflict prevention and resolution, peace and security sector



c. Major Donors

The main donors in this sector are the EC, UNDP, the Netherlands, CIDA and Norway. UNDP is the major donor in the SALW control sub-sector, while the EC and Norway are dominant players in the de-mining sub-sector. This year the Netherlands, EC and Norway have been the largest donors to the security system management sub-sector.

Chart 3.13: Donors active in the conflict prevention and resolution, peace and security sector**Chart 3.14:** Sub-sector donor composition, 2006

3.4.1 Security System Management and Reform

This sector is defined by the DAC as 'technical co-operation provided to parliament, government ministries, law enforcement agencies and the judiciary to assist review and reform of the security system to improve democratic governance and civilian control, and support for civilian activities related to peace building'.

The first sub-sector of security system management and reform includes all bodies dealing with security and justice, from ministries to implementing agencies such as the State Border Service (SBS), State Information and Protection Agency (SIPA), Interpol and police departments. This sub-sector is currently dominated by the issue of police reform

and the fragmentation of the relevant ministries between state and Entity level. This sector also includes support for civilian activities related to peace building, especially the identification of missing persons.

a. Major Donors, Coordination Mechanisms and BiH Partner

The major donors in the security management and reform sub-sector are the EC, Norway, and the Netherlands. Their activities are institutional capacity-building and support for research on missing persons and identification work.

There is little donor coordination in this sub-sector. Some donors have, in fact, noted an element of inter-donor competition. However, the European Police Mission (EUPM) is currently organizing regular donor coordination meetings in this sub-sector.

The BiH MoJ is committed to sector coordination and to that end is setting up a unit for strategic planning that will oversee the creation of a general justice sector strategy.

b. Key Priorities and Issues

The main donor efforts in the security sector are aimed at strengthening the state-level MoJ and the BiH Ministry of Security (MoS). Another area that will require donor support will be the preparation of a sector strategy and sector reform. The main challenge within the security system management and reform sub-sector, from a donor perspective, is the implementation of police reform. Although there a working body has been set up to implement the reform, the process is currently politically stalled. A second challenge is the strengthening of the ministries at state level to overcome the existing fragmentation. Further, activities of the implementing agencies, such as SIPA and SBS, need to be more closely scrutinized by the state ministries. Finally, as mentioned earlier, the sub-sector lacks a national strategy.

3.4.2 SALW Control

The DAC defines SALW control as 'technical co-operation to control, prevent and/or reduce the proliferation of SALW'. This sub-sector is dominated by the unification of the BiH Entity armies into one professional state army. One outcome of this process is the massive amount of surplus weapons²¹ and ammunition of the Armed Forces of BiH (AFBiH) which will have to be destroyed.

a. Major Donors, Coordination Mechanisms and BiH Partner

The main donors in the field of SALW control are UNDP, DFID and the Netherlands. UNDP implements funds from Norway and DFID. The main activities include capacity-building for taking SALW out of circulation, and disposal.

SALW and ammunition issues have been coordinated by the Small Arms Coordination Group (SACG) chaired by UNDP. The members of the SACG are UNDP, EUFOR, NATO, OSCE, OHR/EUSR, representatives of donors (such as USAID, DFID, CIDA and Sida), the National Coordination Board, parliamentarians and NGOs.

21. "The BiH defence reform, to be implemented starting in January 2006, will create... surpluses of close to 190,000 weapons" <http://www.oscebih.org/public/?d=6&article=show&id=1198>

SALW destruction issues have been coordinated in a working group which includes both international and BiH actors as follows: the BiH Ministry of Defence (MoD); OHR/EUSR; OSCE; UNDP, US and UK defence personnel; EUFOR; and NATO. In June 2006 EUFOR handed over coordination of the working group to the BiH MoD working group for SALW and ammunition disposal.

The main governmental partner is the Ministerial Coordination Board for SALW Control led by the MFA, set up two years ago, which identifies the main challenges and gives guidance on what needs to be done to meet those challenges.

The National Strategy and Action Plan for SALW Control in BiH, endorsed by the CoM May 2006, is the guiding strategy document, development of which was supported by UNDP BiH.

b. Key Priorities and Issues

The main issues and priorities for this sub-sector include the development and harmonization of legislation to regulate the movement of weapons and military equipment (WME); civilian acquisition and possession of arms and ammunition; safe disposal of the AFBiH's surplus WME; acceleration and upgrade of the capacities for WME disposal; improvement in the AFBiH's stockpile management and security; and improvement in BiH's capacity to identify end users for export purposes. The BiH government clearly needs donor funding and technical assistance if all these efforts are to be addressed. In the sub-sector of SALW control, the main challenge is to work towards increased donor awareness and funding. SALW and ammunition continue to pose a great problem for the country's security and an actual impediment towards its development. The increased national ownership of SALW control also deserves donor support.

3.4.3 Mine Action Programme

The mine action programme in BiH focuses on providing support to local authorities to build and strengthen national mine action coordination institutions. It also includes a landmine clearance component, which is defined by the DAC as 'explosive mine removal for developmental purposes'.

The mine action programme has received donor support for more than a decade and is considered a mature donor area with a high level of national ownership. The sector functions very well, thanks to the coordination by able national bodies.²²

22. 'BiH has taken presiding over... (the donor coordination) Board which was seen as sign of maturity of BiH authorities to control all de-mining activities in the country... there is a secretariat (coordination body) which will through coordination of municipal, cantonal and entity bodies report about the needs of BiH and the meeting of obligations from the Ottawa Convention'. EPPU (2006), MTDS, p.153.

a. Major Donors, Coordination Mechanisms and BiH Partner

The main donors for mine action in BiH are the EC and Norway. The Netherlands, Sida, USAID, CIDA, Germany and ADA provide funds for mine action implementation on the ground and strengthen national capacities through UNDP, UNICEF, EUFOR and International Trust Fund for De-mining (ITF).

A Board of Donors²³ for mine action was established and by the end of 2005 the co-chairmanship was handed over to the BiH Ministry of Civil Affairs. The Board of Donors supports the implementation of the BiH National Mine Action Strategy.

23. The members of the Board of Donors are the BHMACE, MOTF, UNDP, Canada, USAID, the Netherlands, Germany, EUFOR, Japan, ITF, OSCE, UNICEF, the EC, Austria, UK, Switzerland, Slovenia, Sweden, Spain and Italy.

The main government partner and coordination body for mine action is the BiH Mine Action Centre (BHMAC). BHMAC is a government service which reports to the BiH Demining Commission, which in turn reports to the BiH Ministry of Civil Affairs.

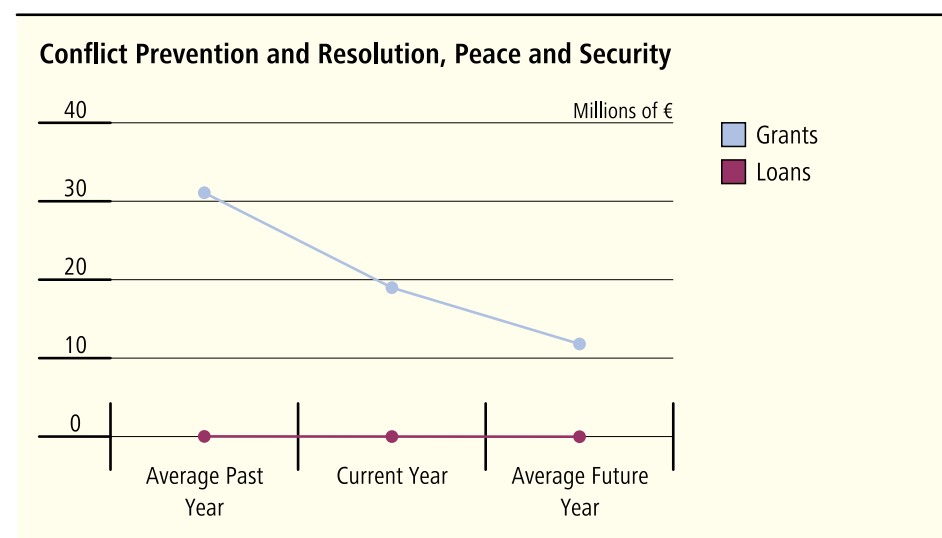
BHMAC prepares annual mine action plans in accordance with the national strategy which is pursued by donors and other mine action partners. BiH has a mine action law and a national mine action strategy that is in effect until the end of 2008. The guiding international document is the Ottawa Mine Ban Treaty.

b. Key Priorities and Issues

The current mine action strategy for BiH has been in effect since 2005 and has proven to be a stable basis for attracting funds. The strategy will be in effect until the end of 2008, by which time BiH should be free of the immediate landmine impact. There is an obvious need for additional assistance and funding if this deadline is to be met. The principle challenge facing mine action is to counter the tendency of declining funding. Alongside this, is the important issue of building up the capacity of the national partners – the Ministry of Civil Affairs and the BHMAC. Additionally, obsolete equipment required for mine action operations needs to be replaced with updated, more efficient equipment.

Dynamics and Trends in the Sector

Chart 3.15: Aid flows in the conflict prevention and resolution, peace and security Sector



Aid flows into the conflict prevention and resolution, peace and security sector are purely grants-based. Overall, allocations to this sector are declining. According to the data obtained, the planned allocations to this sector will be approximately 2.8 percent of total donor activity in future years, compared to 10 percent in past years.

3.5 Infrastructure

a. Introduction and Overview

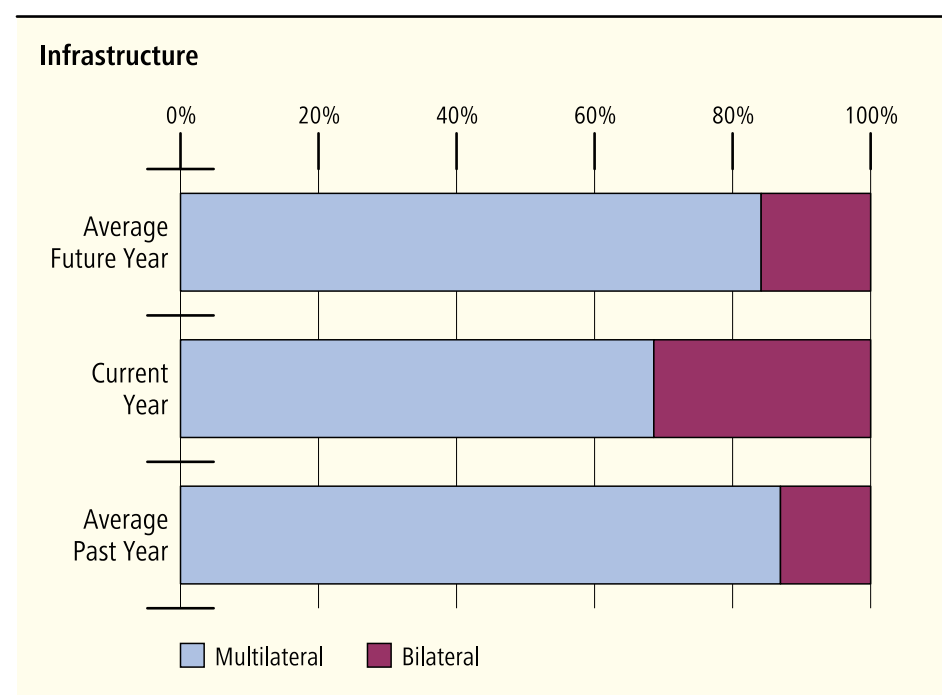
According to DAC codes, the infrastructure sector in BiH includes transport and storage, communication, energy generation and supply, and water supply and sanitation.

The sector is characterized by large-scale projects, with donor activity dominated by investment rather than grants. The MTDS deals with infrastructure only in the sub-sectors of transport, water supply, sanitation and energy.

b. Key Facts and Figures

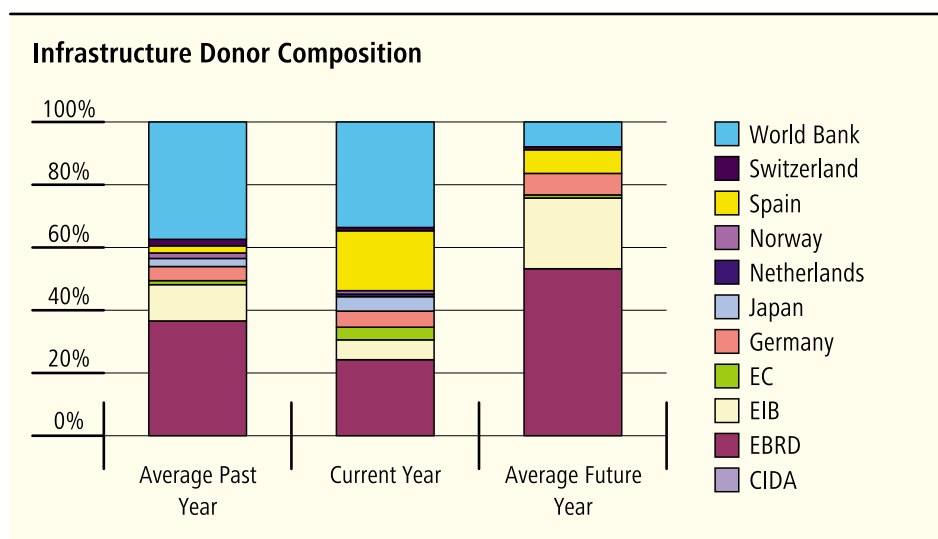
This sector accounted for 16.5 percent of all activity in the current year, with an expenditure of approximately €70 million. A variety of donors are active in this area with more than 60 percent of interventions coming from multilaterals.

Chart 3.16: Distribution of aid flows in the infrastructure sector



c. Major Donors

Chart 3.17: Donors active in the infrastructure sector



The main donors in this sector are the World Bank, EBRD, EIB and Spain. Road and railway construction is a major component, in addition to energy generation and supply.

3.5.1 Transport and Storage

a. BiH Government View

Transport, according to the MTDS, covers roads, railways and water traffic. On the issue of roads the problems are numerous and include significant damage to the existing roads, lack of adequate road signals, lack of lights in tunnels, and unresolved issues of transits through cities...²⁴

The status of the railways is dominated by the need for railway reconstruction projects, modernization of train servicing capacities and the reconstruction of mobile capacity for freight and passenger traffic'.²⁵

With regards to water traffic, especially the Sava River is in bad shape and in need of regulation. Current activities in this area are being carried out within the implementation of the Framework Agreement on the Sava River'.²⁶

24. EPPU (2006), *MTDS*, p.119.

25. *Ibid.*

26. *Ibid.*

b. Major Donors, Coordination Mechanisms and BiH Partner

The World Bank, EIB, EBRD and EC are the main donors in the transport sector. Other donors involved in the transport sector are CIDA, Japan, the Netherlands and Spain. Loan financing of large transport infrastructure is more common than grant financing, which is to be expected, given the nature of the sector. Joint or parallel project financing frequently occurs. There is extensive cooperation in the transport area, especially on transport reform. One example is a World Bank transport sector review scheduled for 2006-2007, funded by Japan.

The main governmental partners are the BiH Ministry of Communications and Transport (MoCT), FBiH Ministry of Transport and RS Ministry of Transport. The jurisdiction for most sector issues, however, lies at the Entity level. *Ad hoc* meetings and consultations take place with all BiH counterparts and other donors.

Laws on railways, road safety and civil aviation are currently the only binding documents at state level. The BiH Transportation Master Plan is very often referred to, but is still not an official document. The Transport Sector Policy and Strategy, which is to be prepared under the auspices of the MoCT, should provide a comprehensive way forward.

c. Key Priorities and Issues

The investment needs for this sector, particularly for roads and railways, are immense, but there is large interest in financing projects. However, the country's borrowing capacity is rather limited. There are therefore two important priorities: firstly, to strengthen the coordinating role of the state-level ministries in charge of transport, and finance to further facilitate the work of the international financial institutions and support cooperation on privatization; and secondly, to improve sector efficiency by the introduction of the private sector. The use of open competitive tenders wherever possible could be a first step in this direction. An example of this is performance-based maintenance contracts for roads. However, this will not be feasible until the proper financing mechanism and sufficient funds are in place. If privatization is not chosen, another option would be the further commercialization of railway operations through the introduction of competition and PPP for constructing new transport infrastructure. It should however be noted that the global trend is buying back railway tracks by the state of already privatised railway sections. Among International Organizations there is therefore an ongoing discussion on the best strategy forward for BiH.

3.5.2 Communication

a. BiH Government View

The MTDS contains a complete chapter dedicated to information society technologies, clearly recognizing its important role in poverty reduction and general development, and that slow, insufficient progress in IT and telecommunications in general is in itself a threat to the basic goals of MTDS.²⁷ The document states, however, that the greatest progress made in BiH during the last years has been in the implementation of laws and regulations on information technology, while least progress has been made in establishing the necessary institutions for development of the sub-sector and further progress in IT implementation.

27. EPPU (2006), MTDS, p.125.

b. Major Donors, Coordination Mechanisms and BiH Partner

The EBRD is the only active international financial institution in the field of communications. A few bilateral donors, mainly Switzerland, ADA and Italy, participated in early post war re-construction. However, there now seems to be little need for donor attention, as the sector is institutionally fully developed and financially self-sustainable.

The key local players are the three incumbent operators (BH Telecom, HT Mostar and Telekom Srpske). The Communications Regulatory Agency (CRA) plays a very important role which could be replicated in other sectors. Other players are the Ministry of Communications and Transport at state level, and the Entity-level ministries of transport and communications representing the majority owners. The state-level ministry, however, holds rather limited powers. The Telecommunications Sector Policy Statement is the main guiding document in addition to the telecommunication laws.

c. Key Priorities and Issues

The major efforts in the area of communication have been aimed towards liberalization of the communications market and the full privatization of all operations and services. The former has been mainly achieved, while the latter is still in process. Since the communication sub-sector is profitable for the operators and no large challenges exist, there is little donor attention in this sub-sector.

3.5.3 Energy Generation and Supply

a. BiH Government View

The MTDS chapter on energy states that the field of electrical energy is one of the more positive aspects of BiH development, bearing in mind that this is an export-orientated sector, that the countries of South-Eastern Europe have significant problems with the lack of electrical energy, and that there are significant unused natural resources in the country. Electrical energy in BiH is produced by hydroelectric power (40 percent of the total) and steam power plants (60 percent of the total). At present, production capacity exceeds local need and therefore it is exported to Croatia, Slovenia, Serbia, and Montenegro. Where natural resources are concerned, BiH has significant reserves of coal and lignite, used as fuel in steam power plants, and a large, unused hydroelectric power potential.

b. Major Donors, Coordination Mechanisms and BiH Partner

International players in the energy sector include the two international banks (the World Bank and the EBRD), EC, and a number of bilateral donors (e.g. KfW, CIDA and others). The gas sector is still fragmented and disorganized. In this sub-sector, large projects have brought together several donor agencies, i.e., the World Bank, EC, EBRD, KfW, Norway and CIDA, which has strengthened donor coordination, speeding up progress.

The state Ministry of Foreign Trade and Economic Relations (MoFTER) is the coordination counterpart for energy policy, while the Entity ministries of energy manage and oversee the large public energy corporations, including the power companies and gas distributions. Regular contacts are maintained with the three electric power suppliers which implement the projects. With initial donor support, MoFTER holds and chairs regular coordination meetings attended by all the donor agencies which support this sector.

An energy strategy for BiH is currently under preparation. Once finalized, this will be the main guiding document for this sector. However, in the power sector there are action plans

for restructuring the sector and defining electricity laws at state and Entity level. The Energy Community of South-Eastern Europe (ECSEE) treaty for an energy market in South-Eastern Europe is the main document which provides momentum for the sector's reforms.

c. Key Priorities and Issues

The BiH power sector is being restructured to reduce inefficiencies and comply with the provisions of EC directives which promote competition in the electricity sector. This restructuring is based on the action plans for restructuring the electricity sector, adopted by and coordinated between the FBiH and RS governments. The state government enacts related legislation on aspects within its jurisdiction. In accordance with these action plans, three electricity regulatory commissions have been established – one at state level to regulate transmission, and one in each Entity to regulate generation and distribution. In addition, the Independent System Operator (ISO) and the Transmission Company (Transco), which owns and operates all transmission facilities in BiH, have been established with donor support and are licensed by the State Electricity Regulatory Commission. As also stated in the action plans, the three electricity companies will be further unbundled and reorganized, with separate companies created for generation and distribution. As one of the signatories of the ECSEE Treaty, the restructuring process enables BiH to fulfil some of its commitments and any derogation thereof.

While considerable initiatives have been undertaken to restructure the power sector, these are mainly focused on reorganizing large power companies, whereas other important energy sub-sectors such as coal mining, natural gas and heating have not yet been properly dealt with, not has the introduction of a pricing policy to reflect real production costs been adequately addressed. In addition, more attention will have to be paid to encourage energy production from renewable energy sources, as well as to set standards for energy efficiency. Compliance with the free and competitive European energy market is both a great challenge for BiH and a great opportunity.

3.5.4 Water Supply and Sanitation

a. BiH Government View

The key problems with water supply and sanitation, according to the MTDS, are the construction and reconstruction of infrastructure, which is primarily related to water supply systems, wastewater treatment systems, and flood protection objects.

Quality of service in the area of water supply and sewerage is still not satisfactory and current needs are not being met. The main reasons for this are the high losses in the system (up to 80 percent), low level of payment collection (less than 50 percent), and low tariffs, as well as the organizational set-up at municipal level which results in mediocre financial indicators. There is no systematic monitoring of water quality and the maintenance of standards, except in some large municipal water supply systems.

The situation regarding water protection mechanisms is also dire, due to war damage, long periods of neglect and even landmines in the vicinity of some barriers. This particularly relates to areas near the Sava River. Flooding through high water levels, although rare, would cause huge amounts of damage.²⁸

28. EPPU (2006), MTDS, p.134.

b. Major Donors, Coordination Mechanisms and BiH Partner

The EC plays a major role in the field of water supply and sanitation. Its role includes both regulation and standards, financing and implementing projects using EC funds. Other major actors in this sub-sector are the World Bank and KfW, while smaller contributions come from Norway and CIDA. Investments in the rehabilitation and extension of water supply and sewage systems in BiH's municipalities are currently supported by loans. There are no known coordination mechanisms covering the water supply and sanitation sector beyond informal information sharing.

MoFTER and the Entity ministries for water management, environment and urban planning are the main counterparts covering water supply and sanitation as well as the public utilities which are the end beneficiaries and implement the projects. The public water enterprises for the Sava River Basin, the Adriatic Sea Basin District, and the RS Directorate for Water also serve as the planning, operational and technical bodies in the water and wastewater management sectors.

c. Key Priorities and Issues

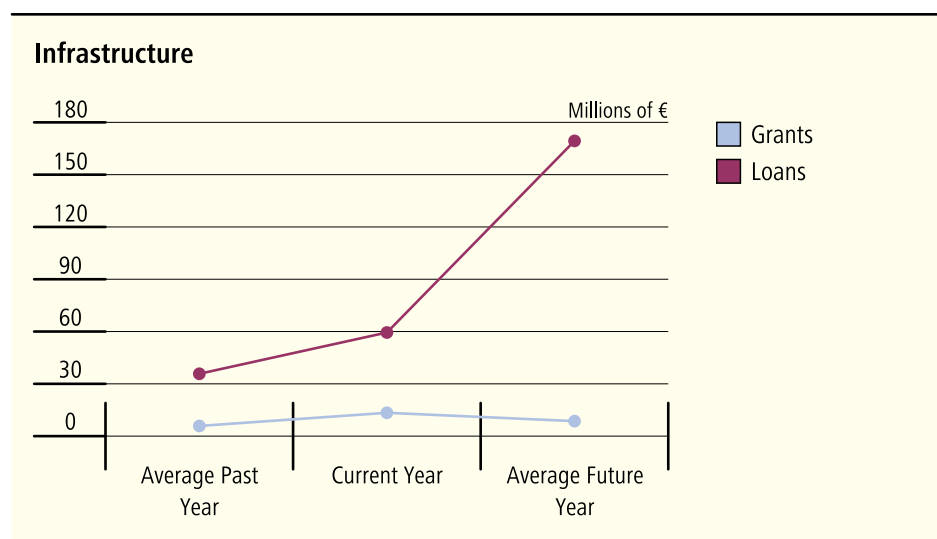
The main priority in this sector is to improve water quality and waste management practices. Ongoing initiatives in the area of waste management are currently supporting the construction of sanitary landfill sites, the closure of unofficial dumps, public communication programmes, and environmental monitoring and technical assistance for waste management and landfill operations. Waste recycling operations are currently being piloted and environmental infrastructure projects related to treatment of municipal wastewater and management of solid waste are being supported by donor loans.

In the area of water quality management, the preparation of a wastewater improvement plan and a feasibility study on low-cost natural treatment and the rehabilitation of water supply systems and hydropower plants are among the high-priority investments. In addition, ongoing technical assistance is providing support to the creation of the water protection plan and the Sava River Basin Management Programme which involves Croatia, Serbia and BiH.

Further improvements in the current water supply systems as well as their expansion are needed in order to meet international standards. Further, restructuring of water and sanitation utility companies, improving management practices and introducing realistic pricing will be necessary to ensure sustainable financing of the sector. Even though BiH is not a large flood risk, isolated flood accidents have caused great damage, and proper flood protection infrastructure must be put in place to prevent future hazards.

Dynamics and Trends in the Sector

Chart 3.18: Aid flows in the infrastructure sector



According to the data obtained, the percentage of sector allocations will increase to planned allocations of 42.2 percent of the total in future years, compared to 13.5 percent in past years. Loan financing will increase substantially, while grants will decline. The analysis shows that in this sector as a whole there is a growing area of large investment activities, mainly to the transport, energy and water supply sub-sectors. The communication sub-sector is more mature and future interventions seem to be less likely. The growth in the sub-sectors is especially driven by the EC, KfW, large loans from EBRD, EIB and the World Bank, and grants from Spain. Germany is currently the largest bilateral donor in both the energy sector and the wastewater sub-sector. Loans and investments into this sector will almost certainly accelerate with the EU accession process and the incoming stream of pre-accession funds.

3.6 Economic and Social Development

a. Introduction and Overview

The economic and social development sector is one of the largest and most diverse areas of activity. The breadth of ODA is wide, ranging from policy-based support to direct capital inputs. Assistance is provided on four levels: (1.) macroeconomic policy support; (2.) private sector development and interventions to improve the business climate; (3.) local economic development and welfare delivery; and (4.) direct capital support. Thus the narrative presents a more extensively disaggregated overview by sub-sector.

b. The BiH Government's View

The MTDS is the umbrella plan for the sector. It sees macroeconomic reforms as being crucial for the stability of the domestic economy, as well as for establishing the foundations of future economic development. Macroeconomic policies within the MTDS have been defined to provide for an environment that promotes faster economic growth.

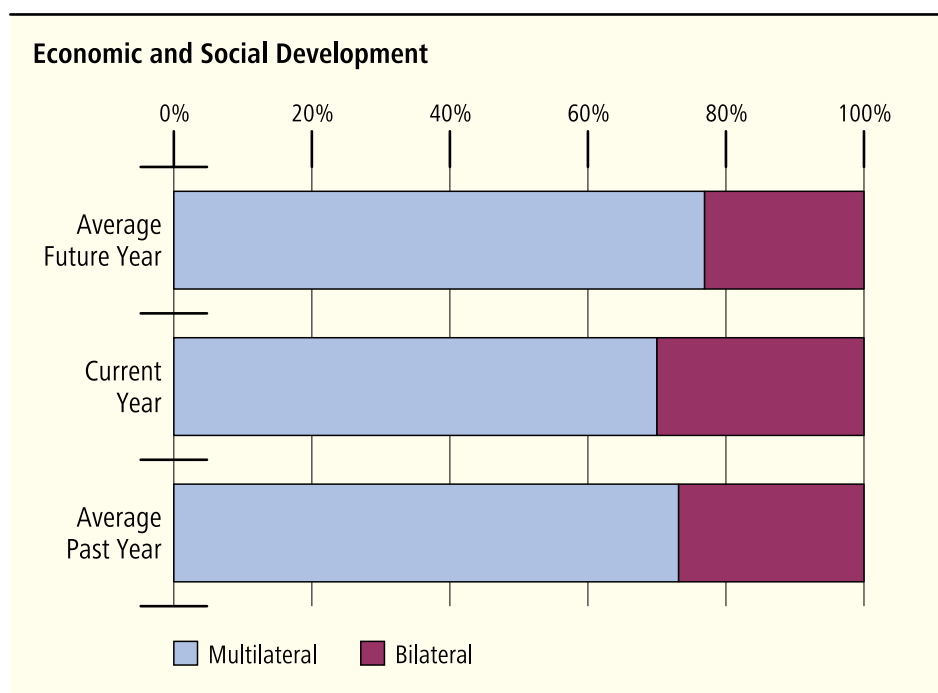
The 2004 MTDS states four main macroeconomic objectives:

1. To reach 70 percent of the 1991 gross domestic product by 2007;
2. To achieve a partial credit rating in the international capital market by 2007;
3. To reduce the proportion of GDP which goes on public spending;
4. To achieve fiscal sustainability through fiscal consolidation.

Much has been achieved in the BiH economy in the post-war years. The entire period has seen growth, and macroeconomic stability has been firmly established with low inflation and the revenue budget in balance. The central monetary institutions (chiefly the Central Bank of BiH) are strong and the transition to a market economy is well advanced. Sustained growth, however, has not significantly reduced economic insecurity, as close to one-fifth of the BiH population (17.8 percent) still lives below the poverty threshold, while one-third is exposed to the risk of poverty due to variations in their earnings.

c. Key Facts and Figures

Chart 3.19: Distribution of aid flows in the economic and social development sector



The economic and social development sector accounted for 47.1 percent of all activity in the current year, with an expenditure of some €200 million, making it the largest sector in terms of allocations and funding. However, this is also due to the fact that the sector accounts for a large share of loan interventions. A variety of donors are active and multilateral interventions are dominant.

Activities under this sector include macroeconomic and trade policy support measures, including assistance to the DEP and statistical capacity-building. It also includes technical support for the private sector, especially to Small and Medium Sized Enterprises (SMEs), to improve tourism and trade, and microfinance projects, as well as capacity-building interventions at local level to foster local economic development and welfare delivery. Direct capital support through loans is targeted towards banking and financial services, enterprise development and social infrastructure.

d. Major Donors

The players within the sector are as diverse as the area of activity. Thus, although no single donor dominates this sector, several donors are predominant in specific sub-sectors.

The World Bank, EC and USAID together play a dominant role in the area of macroeconomic policy and respective direct capacity-building support. DFID, CIDA and UNDP also concentrate on the policy space. A large variety of donors, predominantly the World Bank, EC, USAID, and Spain focus on institution building and support for SMEs and are usually connected with promoting a business-friendly environment. UNDP, EC, World

Bank and the Netherlands focus on the field and operational levels (return/local economic development, welfare delivery). The EBRD, EIB and KfW focus on banking and financial services as well as enterprise and social infrastructure development.

Coordination mechanisms are weak, which may be due to the sheer scope of the sector. However, donor predominance within sub-sectors has given rise to *ad hoc* forms of coordination that may be sufficient (and appropriate) given the size of the sub-sectors. An example is that Sida, the Netherlands and DFID have pooled funding to establish a mechanism for state and Entity governments to implement reforms recommended in the economic recovery section of the MTDS and relevant European Partnership medium-term priorities. The mechanism gives government both policy and operational responsibility over the pool of funds and will allow for additional coordination efforts in the sector. The main government counterparts are different for each sub-sector. The state-level MoFTER is a key counterpart for issues pertaining to trade policies while regular contacts are also maintained with the Central Bank of BiH, statistical institutions at state and Entity level and the Ministry of Finance and Treasury. The main guiding document is the MTDS, which is expected to be replaced by the National Development Plan (NDP) in 2008. Donor support for the elaboration of this plan will be needed. The new World Bank Country Assistance Strategy (CAS) will also serve as a guiding strategy for the country.

Chart 3.20: Donors active in the economic and social development sector

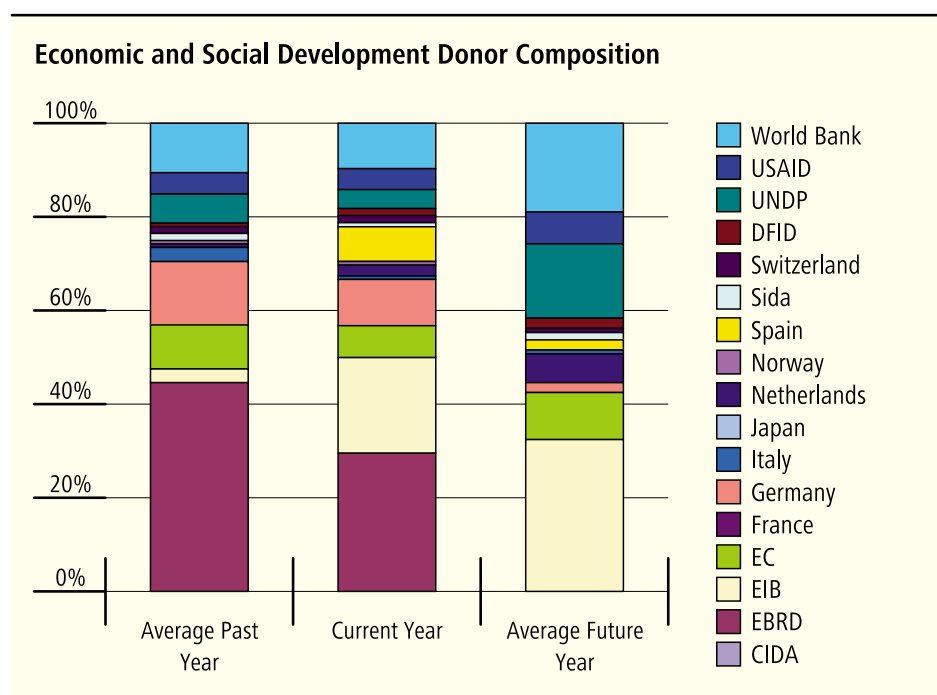
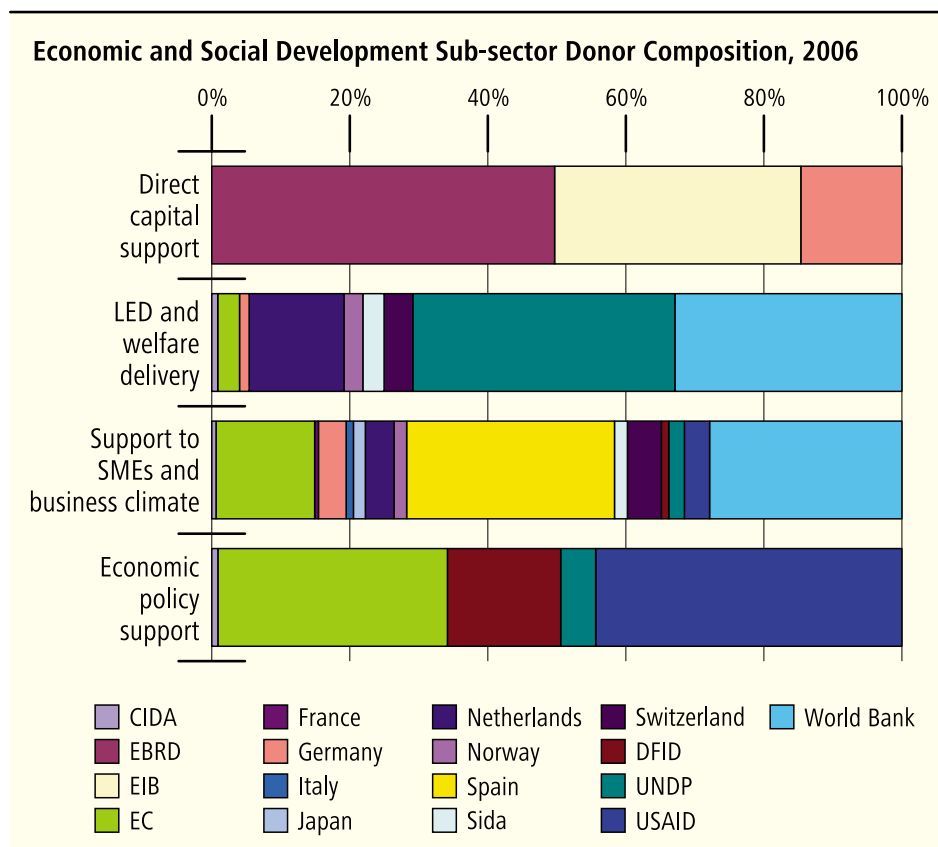
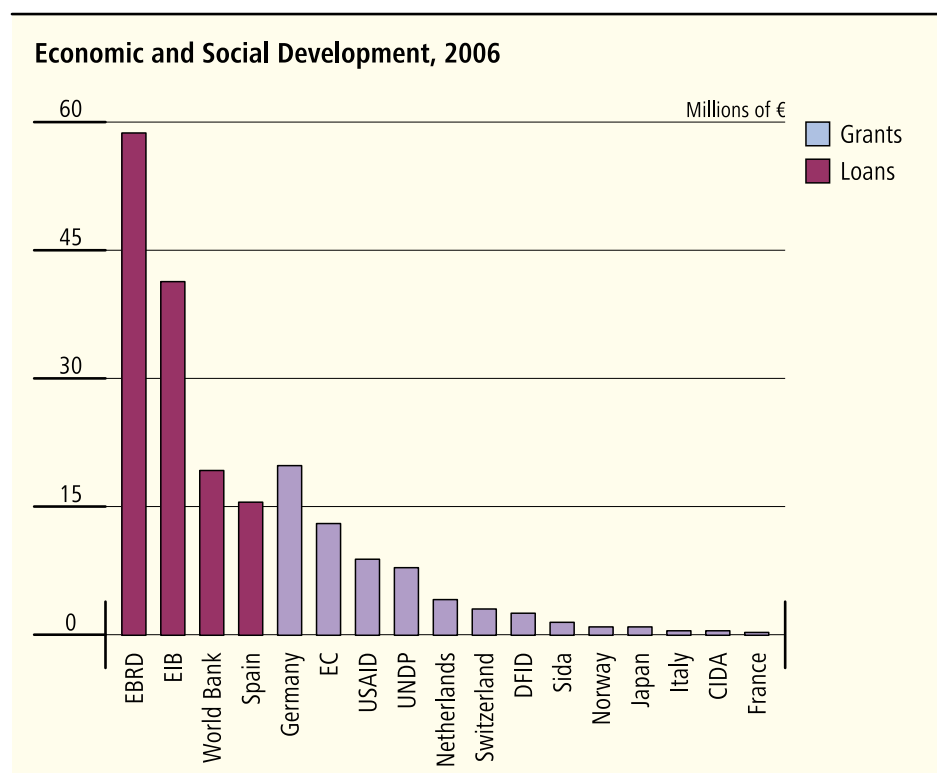


Chart 3.21: Sub-sector donor composition, 2006

Spending is substantial and heavily based on loan interventions, as the chart 3.22 illustrates. Loan finance is a major component of the World Bank, EIB and EBRD. Spain is the only bilateral donor with loans and UNDP the only multilateral donor with grants, otherwise it is clear cut between bilateral and multilateral donors in loans and grants.

Chart 3.22: Loan-grant split in the economic and social development sector, 2006

3.6.1 Macroeconomic Policy Support

a. Major Donors, Coordination Mechanisms and BiH Partner

The potential lead strategic donors in this sub-sector are the EC along with the World Bank and USAID, with its span of activity and straddling of macroeconomic, trade and social welfare policy and direct support activities. The World Bank, EC and DFID are also instrumental because they support pro-poor policy planning mechanisms – by providing capacity-building activities to the EPPU (now DEP) and the MTDS, and a variety of sub-sector strategy documents and mechanisms. The EC, World Bank, DFID and UNDP support statistical capacity-building interventions, while CIDA and USAID concentrate on specific sectoral policy regulatory interventions. Coordination takes place on a rather *ad hoc* basis or through the national policy planning process. The main governmental partner is DEP as well as DEI, MoFTER, the Ministry of Finance and Treasury and the respective Entity ministries. The Board for Economic Development and European Integration coordinates overall macroeconomic policy. DEP will carry out regular coordination activities. Fiscal policy should be coordinated by the National Fiscal Council (NFC) which is not yet fully operational. However, the Budget Coordination Board (BCB) comprising assistant ministers of finance has been established to agree common budget parameters.

b. Key Priorities and Issues

In the sub-sector of macroeconomic policy support, there are several priorities and challenges that can be identified. The national economic planning framework and pro-poor policy decision-making processes remain an absolute priority with the EC, the World Bank, DFID and UNDP. These have also been committing funds to strengthen DEP

and the forthcoming NDP process. An open issue remains how these existing planning mechanisms will be linked with the gathering pace of EU accession negotiations and fund disbursement, although the EC are providing DEP with assistance to this aim. Another challenge is the lack of reliable statistical data to support the formulation of the NDP. Institutional capacity-building activities are ongoing to improve data collection and harmonization of statistical methods between the three statistical institutes in line with EU standards. The anticipated 2011 census, and the amount of preparatory work needed to carry it out, is still an open issue given the associated political challenges.

In the area of macroeconomic management, the major challenges include overall maintenance of macroeconomic stability and further building of fiscal institutions. Underpinning problems are the lack of fiscal space to allow for the growth of the new state, as well as the resolution of the internal debt issue. To meet these challenges, the EC has been supporting activities which aim to increase the macroeconomic/fiscal analytical and forecasting capacity.

BiH's trade policy is characterized by a mixture of bilateral agreements, although since 2007 BiH has been a member of the Central European Free Trade Agreement (CEFTA) and will have special trade relations with the EU through the SAA. Institutional capacity-building, in particular within the MoFTER, in formulating and implementing a comprehensive trade policy, is carried out by the EC and World Bank to prepare BiH for eventual WTO membership. However, negotiations are ongoing at a slow pace and need to be accelerated.

The welfare and social protection system faces enormous challenges that have not yet been addressed by donors. Despite some recent reforms, BiH's social protection cash transfer system remains heavily dominated by stark contrasts. Measures designed to protect veterans and/or their surviving dependents are fairly generous. This has crowded out all other benefits which have largely remained underdeveloped and underfinanced. Benefits available in BiH are largely status-based and not targeted to need. This means that, despite the impressive amounts of overall resources spent on non-insurance forms of social protection (i.e. all benefits not financed through payroll contributions), the most vulnerable families and individuals often fail to get adequate assistance. The authorities need to engage in installing the mechanisms which would channel most of the resources available towards the poorest citizens of BiH. This implies a shift from status-based to needs-based benefits. Greater harmonization of financing the social welfare and child protection benefits in FBiH and RS is also needed.

3.6.2 Support to SMEs and Improvement of the Business Climate

a. Major Donors, Coordination Mechanisms and BiH Partner

In this sub-sector the EC, World Bank and Spain have the largest allocations but almost every other donor is involved in some form or another. For example, enterprise and corporate restructuring is supported by the EC, World Bank, CIDA, JICA, USAID, DFID, Switzerland, and the Netherlands. The EC plays a large role in the area of export promotion and trade facilitation. Tourism development projects are mainly supported by Spain, Italy, France, EC and the Netherlands, while Sida, UNDP, Spain, Norway,

the Netherlands and Germany have interventions related to SME development and microfinance. In the area of private sector development, donor agencies meet regularly and sector-specific meetings are convened by the World Bank for significant events. The main national partners are MoFTER and the Ministry of Finance and Treasury. At Entity level the main counterparts are the ministries of industry and finance as well as privatization agencies and other local authorities.

b. Key Priorities and Issues

In this sub-sector the priority lies in promoting and strengthening a business-enabling environment. This includes activities such as strengthening the Export Promotion Agency (EPA) and the Export Council, as well as the Foreign Investment Promotion Agency (FIPA). Various interventions also focus on improving infrastructure and regulatory frameworks as well as creating 'soft' institutions. However, despite substantial donor involvement, the private sector in BiH still accounts for only 50 percent of GDP. The main problems are the slow corporate restructuring and privatization processes, weak ownership concentration in (voucher) privatized firms, accumulating debt and generally inadequate managerial, technological and marketing capabilities of both private firms and SMEs.

Numerous international donors have funded micro-credit organizations (MCOs) and provided valuable technical assistance. The Association of Micro-finance Organizations in BiH (AMFO), which was informally founded in 1999, provides network services including information dissemination and policy advocacy to existing Micro-credit Organizations which are members. The overall goal is to improve the business environment in which Micro-credit Organizations operate through networking and supporting micro and small enterprises. The vast majority of institutions in BiH have achieved operational self-sufficiency and it is estimated that more than half have reached financial self-sufficiency.

Considerable further improvements in the business environment are crucial in a range of areas, from business registration and inspections (reforms are well underway) to cross-border trade, access to land, investor security and the closure of businesses.

3.6.3 Local Economic Development (LED) and Welfare Delivery

a. Major Donors, Coordination Mechanisms and BiH Partner

In this sub-sector local economic development interventions are supported by the Netherlands, World Bank, and UNDP. Many interventions are return-related while others emphasize municipal development planning to improve economic development as well as welfare delivery. Further, the EC, CIDA, Norway, Sida and Switzerland contribute to local employment and community building activities. Coordination often takes place on an *ad hoc* basis which can be due to the fact that the main governmental partners are often local or regional authorities. Coordination might improve when the state-level Ministry of Agriculture and Rural Development (MoARD) has been established.

b. Key Priorities and Issues

Regional economic development is a key instrument for supporting and accelerating the process of economic reform, achieving balanced economic development and preparing the groundwork for ultimate EU accession. Regional Development Agencies are the key institutions by which the process is planned, organized and implemented. Since 2003, EC technical assistance has helped establish and strengthen five Regional Development Agencies (RDAs) and assisted them in preparing Regional Economic Development Strategies. Further progress has been made on creating the necessary legal framework for sustainable economic and SME development.

Municipalities receive only a fraction of all public revenues in both Entities, despite a growing list of responsibilities and unmet citizen demands. These demands include the need for major capital investments in infrastructure required for economic and social development that are not being met by current revenue distribution. The majority of municipalities point to their lack of skills related to basic policy, planning and project cycle management. This indicates a large need for technical assistance targeted at the local level in order to build capacities that would enable municipalities to improve their performance and accountability in order to actively contribute to the development of their communities.

Within the range of present assistance to local development, there is an overarching tendency towards approaches that focus either on the economic development side alone or that take a predominately technical slant to local capacity-building. There is a lack of agreed principles that would guide local development based on the notion of social inclusion and human rights. This would result in a system that would, with regard to local assessment, planning and resource distribution, give specific attention to the needs of the socially excluded and marginalized segments of population.

The right to return was enshrined in Annex 7 of DPA and many donors invested resources and efforts to support this process. Most interventions focused on housing reconstruction programmes and property issues. Return in combination with regional/local economic and rural development is an emerging area that still requires reorientation of efforts. UNDP is good example here, as it has reoriented its work from being primarily returns-oriented towards having a rural development focus. In this sense, the modification of emergency aid to local economic and rural development will create some crossover with the agriculture sector. This is covered more fully in the agricultural sector pages of this report (3.7).

3.6.4 Direct Capital Support

a. Major Donors, Coordination Mechanisms and BiH Partner

Larger scale physical inputs, such as the recapitalization of banks or industrial credits, are an area primarily for loan-disbursing multilaterals. This area is large in cash terms, underlying the commercial rationale of donors like the EIB and EBRD. KfW, for example created a credit guarantee fund to create linkages between local and international banks.

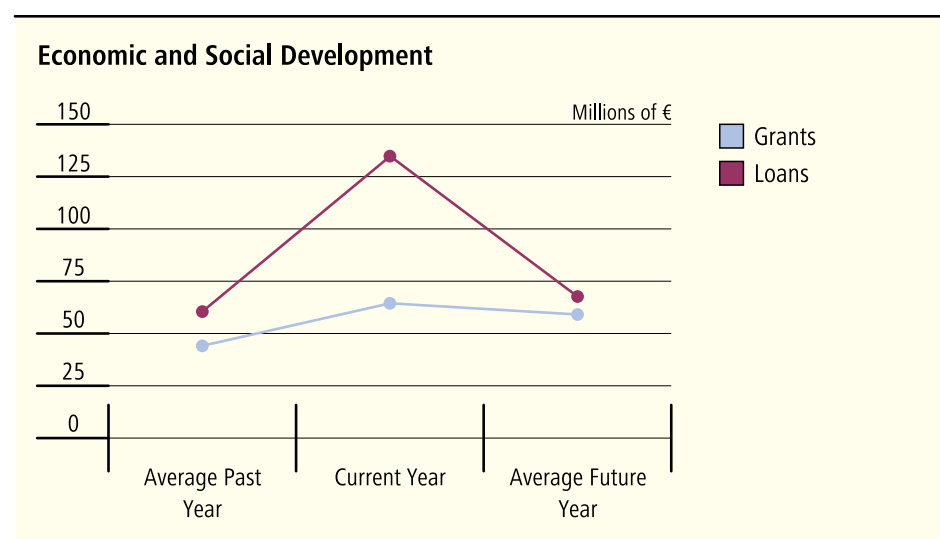
b. Key Priorities and Issues

The number of banks has dramatically reduced in recent years. Over 90 percent of banks are private or privatized, while several major foreign banks dominate the market and are setting the pace and direction of the sector's development. Other segments of the financial sector are still lagging behind.

In terms of corporate governance, major challenges relate to the consequences of privatization. Privatization in BiH resulted in a particular ownership structure where Privatisation Investment Funds (PIFs), insiders and the state became the majority shareholders in a large number of companies. The dispersed share ownership combined with poor managerial capabilities and weak incentives to attract investors have contributed to the weaknesses of corporate governance. Capacity-building initiatives to improve corporate governance are planned by the EC and World Bank.

Dynamics and Trends in the Sector

Chart 3.23: Aid flows in the economic and social development sector



The analysis shows that aid to this sector has been growing considerably, from 33.4 percent in past years to 47.1 percent in the current year, but that it will most likely stabilize in the future. This is not surprising, given BiH's path from post-conflict assistance to development aid. The growth is especially driven by large loans. The investments in this sector will almost certainly accelerate with the EU accession process and the incoming stream of pre-accession funds, as well as with the renewal of the World Bank's investment cycle.

As noted, loan finance is a major component of interventions in this sector and a feature of the growth in spending. It would be wrong, however, to characterize policy-based work as being of less value. The policy dimension here is central to wider processes of change within BiH. It is also important to note that some key problem areas have not been touched, such as the welfare and social protection systems. With the EU accession process accelerating, attention has to shift towards social policy as an integral component of EU policy.

3.7 Agriculture and Forestry

a. Introduction and Overview

The DAC definition of the agricultural sector encompasses support to agricultural policy, planning and programmes; aid to agricultural ministries; and institutional capacity-building and advice. It also includes education and research development, as well as enhancing the legal framework in this field.

Agriculture accounts for one-tenth of GDP and employs more than ten percent of the population.²⁹ It is therefore important to the economic and general development of BiH, including permanent or temporary employment, social issues, and the use and preservation of natural resources. In addition, 46 percent of people who are poor live in rural areas and most have access to agricultural land³⁰. Improved agriculture can thus be a significant source of employment and income for the rural poor. The potential of this sector with regard to economic development for BiH, however, has not yet been fully exploited.

The forestry sector and the wood processing industry are also paramount for economic development because of the large employment possibilities and overall income generation.³¹ In addition, forests are also an important natural resource in BiH, given that more than 60 percent of habitable land is covered by forest or woodlands.

b. The BiH Government's View

The MTDS notes that the agriculture sector's main challenges include slow post-war recovery, BiH's largely rural population, the low level of new investment, outdated production methods and technology, high dependence on imports, competition from abroad and low productivity. Although BiH's GDP has increased by 35 percent over the last five years, the relative share of agriculture has actually decreased. Growth in the agricultural sector from 2001 to 2004 was only 4 percent annually. The MTDS emphasizes the urgent need to reform this sector to improve its competitiveness. This becomes particularly significant in light of the EU accession process requiring the sector to harmonize with European standards. More specifically, as the MTDS states, the priority is to improve the competitiveness of BiH's agricultural products, within BiH, the region and the EU.

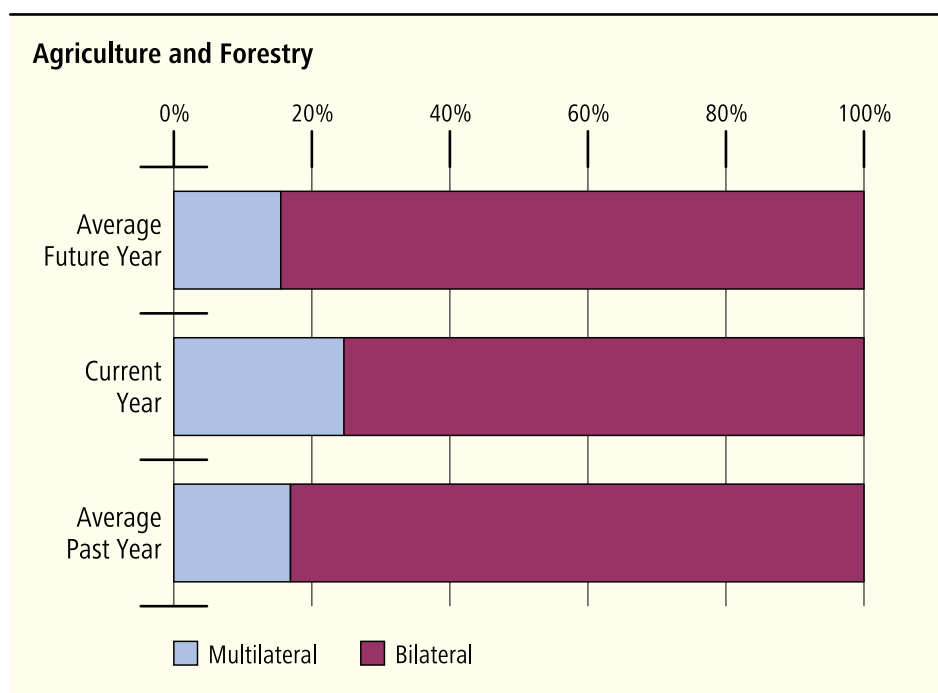
The forestry sector is still burdened by war damage, although new institutions are being established in both Entities to implement new regulations. However, the health of forests is poor, partly as a consequence of the war, but also because of past and present gross negligence on the part of management. Control mechanisms to prevent illegal activities are gradually being established but the weaknesses of the legal structures, the instability of the economy, and low living standards have together led to widespread corruption and illegal logging activities. The main goal in the forestry sector, as far as the MTDS is concerned, is to establish a system for governing natural resources which will both ensure the rational management of forest resources and protect the existing biodiversity.

29. 'MTDS 2004-2007 Revised Document,' EPPU, Sarajevo, 2006.

30. *Ibid.*

31. *The Forestry Sector employs 21,900 people and makes up 1.25 percent of the GDP. The wood-processing industry employs 74,100 people and makes up 6.89 percent of the GDP.*

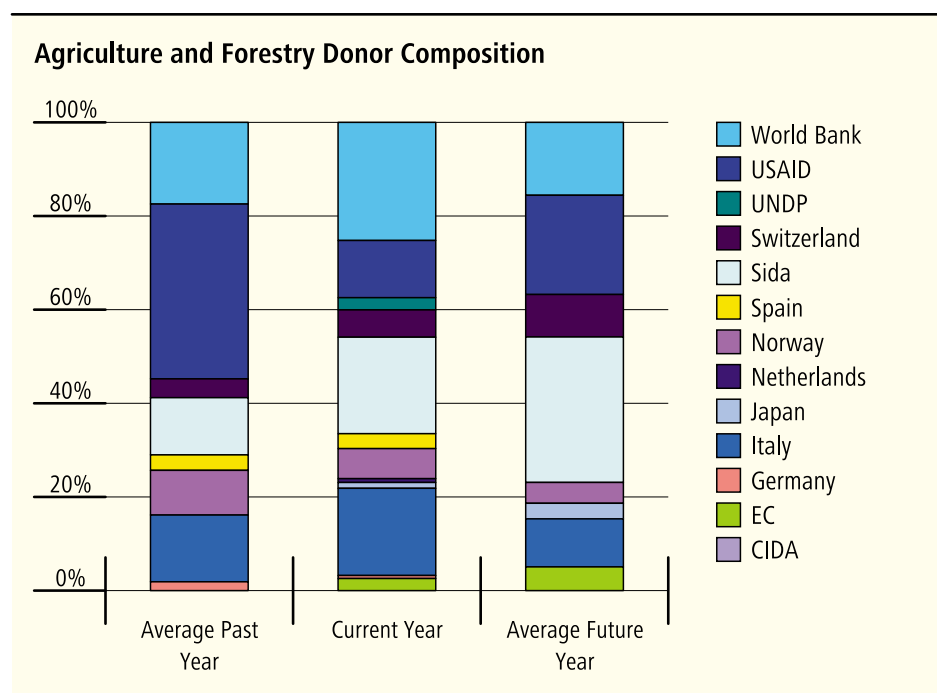
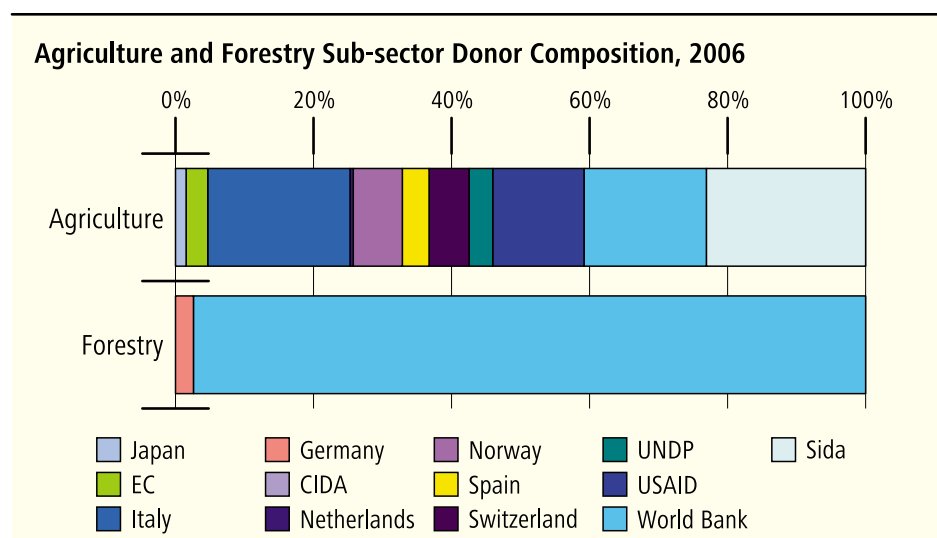
c. Key Facts and Figures

Chart 3.24: Distribution of aid flows in the agriculture and forestry sector

This sector accounted for 4.5 percent of all activity in the current year, with expenditure of approximately €19.2 million. Bilateral interventions are pre-dominant.

Activities include providing assistance in implementing legislative reforms, as well as educating farmers on developing profitable production systems to enhance economic growth through expanding production.

d. Major Donors

Chart 3.25: Donors active in the agriculture and forestry sector**Chart 3.26:** Sub-sector donor composition, 2006

The key donors in this sector are the World Bank, USAID, Switzerland, Sida, Norway and Italy. The EC has a guiding role, as agriculture is important for improving living conditions in rural areas and is one of the key sectors in both negotiations for EU accession and access to pre-accession funds. The EU accession process includes the harmonization of legislation with EU standards and the development of a farmers' registry aligned with EU procedures. In the forestry sub-sector, only three donors – World Bank, CIDA and Germany – are present, with the World Bank allocating the largest share.

Thus, the EC will become a more important donor in the long term, because its pre-accession funds are expected to finance parts of the necessary reforms. In the pre-accession phase, all candidate states must first invest significant funds from their own national budgets in order to be institutionally ready for the EU accession phase. Only then can countries access EU pre-accession funds allocated for this purpose. In the medium term (3-5 years), EC support to BiH as an EU pre-candidate country will involve more complex programmes, such as the development of an agricultural information system and improved data management, support to enhanced implementation of food safety measures and the introduction of measures to support rural development.

e. Donor Coordination Mechanisms/Instruments

The World Bank and EC have taken the lead in establishing a donor coordination group in which all the major donors in the sector are invited to participate. It is foreseen that the MoFTER will take over the role of donor coordination in the future, when conditions allow. However, today there is no BiH-level formal coordination mechanism for agriculture, although there is close coordination among different projects at the regional level.

USAID established a Forestry Reform Forum in 2005 for donors to this sector which produced a position paper on forestry policy. The Forestry Development and Conservation Project (FDCP)³²-supported 'Action Plan against Illegal Logging' was adopted by both Entities, and includes a regular semi-annual meeting, the Joint Forestry Conference, to monitor progress and bring together all significant initiatives in this sector.

32 Funded by The World Bank

f. Governmental Partners and ODA Coordination

Under the BiH Constitution, both Entities have responsibility for agriculture and forestry. The relevant bodies are the Entity ministries of agriculture, water and forestry, as well as associations. These associations, however, lack strength and capacity both because of ethnic division and the lack of coordination.

At state level MoFTER is the coordinating body for agriculture until the process of establishing the state-level Ministry of Agriculture and Rural Development (MoARD) has been completed. There is no state-level agricultural strategy besides that contained in the MTDS. Entity strategies differ because of the differences in the Entities' institutional structures and the lack of a state-level agriculture ministry. The RS strategy is more advanced, with clearly articulated objectives for this sector, while the FBiH strategy pays more attention to paying subsidies and creating a modest legalized environment and administration.

Both Entities are implementing laws and establishing new institutions (in FBiH, cantonal forestry administrations; in RS, the restructuring of the Entity forestry company, Srpske Sume (Serbian Forest) to create several smaller companies. Control mechanisms are gradually being deployed with growing efficiency to protect the forests from illegal activities.

g. Key Priorities and Issues

The main priority for the agricultural sector is to become more competitive. First and foremost this requires harmonization of legal regulations with European standards, a prerequisite for joining the EU's single market. BiH's agricultural sector is currently unable to compete with EU producers and does not satisfy the high EU standards to enable it to compete in the EU market.

In order to move forward in this area, a better, more comprehensive legal framework is needed. This particularly relates to the lack of knowledge about competitiveness in agricultural production. The main challenge ahead is to achieve EU export quality and to create control mechanisms for EU standards of food safety. For example, BiH does not as yet have a system of agricultural inspections for quality control, nor a certification system for agricultural and forestry output.

A state-level institution and strategy would support progress in this area. The current efforts, supported by the EC, to establish state-level bodies for agriculture (i.e. MoARD) will require continued donor support.

Another challenge is low productivity, which is a serious concern given the sector's high potential for offering employment. In general, production levels are growing and many farmers are delivering goods of high quality. Agricultural production is still below its potential, however. Yields are estimated at approximately only half that of Western European levels³³. Land and labour productivity has not returned to pre-war levels.

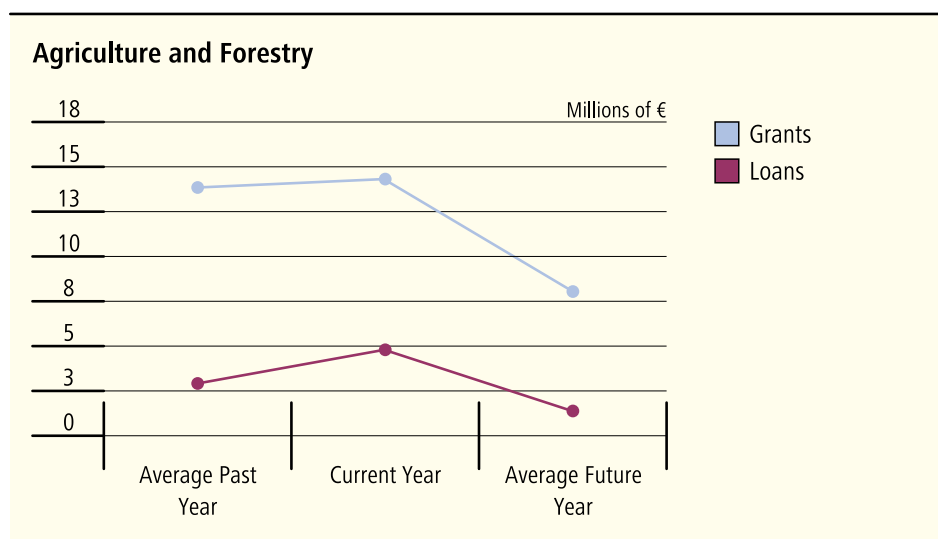
Limited foreign direct investment in this sector exacerbates low productivity and lack of modern equipment. Although access to bank finances has improved, long-term loans and more sophisticated working capital instruments are still underdeveloped. The EIB will increase their soft loans to this sector in the future.

On the policy level, there is a rift between the needs of agri-business and governmental policy. Public-private sector dialogue is limited to issues of concerns to producers and processors, and does not figure in the development of governmental agricultural budgets and regulations.

In the forestry sector, corruption and illegal logging have been the main hurdles. The main activities currently being implemented now are the adoption and implementation of forestry governance reforms, such as the privatization of state-owned wood processors, the improvement of product quality and consistency, and market linkages. The future challenges include developing a forest certification system and market-based log sales, and gaining major, long-term logging contracts. The related challenges include expanding the forest roads, and upgrading furniture and joinery design and production.

*33. Analysis of
Technological Level of
Agricultural Production in
Bosnia and Herzegovina
p.4 – FAO*

Dynamics and Trends in the Sector

Chart 3.27: Aid flows in the agriculture and forestry sector

Both grant and loan allocations in the agriculture and forestry sector are declining, from an average of 5.4 percent of total aid in the past years to a planned allocation of only 2.3 percent for future years. However, interventions in this sector are likely to increase in the future as harmonization with EU standards, alongside access to the EU's single market, will make this sector more attractive.

On a global level, imports of furniture from emerging markets are rising sharply. In addition, issuing forest certifications for sustainable forest management have become more prominent worldwide. BiH needs to do substantive work in these areas if it is to keep up with the trends and take advantage of its natural resources.

Overall, the situation looks promising, with exports growing in some sub-sectors and the share of value-added products rising. BiH could take advantage of some of the growing export markets in industrialized countries, especially for fruit and berries, organic produce, and certain processed food. There are some segments in which some producers are improving product quality and standards, meeting international export requirements, and building relationships with foreign importers and distributors. The majority of agri-business enterprises, however, have yet to adopt best practices to resist regional and global pressure.

3.8 Environmental Protection

a. Introduction and Overview

The environmental protection sector consists of a variety of activities and areas, including setting out an environmental policy, legal and administrative management, research and biodiversity.

According to the BiH constitution, environmental protection is the responsibility of the Entities. In FBiH this authority is further divided between the Entity and the ten cantons and there is no overarching environmental protection institution at state-level. The Law on Ministries and other Administrative Bodies of BiH does assign state-level responsibility for environmental protection to MoFTER, which is responsible for coordinating and harmonizing the Entities' activities. However, there are no laws or other regulations on the environment at state-level. Nonetheless, harmonized Entity framework laws have been developed and adopted in each Entity and they are to a large extent harmonized with the goals and principles of EU environmental legislation. However, a large part of the practical environmental legislation under the auspices of the framework laws has still not yet been passed in both Entities.

Although neither the state nor the Entities have environmental policies, in recent years some important documents have been developed, such as the National Environmental Action Plan (NEAP). This is the first and still the most important document specifically oriented to environmental problems. The environmental protection strategy and action plan for FBiH is presently under preparation, financed by the FBiH government.

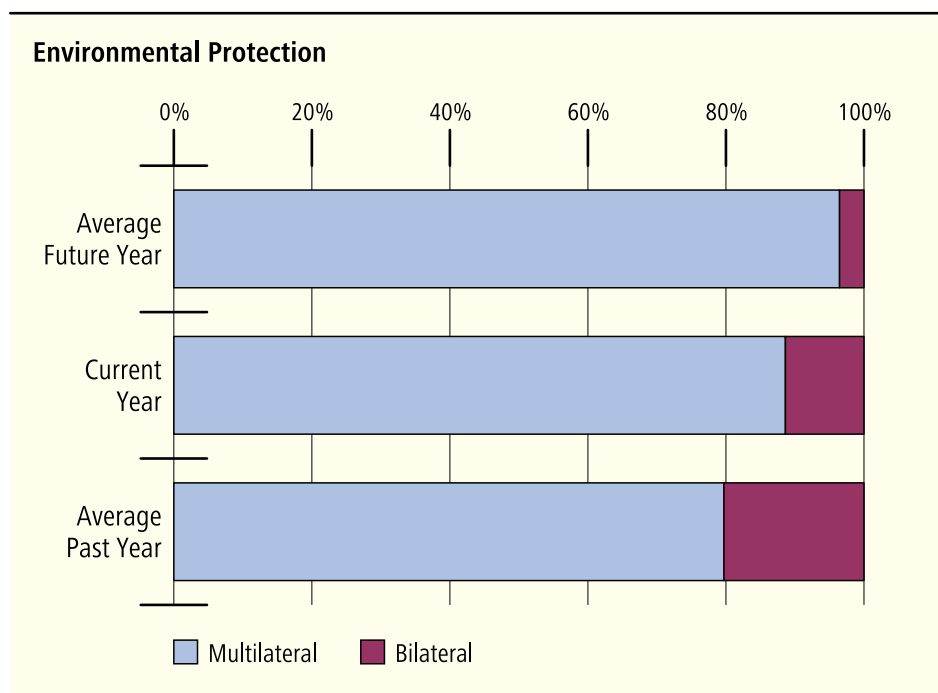
b. The BiH Government's View

The MTDS states that 'without capacity-building and institutional strengthening of the sector on all levels (BiH common institutions on the state level, Entities, cantons and municipalities), and allocation of greater financial funds, the environmental sector will stagnate and BiH will not be able to meet the environmental standards required for accession to the European Union. Establishing an efficient institutional structure is necessary for the prevention (of harm) and the implementation of environmental controls in accordance with the law and international obligations undertaken by BiH through the ratification of international agreements — conventions and protocols'.³⁴

34. EPPU (2006), MTDS, p.140.

c. Key Facts and Figures

Chart 3.28: Distribution of aid flows in the environmental protection sector



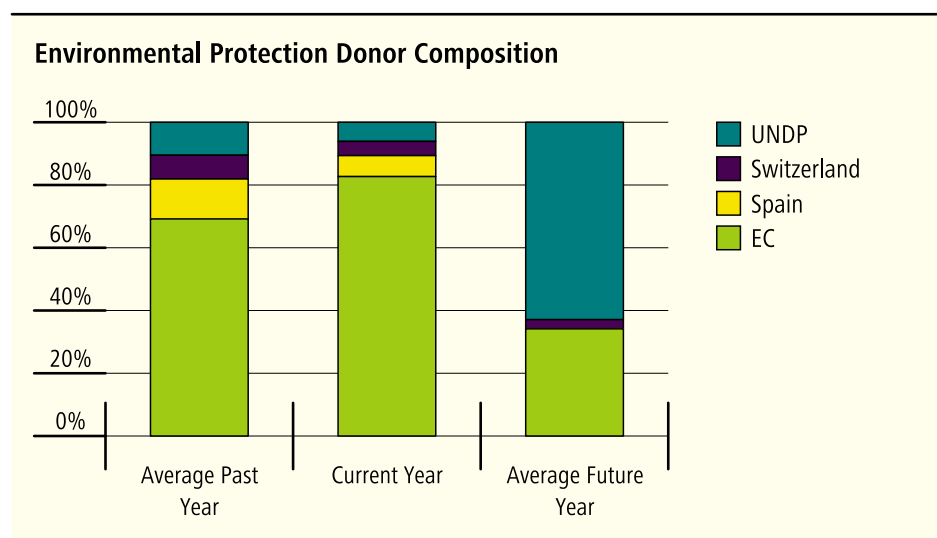
The Environmental Protection Sector accounted for 0.6 percent of all activity in the current year, with expenditure of approximately €2.7 million. In the focus year more than 80 percent of interventions came from multilateral donors.

The EC is the leading donor in this sector. It aims to enhance environmental protection and improve the management of natural resources. In 2006, the EC financed capacity-building at state level and provided assistance towards establishing a state-level Environmental Agency, plus environmental infrastructure projects. The sector's importance is growing and the EC will lend support by providing assistance to the necessary institution building and implementation of EU environmental directives aimed at the BiH authorities. The EC will also commit more funding to environmental infrastructure in solid waste management and wastewater treatment sectors³⁵.

35. See Chapter 3.5.4. "Water Supply and Sanitation"

d. Major Donors

The EC has already spent large funds on this sector through projects for institutional strengthening and environmental protection. In addition, it has placed great emphasis on the environment during the SAA discussions, and presented standards through environmental directives and environmental action plans.

Chart 3.29: Donors active in the environment protection sector

UNDP, Switzerland and Spain are also involved in this sector. UNDP works on the implementation of UN global conventions, namely the UN Framework Convention on Climate Change (UNFCCC) and the UN Convention on Biological Diversity (UNCBD) through biodiversity conservation and energy efficiency projects. Spain's focus is on water conservation and eco-protection, while Switzerland has a regional trans-boundary project on the management of shared natural resources. In BiH this project focuses on the Neretva Delta in partnership with Croatia. Other donors are also active in this sector, but have defined their involvement as falling under other sectors (i.e. infrastructure). This can be attributed to the cross-cutting nature of environmental interventions. Sida is financing the development and implementation of municipal environmental plans. Norway focuses on water protection and non-conventional technologies, and the Netherlands is active in environmental education and trans-boundary environmental action plans. The World Bank also has a major ongoing waste management programme, as well as biodiversity conservation projects.

e. Donor Coordination Mechanisms/Instruments

There are currently no donor coordination mechanisms, only the exchange of information on an informal level. An Inter-Entity Steering Committee for the Environment has, however, been established tasked specifically to coordinate international environmental programmes, and collect and exchange information on the environment. However, the Committee's coordination mechanism has not yet proven to be effective.

State-level coordination has so far been lacking, mainly because there is no state-level institution that deals with the environment, and MoFTER lacks the capacity to take on this extra brief. Under the Instrument for Pre-Accession (the EC's funding mechanism for BiH, other Western Balkans countries and Turkey from 2007 onwards), strengthening the state-level administration is envisaged.

At the Entity level, the governments of FBiH and RS both adopted the decision to establish the Inter-Entity Body for the Environment³⁶. This forum is in charge of the co-ordinated adoption and implementation of strategies, plans, laws and other decisions related

36. Four civil servants from each relevant institution are to be members of this Body.

to environmental protection. Most importantly, it will be in charge of adopting and implementing the Integrated Strategy for Environmental Protection. It will be financed by the FBiH Government budget, by the FBiH environmental fund, and other donor funding.

f. Key Priorities and Issues

A key priority in the environmental protection sector is the closer adherence to EC laws and policies, resource management and pollution control. EC directives and action plans have to some extent already been introduced but the weak state and Entity institutions alongside the lack of a state-level agency remain key barriers to achieving success in this sector.

The main challenges include the lack of institutional capacity to develop and implement environmental policy, the lack of private-public partnerships and overall attractiveness of environmental interests for investment, plus weak national capacities for international environmental cooperation.

Although BiH has ratified several international protocols and conventions it has not yet fulfilled all the related obligations. There is subsequently a large gap between the need for compliance and actual compliance.

Although BiH is rich in biodiversity, the areas under protection are very small and mostly include forested areas. There have so far been no proper biodiversity inventories, the only information on biodiversity coming from often outdated scientific literature which does not address current realities. The lack of monitoring and sound financial mechanisms to finance biodiversity protection further contributes to the overall poor state of biodiversity management.

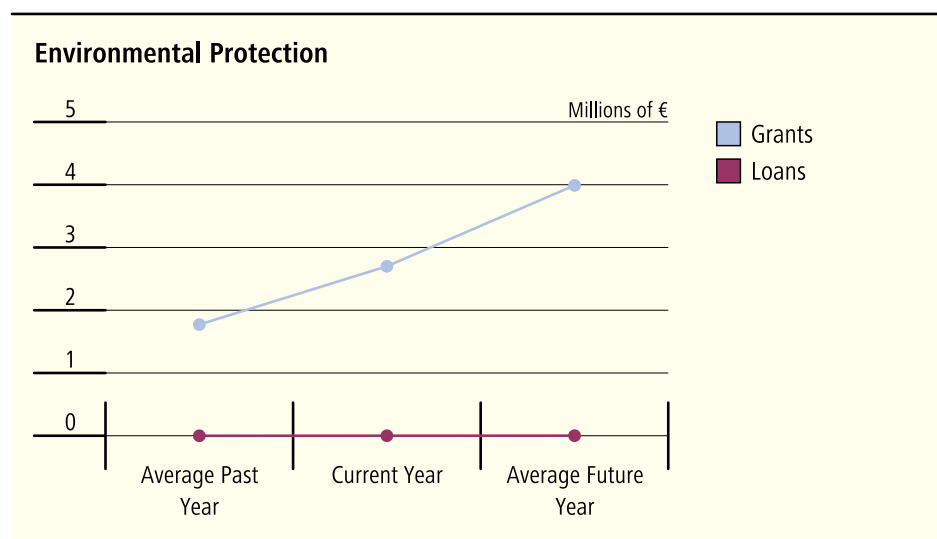
BiH water resources have long been seen as having great economic potential. However, concern is growing over the lack of proper treatment which could endanger water quality, exerting negative impacts both on public health as well as potential economic activities.

In the energy sub-sector, the international community is focused largely on the reform of the electricity sector (production, distribution, regulation) while insufficient attention has been paid to climate change policies, energy efficiency or renewable energy. The country has not yet ratified the Kyoto Protocol, although it could only benefit from the investments the Kyoto mechanisms bring.

The current financial mechanisms for integrated waste management need to be improved and new economic instruments need to be introduced. More attention should also be given to waste minimization and recycling.

Dynamics and Trends in the Sector

Chart 3.30: Aid flows in the environmental protection sector



The environmental protection sector is solely a grants sector, but allocations have so far been low. According to the data, planned allocations will rise to 0.9 percent of total activity in future years, compared to 0.6 percent in the past.

The MTDS describes the environment as 'a priority'. Still, the graphs show that the environment will continue to be one of the smaller sectors of donor activity in future years. Large investments are, however, expected towards strengthening institutional capacities and addressing some of the pressing threats.

3.9 Emergency Assistance and Reconstruction

a. Introduction and Overview

The DAC definition of the emergency assistance and reconstruction sector encompasses rehabilitation and construction work after an emergency or conflict, such as repairs or construction of roads, bridges and ports, restoration of essential facilities (water and sanitation, shelter, healthcare services), alongside other types of aid to facilitate a return to normal life and livelihoods. This sector is one of the oldest and most mature sectors, and did attract large donor contributions during the entire post-war period. It is now a sector of which BiH has taken full ownership.

b. The BiH Government's View

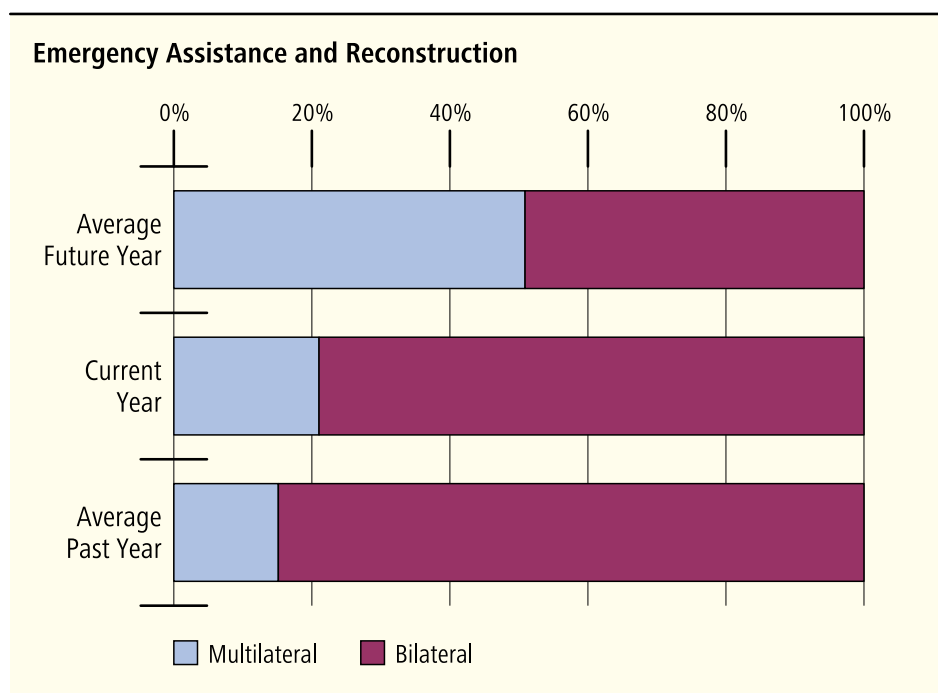
The Dayton Peace Agreement (DPA) is strongly committed to the right of return and the management of refugees and displaced persons: 'All refugees and displaced persons have the right freely to return to their homes of origin. They shall have the right to have restored to them property of which they were deprived in the course of hostilities since 1991 and to be compensated for any property that cannot be restored to them'.³⁷

³⁷. Dayton Peace Agreement, Annex 7.

The text further stresses that 'the early return of refugees and displaced persons is an important objective of the settlement of the conflict in Bosnia and Herzegovina'. Thus, in the direct aftermath of the conflict a large amount of resources were allocated to meet these ends, mostly channelled through international organizations.

Despite the DPA's emphasis on the return process, however, the MTDS remains vague on this sector, mentioning only the importance of further strengthening the institutional framework for returnees.

c. Key Facts and Figures

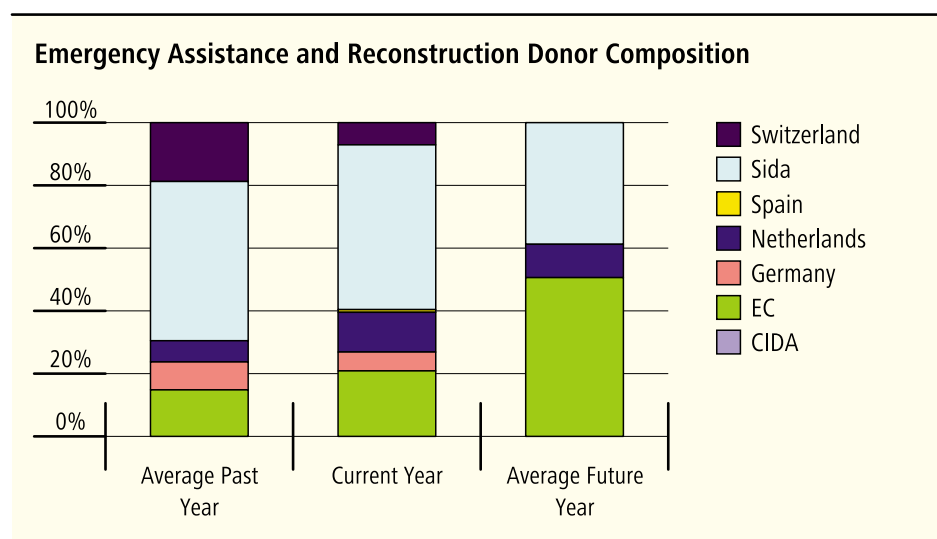
Chart 3.31: Distribution of aid flows in the emergency assistance and reconstruction sector

This sector accounted for 5.1 percent of all activity in the current year, with expenditure reaching approximately €22 million. Bilateral interventions are dominant but the proportion of multilateral interventions seems set to increase proportionately in the future. UNDP is the only multilateral agency involved in tailored programmes concerning the sustainable return of displaced persons. Its activities are mainly sponsored by the EC and the Netherlands as shown in the graph below. The domestic authorities have provided co-financing for some UNDP assistance projects.

The biggest chunk of activities in the emergency assistance and reconstruction sector include facilitating sustainable minority return and the general integration of returnees. This is done, for example, by the reconstruction of houses and basic infrastructure and/or economic assistance to the most vulnerable returnee families, especially those located in northern and eastern BiH. The state-level Commission for Refugees and Displaced Persons, which was established by the DPA in 1995, is in charge of the process.

d. Major Donors

Chart 3.32: Donors active in the emergency assistance and reconstruction sector



The key donors in the sector are Sida, EC, the Netherlands, Germany and Switzerland. The first two donors support UNDP return-related local economic development projects among other projects in this sector. UNHCR was until recently a leader in this sector, but as priorities shifted from emergency assistance to long-term (local economic) development, other agencies have become more involved.

The Return Fund was established within the BiH Ministry for Human Rights and Refugees in August 2004, financed primarily through state and Entity budgets, and then the budgets of cantons and municipalities, international sources, gifts and donations.³⁸

The main sources of finance are grants, although support to the Return Fund also includes credit lines and soft loans.

38. 'MTDS 2004-2007 Revised Document,' EPPU, Sarajevo, 2006.

e. Donor Coordination Mechanisms/Instruments

Given the long-standing and humanitarian nature of this sub-sector, donor cooperation has been good. To encourage even better cooperation between donors, a database was set up to clearly identify funding gaps. In light of the strong national ownership, the main role for the international community in the coming years will be purely that of a supervisory nature.

f. Governmental Partners and ODA Coordination

The main BiH counterparts are the Commission for Refugees and Displaced Persons, the BiH Ministry for Human Rights and Refugees, the Entity ministries of refugees and displaced persons, with local municipalities having an implementation role. There is also a wide variety of NGOs and refugee associations involved in this field.

As part of its commitment to developing a sustainable mechanism without international involvement to address the return issue, the BiH Ministry for Human Rights and Refugees

set up a Return Fund. The BiH Commission for Refugees and DPs annually selects the neediest municipalities and allocates domestic (primary) funds according to a defined methodology. The Return Fund borrowed money from the CoE's Development Bank for specific projects. The mechanism, however, has not been developed to support proper allocation of funds based on evaluation of projects and awarding best projects.

The guiding strategy documents for the sector are action plans developed by the donors themselves, aligned with the state and Entity action plans for the facilitation of returns.

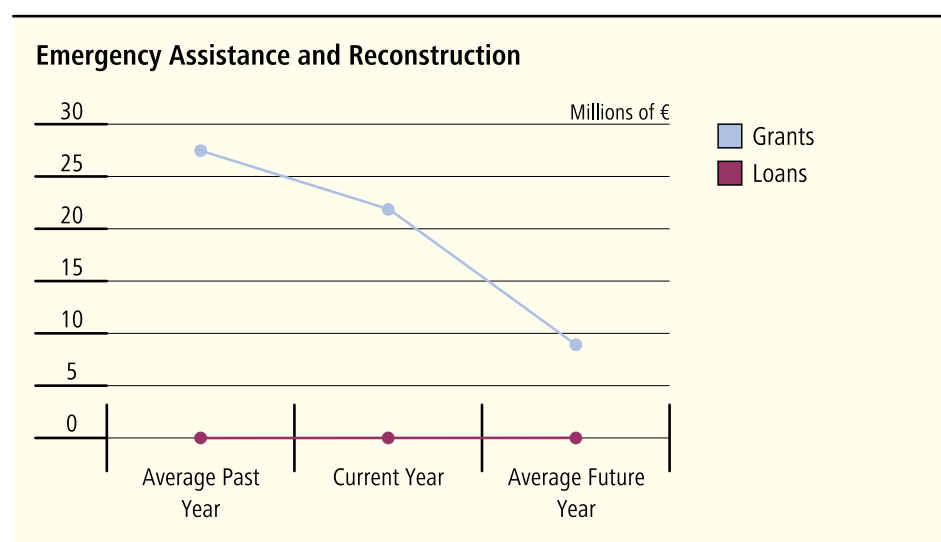
g. Key Priorities and Issues

The main priority in this sector is to move from emergency assistance to development interventions which support the sustainable return of refugees. Assistance has so far focused on reconstructing houses, with very limited assistance given to providing the necessary infrastructure. Importantly, the linkages between returns and employment opportunities, social services and local participation in decision-making processes have not yet been fully integrated into projects. The major challenge in the coming years will be to bridge this gap and create income-generating activities to encourage the sustainability of return communities.

Regional economic disparities and related high regional unemployment rates, as well as limited access to finance for returnees are some of the main barriers hindering the sustainable return process. Thus, return projects have to become more and more multidimensional, taking into account the local socio-economic context of the return process and integrating other sectoral components into their project interventions.

Dynamics and Trends in the Sector

Chart 3.33: Aid flows in the emergency assistance and reconstruction sector



Allocations for emergency assistance and reconstruction have dropped drastically from an average of €27.5 million in past years to a planned allocation of only €9 million in future years. Donor funding for emergency assistance and reconstruction represented an average of 9 percent of total contributions in past years which will drop to 2.1 percent in

future planned allocations. This reflects the fact that over one million houses have been returned and a large number of returnees have now settled property rights disputes. However, as socio-economic barriers to sustainable integration still persist, there remains the need to render return truly effective and sustainable, as well as to create functional local communities in which social exclusion will be diminished through focused assistance in rural development and employment activities (see section 3.6.3).

3.10 Multisector/Cross-cutting

a. Introduction and Overview

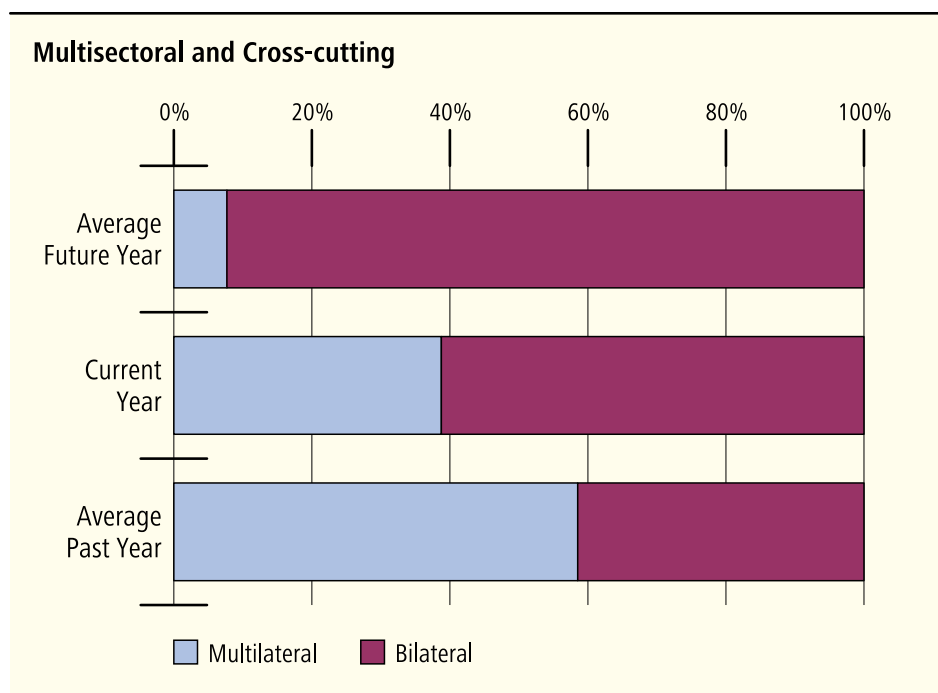
This sector consists of interventions which cut across several sectors. The DAC code is defined as multisector aid and refers to activities which are non-sector specific. Woman in Development (promotion of and support to WID groups and networks) is part of this DAC sector, although the activities in this field in BiH extend beyond the definition given in the DAC. Promotion of development awareness is also included in this report as a part of the cross-cutting sector. There is no specific DAC for youth targeted activities and thus this area has been included into this sector. The analysis given in this section will particularly focus on gender and youth.

Although there have been great efforts to develop gender equality legislation, to set up institutional mechanisms for gender equality and to carry out policy planning at both Entity and state level, gender is still not perceived as an issue to be prioritized on social, economic or political agendas. Implementation at local level with regards to gender-sensitive budget planning and sustainable gender mainstreaming is therefore required. To attempt to correct this, implementation of the BiH Gender Action Plan and gender mainstreaming throughout BiH ministries on all levels is in its initial stage.

The lack of economic opportunities, feelings of marginalization and the perceived indifference of government and social institutions to the needs of young people have resulted in apathy or social disengagement and an overwhelming sense of disillusionment among the youth of BiH. The often-quoted figure that 74 percent of youth would like to leave BiH is a stark indicator of the lack of confidence or sense of empowerment felt by many young people in BiH. The inability to find employment after school or university is perhaps the largest contributing factor to poverty and social exclusion among youth.

b. Key Facts and Figures

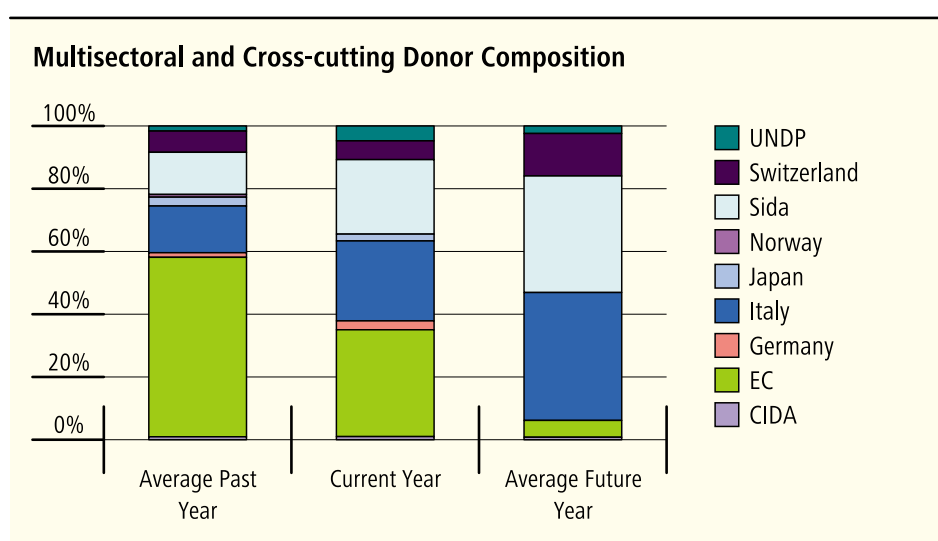
Chart 3.34: Distribution of aid in the multisectoral and cross-cutting sector



This sector accounted for 2.7 percent of all activity in the current year, with expenditure reaching approximately €11.6 million. A variety of donors are active and an equal share of interventions in the focus year comes from bilateral and multilateral donors. However, the proportion of multilateral interventions compared to bilateral ones looks set to decline in the future.

c. Major Donors

Chart 3.35: Donors active in the Multisectoral and Cross-cutting Sector



The EC, Italy and Sida are among the main donors in this sector. While the EC activities encompass a whole range of cross-cutting interventions, including the promotion

of development awareness (EU information centres), Italy and Sida focus on youth interventions and UNDP activities deal mainly with gender equality. A general trend is that many of the reported activities are also channelled through UNDP, DFID, OSCE and IOM.

3.10.1 Gender

a. BiH Government View

Gender concerns are still not completely integrated within the MTDS, although a separate section which deals with gender and gender equality in all aspect of life and work is listed as one of the main priorities. In 2005, the EPPU (now DEP) and BiH Agency for Gender Equality established the Gender Equality Working Group (GWG) within the existing framework of working groups (23) in the monitoring and implementation of the MTDS in BiH. It works independently and reports to the EPPU (DEP) and other working groups within the existing practice of working group meetings.

The Gender Equality Working Group commented on the MTDS and suggested possible ways of incorporating gender concerns into the strategy, as well as incorporating gender into macroeconomic policy. Most of these suggestions were not incorporated into the final MTDS, thus leaving gender concerns separate. In addition, there is no cooperation between the Gender Equality Working Group and sectoral working groups in the phase of MTDS implementation. The BiH Gender Action Plan also prioritizes improved cooperation for gender mainstreaming throughout the implementation of the MTDS.

b. Major Donors, Coordination Mechanisms and BiH Partner

The key international actors with regards to gender are the EC, Italy, UNDP, Germany, CIDA, Sida, DFID, Norway and Japan. Most of these donors have gender mainstreaming explicitly integrated into their programming and key sectors, thus they are not reflected in this sector graph. In addition, many donors support national and regional programmes aimed at strengthening gender equality through integrated components in each programme. The UNDP Gender Programme intends to strengthen the capacities of public institutions in order to implement national gender equality laws and international conventions as stipulated in the Gender Action Plan. The programme also strives to enhance the cooperation of civil society and institutions for gender equality in the implementation of laws and gender mainstreaming processes.

In the past years, donor agency-hosted meetings related to gender equality have been sporadic. The UN Gender Group, however, which consists of members of all the UN agencies in BiH, does meet regularly.

The state-level Agency for Gender Equality was established as part of the Ministry for Human Rights and Refugees with support from UNDP, among others. In its recently issued recommendations, the Committee on the Elimination of Discrimination against Women (CEDAW) calls for giving the Agency for Gender Equality independence, which would empower the body to lead gender mainstreaming processes at state level. Gender centres were established at Entity level in FBiH in 2000 and in RS in 2001. These centres are working as government expert bodies.

A law on gender equality has been adopted at state level and has been in force since 2003. The Agency for Gender Equality and the Entity gender centres helped develop a Gender Action Plan for BiH, which the CoM passed September 2006. In March 2006, the Commission of the European Communities presented the 'Roadmap for Equality between Men and Women for 2006 – 2010', underlying the Commission's commitment to driving the gender equality agenda forward and reinforcing partnerships with member states and other actors.

c. Key Priorities and Issues

As highlighted earlier, while gender rights have generally been incorporated into recently enacted broad human rights legislation, the reality is that gender equality has a *de jure* rather than a *de facto* presence. Enforcement mechanisms for the Gender Equality Law also require the political commitment of both local governments and the international community to support implementation of the law, especially the work to harmonize all other laws with it (e.g. the BiH Election Law) and to develop and implement public policies to support its implementation.

This lack of enforcement stems from legal and political systems that have not sufficiently defined acts of gender discrimination or built an effective legal framework to prosecute offenders successfully. On the education front, for example, teaching materials reinforce gender stereotypes, which may lead to gender biases in the new generation. In the health sector, gender equality-related challenges include maternal mortality rates that are three to four times higher in BiH than in the EU. Since gender inequality can be linked to slower economic growth, weaker governance structures and a lower quality of life, it remains a salient issue in BiH's transition and eventual accession to the EU.

The main priority is, therefore, Gender Action Plan implementation at all levels of ministries and at the local municipal level. In the course of Gender Action Plan implementation, there is a need to draw on the research, analysis and experience that emerge and to perform regular monitoring and evaluation. An extensive process of gender sensitization and educating public officials and employees on key gender equality issues would also contribute to effective implementation of the Gender Action Plan.

As a complementary component, there is a need to raise women's awareness of their rights and to strengthen civil society. These activities would serve as an accountability tool applied by civil society to assess progress in the implementation of the Gender Action Plan and gender equality laws in relation to government obligations under CEDAW. In addition, movement towards gender-sensitive budgeting is required, which could be a timely move as the budget system is currently undergoing changes. Therefore, extensive education of public officials and employees on how to conduct gender-sensitive budget analysis and planning is necessary to support them in beginning this process. In addition, the lack of gender statistics and gender analyses are another key challenge to improving gender-sensitive policy making.

Incorporating gender issues into the MTDS is another priority within the framework of the CEDAW recommendations, European integration and implementing the Gender Action Plan. A key challenge is the lack of gender mainstreaming capacity of DEP staff. A prerequisite would be to improve information flows between DEP and existing gender

mainstreaming institutions. Further, gender-sensitive indicators need to be developed to monitor MTDS implementation from a gender-mainstreamed perspective. Finally, capacities for integrating gender analysis into the planning and budget process should be set up.

3.10.2 Youth

a. BiH Government View

The MTDS states that youth (age 18 to 30) represent 30 percent of all registered unemployed persons in BiH. Of the total number of registered unemployed persons, 49 percent are looking for employment for the first time and therefore the majority are youth. Younger workers have difficulty finding jobs in the formal sector and are consequently more often employed in the informal sector. Youth (age 15 to 35) make up around 40 percent of informally employed persons. Adopting the Law on Juvenile Labour³⁹ and the Employment Strategy with a strong focus on youth employment are therefore key measures recommended by the MTDS which concern youth. Greater participation of youth in all activities is mentioned in the MTDS as one of the tools for the speedy and successful realization of the outlined measures.

39. The law covers vocational training, counselling, internships, apprenticeships, traineeships and so forth.

b. Major Donors, Coordination Mechanisms and BiH Partner

NGO-implemented youth programmes are supported by Germany, Switzerland and EC. Italy has a cross-cutting programme which addresses youth exclusion in the areas of health and education. CIDA and Norway also have health and education programmes with youth components, however these are reported under the health and education sectors of this report. In the same way, youth and governance-related programmes have been reported under other sectors.

A Working Group on Youth made up of UNDP/UNV, UNICEF and UNFPA has been established with the aim of providing a more strategic and coordinated approach to youth issues. In December 2006, the Commission for Coordination of Youth Issues (established by the Ministry of Civil Affairs) appointed a UN liaison officer to be in charge of defining cooperation modalities.

Despite the fact that youth are recognized as one of the most vulnerable groups in BiH society, direct measures to support youth were only modestly incorporated into the initial MTDS. The RS has approved the Youth Policy 2006-2010, while FBiH and state-level do not have any policy strategies that specifically deal with youth. The revised MTDS mainly focuses on youth employment and education issues but does not address the need for a wider youth policy strategy.

c. Key Priorities and Issues

A key priority must be to increase youth employment, as youth unemployment is one of the most serious problems facing BiH today. Only 30 percent of young people are able to find work within one year of finishing their studies, and one-third of young people

remain unemployed five years after finishing their education.⁴⁰ Some 37.1 percent of unemployed youth (age 18 to 30) state that they have not found employment because of their lack of connections and important friends.⁴¹ Youth often use the informal sector as an alternative; three-quarters of workers in the informal sector are reported to be young people. The informal sector, however, exposes youth to both economic and social insecurity.

Long-lasting unemployment increases and prolongs youth's financial and emotional dependence on their parents and causes apathy, depression and/or various forms of anti-social or risky behaviour. Unemployment does not only lead to social exclusion, but it also increases the likelihood of a brain-drain – young, educated people leaving the country temporarily or permanently. There is therefore a clear need for a coherent youth strategy on employment.

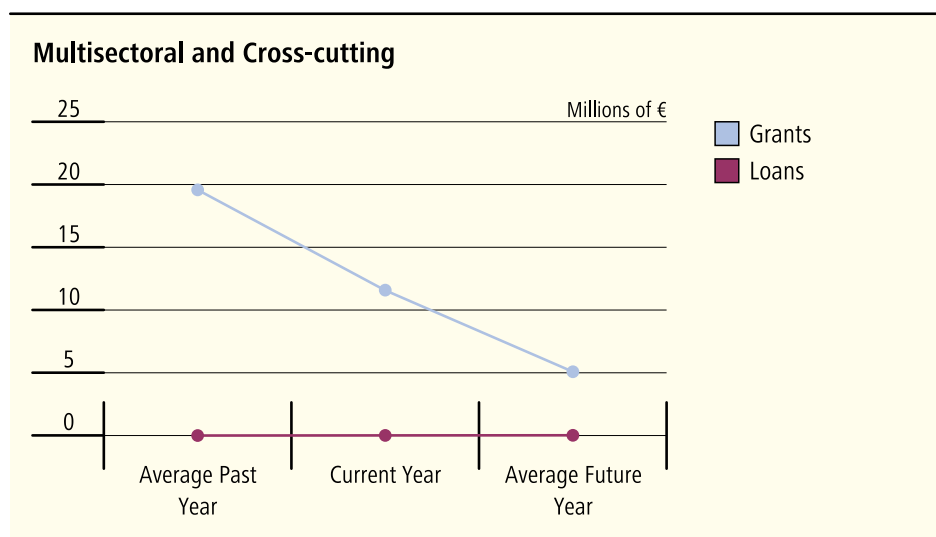
Another key challenge and a related cause of unemployment is the fragmented and poorly administered school and university system. Young graduates are unprepared and poorly equipped for entering a labour market in which employers are reluctant to employ young people who have no work experience and few or no vocational skills. At the same time, educational establishments provide little information or guidance for further education or employment. A more market-based education system and direct assistance with job searches, CV-writing and interview preparation by the schools or the community are necessary to help support youth making the step from education to employment.

40. 'Youth in Bosnia and Herzegovina: Are you part of the problem or part of the solution?' United Nations in Bosnia and Herzegovina, Sarajevo, 2003.

41. 'Nezaposlenost mladih u BiH' (Unemployment of Youth in BiH), Prism Research, Sarajevo, 2005. Available at <http://www.prismresearch.ba/bih/izvjestaji/nezaposlenost.pdf>.

Dynamics and Trends in the Sector

Chart 3.36: Aid flows in the multisectoral and cross-cutting sector



The multisectoral and cross-cutting sector is a grants-only sector. Overall, the allocations to this sector are declining. According to data, planned allocations to this sector will be approximately 1.2 percent of total donor activity in future years, compared to 6.3 percent in past years. However, most donors have gender equality and youth-related interventions mainstreamed in other sectors and therefore the prognosis most likely underestimates the shares of gender equality and youth-related interventions.

CHAPTER 4: DONOR PROFILES

4.1 Bilateral Donors

4.1.1 Austrian Development Agency (ADA)

a. Institutional Set-up

The Austrian Development Cooperation and Cooperation with Eastern Europe (ADC) promotes sustainable development through reducing poverty, safeguarding peace and preserving the environment. In so doing, it concentrates on seven key regions in Africa, Asia, Central America, South-Eastern Europe and in the South Caucasus. The main priorities are water and sanitation, energy, rural development, education, the establishment of SMEs and good governance.

The basis for cooperation with partner countries is the Three-Year Programme established within the framework of Austria's development policy. This is drawn up by the Federal Ministry for Foreign Affairs (MFA) and defines the strategic orientation of Austria's cooperation. The Austrian Development Agency (ADA) is the operative arm of ADC and manages the corresponding budget. ADC programmes are implemented by ADA in close cooperation with development organizations and enterprises.

b. Policy Approach

ADC programmes and projects are based on the principles of ownership/partnership, integration into the socio-cultural context, consideration for the needs of children and people with disabilities and gender equality. ADC is strongly committed to harmonization and alignment.

Based on the Three-Year Programme 2006-2008, ADA work in BiH is further based upon the Austrian Development Cooperation Country Programme for BiH for 2004-2007, which takes the Stabilization and Association Process and the Mid-Term Development Strategy/ PRSP as a guideline.

The aim of ADC in the programme period 2006-2008 is to improve the individual and social development of people in BiH through the creation of functioning public life and the promotion of economic prosperity within an overall strong state. Within BiH, ADC focuses on the following sectors:

- Education (with a particular focus on higher education and vocational training);
- Economic development and employment;
- Strengthening state-level institutions and the identity of the state;
- De-mining.

In addition to the country programme, ADC finances a regional budget line for South-Eastern Europe – in particular within the framework of the Stability Pact. The promotion of regional cooperation is designed to ensure long-term peace, the strengthening of the economy and the integration of the entire region into European structures. Projects include the Investment Compact, ERISSE (Task Force Education and Youth) and the Balkan Case Challenge for students throughout South-Eastern Europe.

ADC is actively pursuing cooperation with other like-minded partners and it stands as a reliable and visible partner in the existing coordination mechanisms.

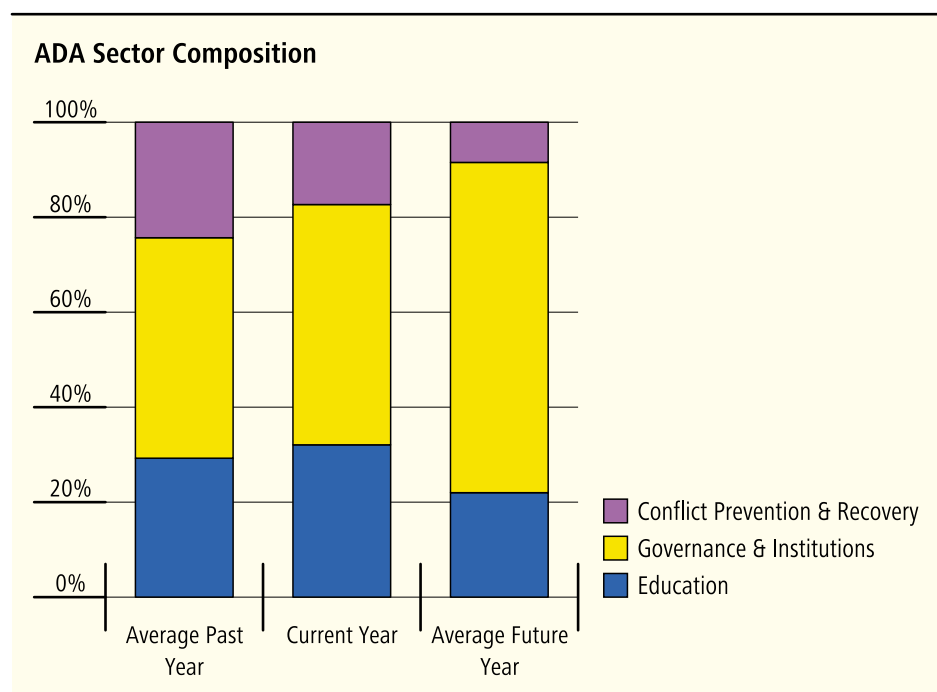
c. Austria in Bosnia and Herzegovina

Austria has been supporting BiH since 1992 in the fields of humanitarian aid, reconstruction, technical cooperation and the implementation of the Dayton Peace Agreement in the politico-military sphere. Apart from financing from the federal government and Austrian federal provinces, considerable private funding was made available for projects through the large-scale “Nachbar in Not” (*neighbour in need*) donation campaign. Furthermore, the Austrian commercial sector is one of the largest private sector investors in BiH.

As the largest recipient country of refugees from BiH (per capita as a proportion of the population), Austria also provided assistance through financing refugee care programmes, including fellowships in Austria and a very liberal and international standards-based integration policy.

The resources of the Austrian Development Cooperation and Cooperation with Eastern Europe (ADC) of the Federal Ministry for Foreign Affairs have formed the nucleus of Austria’s bilateral aid. In early 1996, ADC launched an extensive programme as part of the five-year reconstruction programme for BiH coordinated by the World Bank and the European Commission. The Austrian contribution of € 36.34 million was put to use very quickly at local level, thanks to the efficient processing structures. Severe budget cuts reduced the ADC contribution from 2001 - 2004 to around €1million euros annually. However, since 2004 the budget has been increased to around €2 million annually.

From the outset, ADC has focused on the reconstruction of a multiethnic community in BiH. As the most ethnically diverse region, central Bosnia was selected as the geographical focus. Austria is the only country to have supported the return of minorities since the beginning of 1996. Thematic focuses, apart from the return of refugees, were water, higher education and SME promotion. The long-term partnerships with numerous communities and universities in BiH have recently been supplemented by cooperation with NGOs from BiH.

Chart 4.1: ADA's involvement in different sectors

ADC assistance to integrated community mine action plans in BiH is reflected in the conflict prevention and recovery sector. Their largest contribution, however, is connected to the good governance sector, where their activities are foremost connected to the Land Administration Project (LAP), support for BiH judicial institutions and to the Indirect Taxation Authority (ITA), as well as an anti-trafficking programme. Support for the education sector goes to assistance in higher education.

ADC's support is all in grants given through direct support. The direct spending in 2006 was €2.6 million and an average of €2.3 million annually has already been committed for the coming years. However, there is a clear change in sectoral distribution. Conflict prevention and recovery will drop from an average contribution of 25 percent of the total share down to 9 percent of the total share on average in future years. The good governance sector is increasing to approximately 50 percent of the average overall share in the past to approximately 70 percent of the total share of future planned contributions.

d. Additional Information

- Austrian Ministry of Foreign Affairs - www.bmaa.gv.at
- Austrian Development Agency - www.ada.gv.at

4.1.2 Canadian International Development Agency (CIDA)

a. Institutional Set-up

The Canadian International Development Agency (CIDA) is Canada's lead development agency. CIDA administers approximately 80 percent of Canada's aid budget – the other 20 percent is administered by the Department of Finance Canada, Foreign Affairs Canada, and the International Development Research Centre.

CIDA reports to Parliament through the Minister of International Cooperation. The president of CIDA advises the minister on policy, programme, and management issues.

b. Policy Approach

CIDA's mandate is to reduce poverty and to contribute to a more secure, equitable, and prosperous world. The purpose of Canada's Official Development Assistance is thus to support sustainable development in developing countries and to offer humanitarian assistance in areas of need.

Canada's development cooperation policy and programmes:

- Advance Canadian values of global citizenship, equity, and environmental sustainability, as well as Canadian interests regarding security, prosperity, and governance;
- Deliver a visible, durable impact on the world's key development challenges as identified in the Millennium Development Goals (MDGs);
- Focus on reducing poverty through an effective and focused approach which will match Canadian niches with developing countries' needs in coordination with other donors;
- Recognize and promote sustainable solutions to address the critical linkages between environmental degradation, poverty, and social inequity; and
- Mobilize Canadians to build our society's capacity to contribute effectively to global poverty reduction.

c. Canada in Bosnia and Herzegovina

Canada has been in the Balkans since 1990, actively supporting programmes aimed at furthering peace, stability and prosperity. Since 1994, CIDA has disbursed more than CAD \$130 million in bilateral assistance to BiH. Assistance from CIDA has evolved over time, from an initial focus on emergency reconstruction to political and economic transition and social development.

The long-term objective (2004-2010) of CIDA's programme of assistance in BiH is to contribute to responsive, accountable and competent national government institutions that guarantee their citizens' safety and create an enabling environment for social,

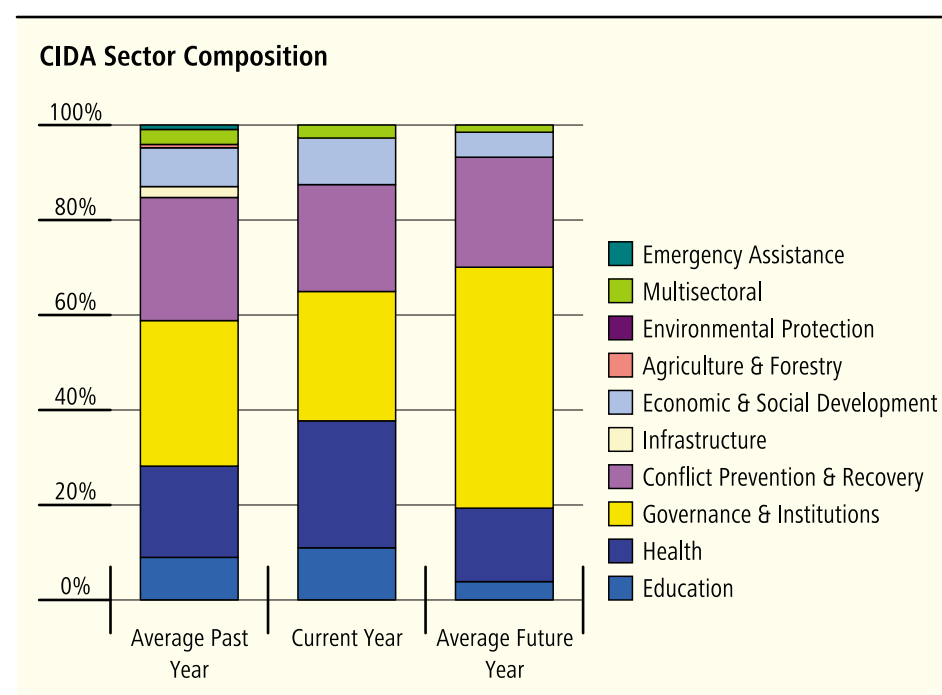
political and economic development. CIDA's current programming in BiH is focused on three key sectors: the rule of law, health and education. More specifically, CIDA is working with judicial reform and prison reform; in health on primary healthcare reform, youth and health issues, and helping to establish public health associations. In addition, some of CIDA's assistance contributes to national and regional electricity sector reform. Gender, environment, refugees and child protection are integrated as cross-cutting issues where possible into programming. CIDA has also been active in the field of mine action in BiH since 1998, and has contributed more than CAD \$15 million to activities in this regard. Its current (2004-2008) contribution is to the UNDP Integrated Mine Action Programme (IMAP). CIDA also has a Local Initiatives Programme through which they are trying to promote civil society development.

CIDA continues to maintain a significant assistance programme in BiH. In 2004-2005, BiH received CAD \$10.18 million from CIDA channelled through bilateral assistance. A further CAD \$30 million in bilateral programming has been committed to 2010.

BiH continues to be eligible for official Canadian development assistance and can benefit from various programmes, such as:

- Geographic and multilateral programmes, including the Official Development Assistance in Central Europe (ODACE) Programme and the International Humanitarian Assistance Programme;
- Other programmes that allow institutions, associations, Canadian and international non-governmental organizations and private sector enterprises to receive funding from CIDA to execute projects worldwide; and
- The Canada Fund for Local Initiatives managed by the Canadian Embassy in Sarajevo.

Chart 4.2: CIDA's involvement in different sectors



CIDA's largest share of support goes to the good governance and institution building, conflict prevention and resolution and health sectors.

The multilateral components, which consisted of 2 percent of CIDA's contribution in 2006, have been channelled through UNDP, UNICEF and the EBRD to a variety of different programmes. CIDA also provides support to WHO and Council of Europe.

CIDA operates as a pure grant organization in BiH. CIDA's average direct spending over the last years has been CAD\$5.3 million (€3.7 million) annually. In 2006 CIDA spent approximately CAD\$6.3 million (€4.4 million) net and CAD \$6.5 million (€4.5 million) including transfers to multilateral agencies in BiH.

d. Additional Information

- Canadian International Development Agency - www.acdi-cida.gc.ca

4.1.3 France

a. Institutional Set-up

The Ministry of Foreign Affairs (MAE) and the Ministry of Economic Affairs, Finance and Industry (MINEFI) have joint responsibility for the strategic management of ODA. The French Development Agency (AFD) acts as the principal operator in developing and emerging countries.

Each of these structures has its own mandate. The MAE, with responsibility for cooperation and cultural actions, combines solidarity with influence in support of French diplomacy. The MINEFI is responsible for macroeconomic and financial aid and therefore for debt management, monetary and financial cooperation, promoting investment, export financing, and economic and financial relations with developing and transition countries, as well as with international financial institutions.

b. Policy Approach

Development cooperation is the multifaceted expression of France's solidarity with the poorest countries, which it intends to maintain and increase. France devoted € 5.3 billion to official development assistance in 2005, representing 0.41 percent of its GDP. The major part of the funds provided by France for development aid is dedicated to bilateral assistance provided directly to beneficiary countries by French government departments or by those acting for them. Bilateral assistance for BiH, through the Ministry of Foreign Affairs, amounted to €715,000 for 2006.

Bilateral aid, which accounts for 76 percent of the total aid effort, is concentrated on a priority solidarity area (ZSP) defined and periodically reviewed by the Inter-ministerial Committee for International Cooperation and Development (CICID). The ZSP is essentially made up of African and Caribbean countries.

In addition to these foreign policy priorities developed since 1945, France is determined to contribute to the development of solidarity with other regions. In this regard, the Euro-Mediterranean partnership is one of France's highest priorities.

c. France in Bosnia and Herzegovina

The French Embassy was the first to open in Sarajevo, in January 1993, and its service for cooperation and culture officially began in 1996. The Embassy deals both with classical cooperation assistance (police, justice, administration, NGOs, exchanges between regions and cities in France and BiH) and traditional cultural activities (universities, the teaching of the French language, cinema, theatre, dance, visual arts, and literature). The goals of the latter are to promote the French language and cultural diversity.

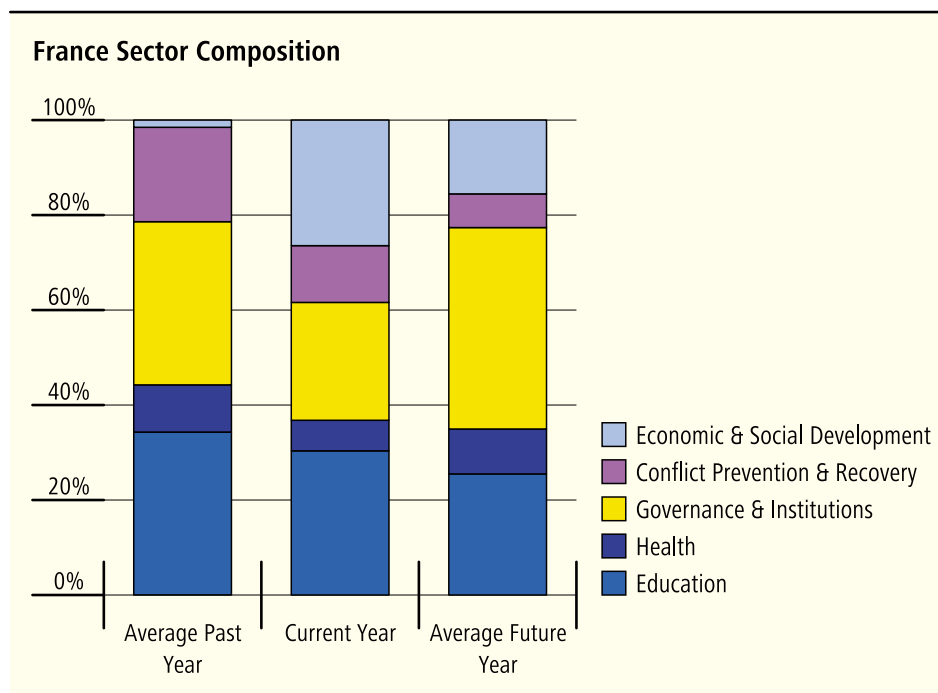
The Embassy reports on its work on cooperation and development to a special unit at the French Ministry of Foreign Affairs (the *Direction Générale pour la Coopération Internationale et le Développement*). For the next few years the main priorities will be youth, and supporting NGOs dealing with youth, activities targeted at pupils and students, and cultural activities fostering young artists and/or aiming at young audiences.

With regards to technical cooperation, French activities in BiH at present focus on tourism, health and justice, especially lawyers and juvenile justice.

The intention is to expand to other areas such as the environment and agriculture.

From a political standpoint, the French Embassy in BiH aims at strengthening a functional central state in BiH.

Chart 4.3: France's involvement in different sectors



France's involvement in the education sector is foremost university exchange programmes and teaching of French in BiH. France is also involved in several twinning programmes: one delivered under CARDS that includes capacity-building within ministries, another, the TEMPUS Projects. France also supports medical training of doctors, the exchange of medical students and a third project represents an agreement between *Hitna pomoc* (the BiH ambulance service) and SAMU (the Paris ambulance service). Another area of assistance is enhancing the tourism potential in BiH through the EBRD and CARITAS BiH.

France operates as a pure grant organization. Some 67 percent of its total contribution in 2006 was channelled through multilateral partners. The total amount of multilateral cooperation for 2006 is around € 900,000 (EBRD and twinning project). The average direct spending per year has been more or less steady, around € 350,000 to € 450,000. However, there is a planned direct allocation of aid for approximate € 750,000 in 2007. The total spending in 2006 was € 1.3 million.

d. Additional Information

- French Ministry of Foreign Affairs - www.diplomatie.gouv.fr/en

4.1.4 Germany

a. Institutional Set-up

The bilateral and multilateral development cooperation of the Federal Republic of Germany is within the competence of the Federal Ministry for Economic Cooperation and Development (BMZ). The organizations commissioned by the ministry for the implementation of the development cooperation are as follows:

- KfW Entwicklungsbank (the German Development Bank), is part of the KfW group (KfW Bankengruppe) and is responsible for financial cooperation with developing countries; it provides long-term capital and promotes investment in infrastructure, financial systems and environmental protection;
- Deutsche Investitions und Entwicklungsgesellschaft GmbH (DEG, the German Investment and Development Company) is part of the KfW group. With the task of promoting private business initiatives in developing and reforming countries, it finances and provides consultancy services and support for its clients across all sectors of the economy;
- Deutsche Gesellschaft fuer Technische Zusammenarbeit (GTZ) is an enterprise under private law that executes a wide spectrum of topics and tasks commissioned by the German government within the framework of technical cooperation in a large number of developing countries;
- Deutscher Entwicklungsdienst (DED), the German Development Service, is a non-profit organization funded from the national budget, which sends volunteers and promotes local organizations and self-help initiatives;
- Internationale Weiterbildung und Entwicklung gGmbH (InWent), (Capacity-building International, Germany) is an organization for human resources development that furthers training and dialogue, and addresses specialists, junior executives and decision-makers from the realms of industry, politics, administration and civil society around the globe; and
- Centrum fuer Internationale Migration und Entwicklung (Centre for International Migration and Development) (CIM), Frankfurt, is an organization providing experts to companies and administration in fields important to economic development.

Furthermore, government funding supports development cooperation in the form of activities proposed by non-governmental organizations (NGOs), which are carried out in the partner countries by political foundations, churches and a large number of other NGOs. In spite of government grants these groups remain fully independent. Germany has also made a significant contribution to the global community, thanks to its membership of several international organizations. Along these lines, one-third of the BMZ's budget reaches developing countries through multilateral channels.

b. Policy Approach

The German development policy takes its cue from the shared goals of the international community: the Millennium Declaration and the eight MDGs, the Monterrey Consensus and the Johannesburg Plan of Implementation. Germany's strategy paper for realizing these development goals, in particular the MDGs, is the inter-ministerial Programme of Action 2006, which was adopted by the German government in April 2001 and further defined within the regional and country strategies. Regional strategies bridge the gap between the overarching principles and aims of the BMZ and the individual country strategies. The ministry has grouped the cooperation countries into five regions: Asia; sub-Saharan Africa; Central, Eastern and South-Eastern Europe and the successor states of the USSR; Latin America; and the Middle East and the Mediterranean region.

Country strategies are the central management instrument used in the Mid-term planning and steering of the German development cooperation. They are agreed upon by governmental negotiations that take place about every two years, after which all decisions are set down in internationally binding treaties. The framework and guidelines for these negotiations are provided in most countries by the national PRSP, the partner country's priorities and the priority areas of German development cooperation. German development cooperation consists of financial and technical cooperation, which is also subject to agreed positions within the negotiations.

- Financial cooperation is one of the most important instruments of German development policy. Its main task is to support partner countries in financing measures that are important for development and accompanied by reform processes. On behalf of the German government, financial cooperation is implemented by the KfW Development Bank, providing long-term capital for the partner countries.
- Technical cooperation transfers technical, economic and organizational knowledge and skills, and is provided free of charge to partner countries. The bulk of the official technical cooperation is implemented by GTZ.

The budget of the Federal Ministry for Economic Cooperation and Development in 2005 was € 76 million larger than the year before, an increase of 2 percent. The German parliament has made an international commitment to devote 0.33 percent of its gross national income to ODA by 2006.

c. Germany in Bosnia and Herzegovina

The first years of bilateral development cooperation after the war were focused on immediate humanitarian aid for displaced persons and returned refugees. Later the programmes shifted to the reconstruction of housing and rehabilitation of infrastructure, such as water and wastewater management and the power supply. This was followed by the co-capitalization of the Deposit Insurance Agency and credit lines for the micro-financing sector through the Credit Guarantee Fund.

The German government agreed with the BiH's authorities to support developments in the following focal areas of economic development cooperation:

- Reforms in the economic sector, economic law reform, development of a market economy and development of the financial sector;
- Democracy, civil society and public administration;
- Rehabilitation of infrastructure, i.e. water supply and sewage, municipal infrastructure, energy efficiency and renewable energy.

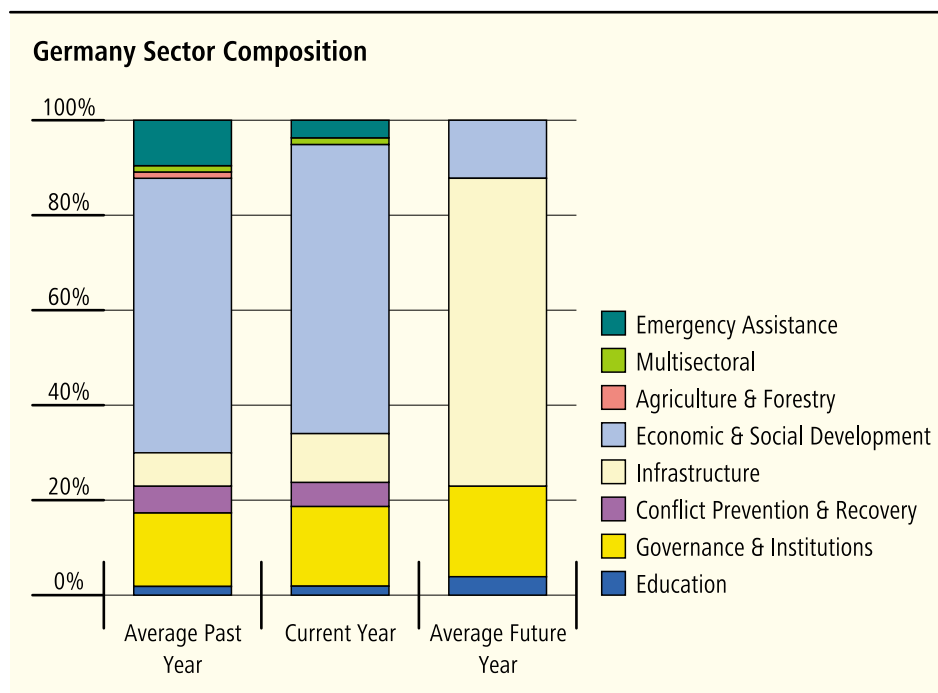
KfW continues to concentrate on projects of financial sector development, renewable energy and energy efficiency, water/wastewater management, and environmental protection.

GTZ currently concentrates on programmes of furthering vocational training in selected sectors and on advising and strengthening the sector for SMEs. The programme provides consultancy in a broad field of economic laws. The project for cadastre and land registers in both Entities is crucial for further private investment. It is also an example of maximizing resources, as it is jointly financed by the Austrian Development Agency, Germany, Sida and the World Bank. A small but important contribution is the project to develop and institutionalize the youth sector in the administration and at all community levels. Experts provide expertise in capacity-building for the Chambers of Industry and Trade, SMEs, investment promotion, and administration.

CIM concentrates on projects providing expertise to institutions and chambers of commerce in the field of development of investor-friendly administration and in projects certifying organizations and companies according to EU-standards (e.g. ISO, TÜV).

Under bilateral development cooperation, Germany has financed projects totalling €118 million. In 2005, this figure was €21.5 million for financial and technical cooperation (loans and grants). The amount committed for 2006 was a total of € 21.25 million (loans and grants).

In addition to bilateral development cooperation, Germany is a founding member of the Stability Pact for South-Eastern Europe. Through the Stability Pact, Germany has financed projects in the region, including in BiH, which have totalled € 1.26 billion from the establishment of the Pact in 1999 through 2004. In 2005, BiH received € 6.6 million from the Stability Pact. Through these funds, Germany has supported a wide variety of projects in the fields of reconstruction, return and humanitarian assistance, as well as strengthening economic development. In addition, funds were made available to NGOs to strengthen civil society and government institutions, with the aim of stabilizing and supporting the state.

Chart 4.4: Germany's involvement in different sectors

GTZ operates as a pure grant organization. KfW has major programmes in the infrastructure sector (water and sewage, energy) and in financial sector development. Projects in water/sewage and energy will be the largest projects in average numbers under German development cooperation with BiH in the coming years. The programmes of KfW are mainly loan-financed. The German Embassy (funds of the Stability Pact) will continue its involvement in the good governance sector, especially in strengthening BiH's legal capacity.

GTZ, CIM and various NGO's are also implementing regional projects to support economic law reforms, economic development and regional cooperation. The German Federal Government is engaged in various twinning projects under the EC-CARDS programme, while several Länder are engaged in training the VAT tax officers of ITA.

In BiH, Germany spent approximately € 32 million in 2006. This includes the KfW managed 'European Fund for BiH /EFBH' with money from the EC, ADA and the Swiss Agency for Development and Cooperation. At the end of 2005, the main donor contributions of the EFBH were transferred to the 'European Fund for South-Eastern Europe /EFSE', promoted by KfW.

d. Additional Information

- German Embassy in BiH - www.sarajewo.diplo.de
- The Federal Ministry for Economic Cooperation and Development - www.bmz.de
- Kreditanstalt für Wiederaufbau - www.KfW.de
- Deutsche Investitions und Entwicklungsgesellschaft - www.deginvest.de
- Deutsche Gesellschaft fuer Technische Zusammenarbeit - www.gtz.de
- Deutscher Entwicklungsdienst - www.ded.de
- Internationale Weiterbildung und Entwicklung gGmbH - www.inwent.org
- Centrum fuer Internationale Migration (CIM) - www.cimoline.de

4.1.5 Italy

a. Institutional Set-up

Coordination of the Italian development programmes and initiatives comes under the responsibility of the Ministry of Foreign Affairs (MFA).

The management bodies are:

- The Steering Committee for Development Cooperation (Comitato Direzionale) is the main management and decision-making institution of the Italian Development Cooperation. It is chaired by the deputy minister of the MFA in charge of the Italian Development Cooperation and is composed of senior officers of the Italian Development Cooperation and representatives of key ministries.
- The Directorate General for Development Cooperation (DGCS) is placed within the MFA and is responsible for setting up the policies and development plans of the Italian Cooperation and promoting all bilateral and multilateral development cooperation activities.
- The Central Technical Unit (UTC) supports the DGSC's activities and projects by providing specific sectoral and technical expertise.
- Local Technical Units (UTLs) for development cooperation are set up in 20 priority developing countries. UTL staff members mainly comprise UTC experts and local consultants. The UTLs provide in-the-field technical support to the implementation and monitoring of all ongoing bilateral, multilateral and direct execution initiatives. Furthermore, UTLs contribute to the elaboration of strategy papers and identify new programmes and projects.
- In the specific Balkan case, the Directorate General for European Countries (DGEU) within the MFA is also involved in elaboration of the overall area development strategy and promotes specific activities under a separate budget.

b. Policy Approach

The Italian Development Cooperation structure has been built on the basis of several legislative acts.

- Law 49/87 regulates development cooperation activities in a comprehensive and multi-sectoral way;
- Law 212/92 is geared towards the realization of structural reforms to support the transition to a market economy in Central and Eastern European countries;
- Law 84/01 specifically focuses on the Balkans, establishing an ad hoc fund that supports activities aiming to promote the private sector and stabilization of the region.

In 1995, the Guidelines for a New Policy on Development Cooperation were approved by the Inter-ministerial Committee on Economic Planning. They express the core of the Italian development approach. Its priorities lie within the following areas:

- Poverty reduction, in particular through private sector development;
- Protection of vulnerable groups, such as women and children;
- Fight against HIV/AIDS and other major diseases;
- Environmental protection.

c. Italy in Bosnia and Herzegovina

Italy has been active in BiH since 1992. Emergency intervention was first provided through health assistance and logistic support to displaced people and through social-sanitary programmes managed by United Nations agencies.

In 1997, with the aim of improving the effectiveness of Italian intervention in BiH, the UTL for development cooperation was established, with branches in Sarajevo and Banja Luka. Between 1996 and 2000, the Italian Development Cooperation has co-financed reconstruction programmes through multilateral and bilateral channels. In recent years, the Italian Development Cooperation has focused on consolidating the foundation laid during the immediate post-emergency phase.

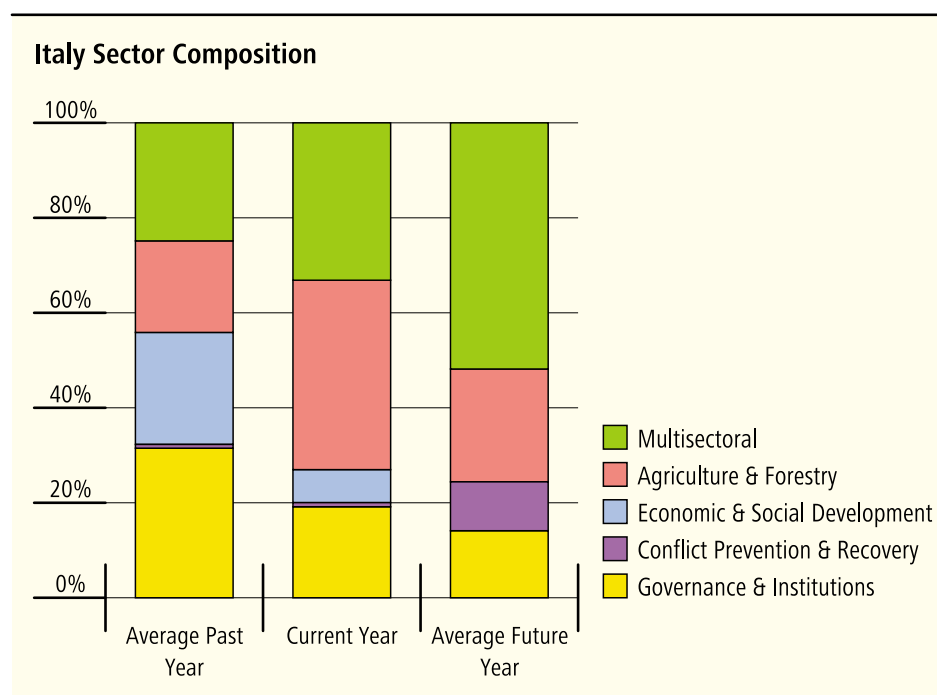
Interventions have mainly targeted the strengthening of agricultural production and the promotion of SMEs, while maintaining an environmental-friendly approach. In the agricultural sector, development projects mainly target the promotion of a sustainable agricultural system, namely organic agriculture that aims at reducing the environmental impact of agricultural production, and the strengthening of small agricultural enterprises' sustainability through the establishment of cooperatives and consortia. In addition, the Italian Development Cooperation has financed the FAO project 'Inventory of the Post-War Situation of Land Resources in BiH', which has provided essential information on land resources, capability and risks in the first post-war assessment of the agricultural sector.

In the wider framework of the Italian Development Cooperation in BiH, sustainable development is also enhanced through the support of local SMEs, mainly through knowledge-sharing projects with relevant Italian counterparts. A credit line has also been established.

Furthermore, Italy has been active in the environmental protection field, with the aim of guaranteeing that the enormous natural resources of BiH represent one of the main sources for the future development of the country.

Within the cultural framework, the Italian contribution has been significant for the reconstruction of the Old Bridge of Mostar and for the restoration of the city's historical centre, along with other cultural projects which have targeted cultural promotion capacity-building and natural tourist routes.

All through these phases, the Italian Development Cooperation has preserved and reinforced its social commitments, which emerged clearly in the emergency and post-emergency phase. Currently, the initiatives targeting children, youth and women represent a priority for the Italian intervention, with the aim of emphasizing their role in BiH society.

Chart 4.6: Italy's involvement in different sectors

Although Italy has consistently been engaged in the agriculture sector in BiH, this is changing. In 2006 40 percent of Italy's direct contribution went to the agriculture sector. This will decline by an average of 24 percent in future years. Another area in which Italy has had a long and persistent engagement is work related to youth, which in this report is allocated in the multisectoral category. In future, 50 percent of Italy's average direct contribution is planned to go to this sector.

Italy is a pure grant organization and channels an important part of its contribution through international organizations like the OSCE, OHR and IOM. However, in 2006, Italy channelled only around 8 percent of its total spending to a multilateral organization, UNDP, for de-mining work. Italy contributed in total €9.7 million in 2006.

d. Additional Information

- Italian Embassy in BiH - www.ambsara.it
- Italian Ministry of Foreign Affairs - www.esteri.it

4.1.6 Japan

a. Institutional Set-up

The Japanese ODA consists of four types of modalities implemented by different agencies:

- The Japanese Bank for International Cooperation (JBIC) is responsible for implementation of the bilateral, so-called 'Yen loans, which in 2004 represented 17.9 percent of Japanese bilateral ODA;
- Grant aid, representing 33.8 percent (in 2004) of the bilateral ODA, is under the direct responsibility of various ministries, primarily the Ministry of Foreign Affairs;
- The Japan International Cooperation Agency (JICA) is an implementation agency for most of the Japanese technical cooperation, which in 2004 amounted to 48.3 percent of the bilateral ODA. Technical cooperation not implemented by JICA is under the direct responsibility of various ministries;
- The multilateral ODA, 33.9 percent (in 2004) of the total ODA, which is mainly under the responsibility of the Ministry of Foreign Affairs (MFA) and the Ministry of Finance (MOF), is realized through its extensive contributions and subscriptions to multilateral organizations.

JICA is due to be re-organized in 2008 to merge with JBIC and to take over the responsibility from the Ministry of Foreign Affairs of 60 percent of its grant aid.

b. Policy Approach

The document that sets forth the rationale, objectives and strategies behind Japan's foreign aid policy is the ODA Charter (renewed in 2003). This Charter specifies four priority issues: poverty reduction, sustainable growth, global issues and peace building. Asia is a priority region, as the region is crucially important for Japan's stability and prosperity.

JBIC was established in 1999 through the merger of Japan's Export-Import Bank and the Overseas Economic Cooperation Fund (OECF), thus inheriting the purpose of both institutions: the promotion of Japan's trade and economic activities overseas and economic cooperation with the developing world. JBIC does not compete with financial institutions in the private sector and implements long-term, low-interest rate and flexible development loans, divided in two types:

- ODA (Yen) loans directly approved to governments or government agencies in the developing countries. The Yen loans are aimed at economic and agricultural development;
- Loans for the private sector and investment financing, as part of Other Official Flows (OOF) disbursed to Japanese or to the developing country companies, including for goods export credits.

JBIC will be divided into two organizations in 2008, and the function of economic cooperation with developing world will be merged with JICA.

The Grant Aid scheme provides the recipient country with non-reimbursable funds to procure facilities, equipment and services for economic and social development of the country. Although the Basic Design Study for the Grant Aid is conducted by JICA, implementation is done by the government of the recipient country.

Founded in 1974, JICA is an implementation agency for technical cooperation, focusing on institution building, organization strengthening, and human resources development that will enable developing countries to pursue their own sustainable socio-economic development. Technical cooperation is implemented through counterpart training in Japan, provision of experts, project-based technical cooperation including provision of equipment, development studies and provision of Japanese volunteers. JICA is also responsible for implementing natural disaster aid.

JICA will be reorganized in 2008 and will additionally be responsible for loan assistance and grant assistance, along with technical cooperation.

c. Japan in Bosnia and Herzegovina

In January 1996, just after the end of the conflict, Japan started its emergency and reconstruction assistance to BiH. Since then, Japan has played an important role in the reconstruction of BiH, as one of the largest bilateral donors to the country. The government of Japan provides grant assistance in many fields, whether directly to the government of BiH, through international organizations, or through NGOs.

Initial Japanese assistance addressed the basic human needs of the BiH people. One of the primary projects was the rehabilitation of public transportation in Sarajevo, followed by the same type of project in Banja Luka and Mostar.

One of the major fields of the initial Japanese assistance was the health sector. Also, Japan has been playing an active role in the assistance of mine action. Japan has provided approximately KM 23 million in mine clearance, mine victim assistance, and mine risk education.

In the field of technical assistance, JICA has been active in conducting various kinds of training courses in Japan, dispatching Japanese experts to BiH, and implementing many development studies. From 1996 to March 2006, JICA invited nearly 400 trainees to training courses in Japan.

With an intention to support local communities and people directly, the government of Japan has realized various projects through Grant Assistance for Grassroots Human Security Projects. Under this assistance, many international NGOs, local NGOs, and civil society (e.g. farmers' associations, and returnees' associations) have been supported with small amounts of grant funding.

Recognizing the steady progress in peace implementation in the past ten years and the current economic situation in BiH as a transition period from post-conflict reconstruction to a self-sustainable economy, Japan will reorient its assistance from hardware cooperation for post-conflict reconstruction towards the software type of cooperation, including capacity-building in the various institutions of BiH.

Based upon a consultation meeting between Japan and BiH in 2004, Japan has drawn up the following as a list of priority sectors for its economic cooperation:

1. Promoting a market economy

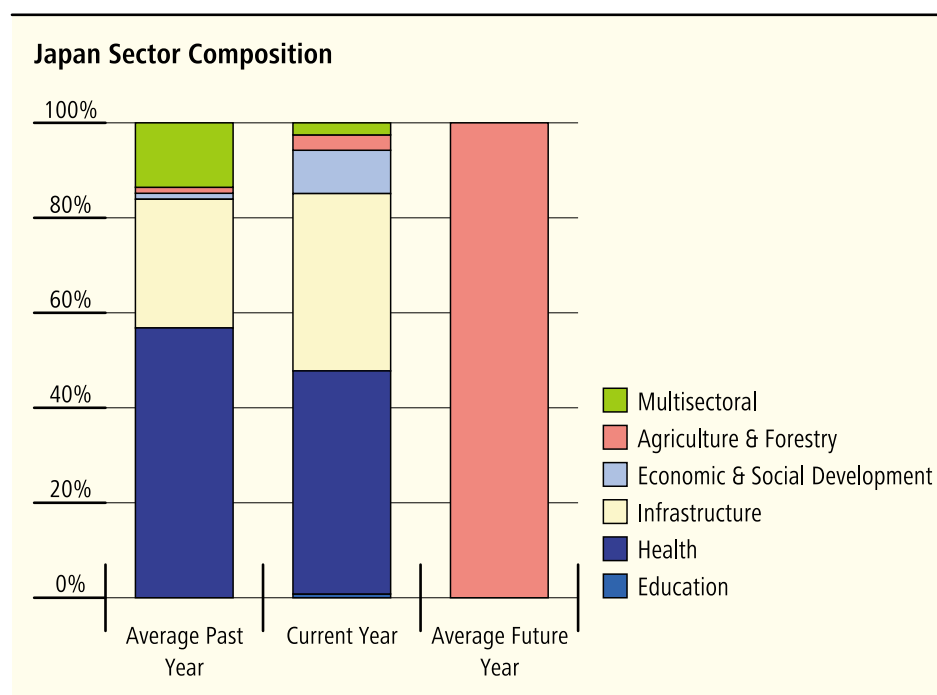
- Capacity-building of economic institutions;
- Promotion of SMEs;
- Promotion of local economies;
- Improvement of infrastructure;
- Promotion of cooperation in the private sector.

2. Environment

- Japan emphasizes the necessity to address global issues, including environmental protection. Various environmental problems, such as water and air pollution, have recently emerged in the Western Balkans.
- Japan possesses a high level of technical capabilities in environmental protection, which is an important sector for BiH's EU membership. It is important that the management system be strengthened and its effectiveness increased for better environmental protection.

3. Peace consolidation

- Based on the principle of human security, Japan will help strengthen local communities, including returnees and internally displaced persons, to support their ethnic reconciliation and community integration, and facilitate their sustainable economic development.
- Japan will strengthen assistance tailored to these objectives through Technical Cooperation and Grant Assistance for Grassroots Human Security Projects in conjunction with assistance for reconstruction projects through General Grant Aid, such as school rehabilitation, equipment supply and other projects.

Chart 4.7: Japan's involvement in different sectors

Japan and JICA are pure grant contributors in BiH. They have been predominantly involved in improving medical equipment for primary health care institutions and rehabilitation programmes, and with projects related to infrastructure. Some 13 percent of Japan's investment in 2006 was channelled through multilateral organizations, predominantly UNDP, supporting capacity-building in municipal development and public administration reform in BiH. In 2006 Japan spent approximately €10.5 million in total, a peak compared to average spending in past years.

d. Additional Information

- Japan Bank for International Cooperation - www.jbic.go.jp
- Japanese Ministry of Foreign Affairs - www.mofa.go.jp
- Japan International Cooperation Agency - www.jica.go.jp

4.1.7 The Netherlands

a. Institutional Set-up

The development cooperation policy of the Kingdom of the Netherlands is an integral part of the country's foreign policy. Within the Ministry of Foreign Affairs the minister for development cooperation is responsible for its implementation. The Directorate-General for International Cooperation (DGIS), which reports to the minister, is tasked with the coordination, implementation and funding of the development cooperation policy. The overall annual budget for development cooperation is €4 billion (0.8 percent of GDP). An important DGIS focus is the coherence between Dutch and EU policy on developing countries. The Directorate-General for Regional Policy and Consular Affairs (DGRC) collects and manages knowledge about countries and regions, and works with the missions to develop an integrated policy on the countries and regions. It thus guides the regional departments and the ministry's network of missions.

b. Policy Approach

The Embassy of the Kingdom of the Netherlands (EKN) in BiH is responsible for a bilateral development co-operation programme of approximately €14,700,000 per year over a four-year period (2005-2008). In order to focus activities, the EKN has identified three strategic issues. Underlying these issues are six strategic goals the EKN aims to achieve through its interventions. The EKN aims at reducing the number of projects it supports in favour of more programmatic assistance to BiH. Harmonization with other donors, and where possible, the alignment of assistance, are clear priorities for the RNE over this four-year period.

Strategic issues 2005-2008

- Broad, nation-wide acceptance of – and progress in – a BiH-owned reform agenda supporting the EU accession process and in line with the BiH Mid Term Development Strategy (MTDS);
- Implementation of a national and regionally accepted solution for the remaining refugees and IDPs, including an integration of policies in support of sustainable return into the more general socio-economic recovery programmes (with a special emphasis on the Srebrenica area);
- Improving the donor coordination and supporting donor harmonization in support of Sector Wide Approaches (SWAs) where possible.

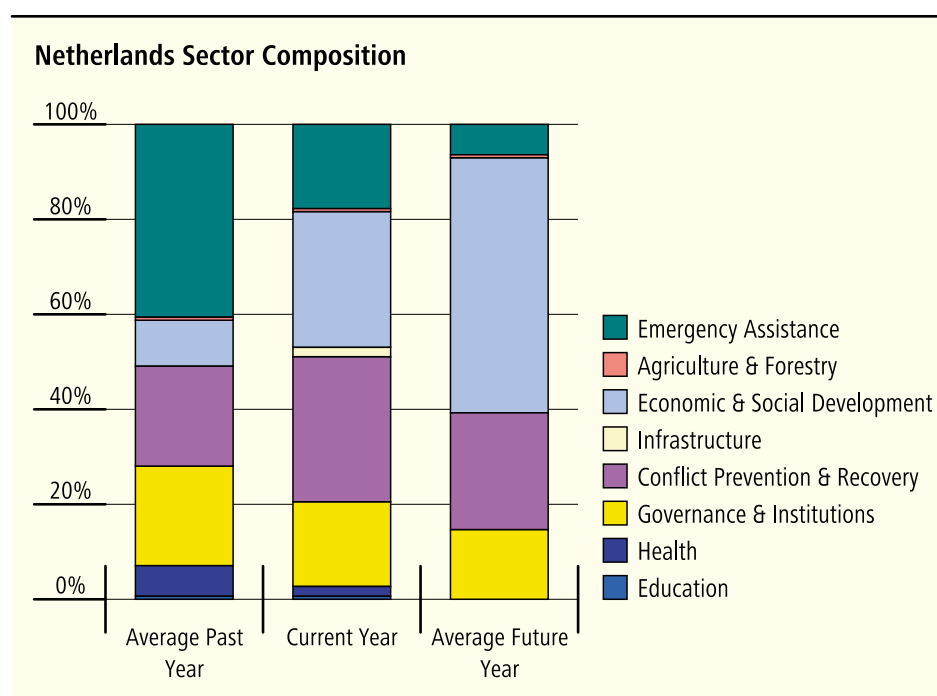
c. The Netherlands in Bosnia and Herzegovina

Since the war, the Netherlands has been one of the biggest bilateral donors to BiH. In recent years, as has been the case with most bilateral donors, the development budget available for BiH has been gradually reduced. In 2003, a total of €17 million was spent on development programmes through the Embassy; in 2004 that figure was €15.8 million. These figures however do not reflect funding made available by the Dutch government directly in addition to the Embassy's programme (for instance US\$ 550,000 for mine action programmes, or €1 million for the War Crimes Chamber), or indirectly

through regional programmes, Programme for Cooperation with Emerging Markets (PSOM), Development-Related Export Transactions Programme (ORET) or the Netherlands Development Organisation SNV (together well in advance of € 3 million for 2006).

In the previous period most of the bilateral assistance was used to facilitate minority return, mainly delivered through NGOs. Also, strong emphasis was given to the support of good governance, human rights and peace building.

Chart 4.8: The Netherlands' involvement in different sectors



In 2006 EKN contributed approximately €15 million through direct execution. The largest component is the economic and social development sector, which received €4.4 million in 2006 and in which an average of €7 million annually have been already committed for the next years. In 2006, the Dutch Embassy channelled 22 percent of its assistance through multilateral donors. The biggest component was supporting UNDP's projects on sustainable return and socio-economic recovery in the Srebrenica area. In total, EKN contributed €19.6 million in 2006.

d. Additional Information

- Royal Dutch Embassy in BiH - www.netherlandsembassy.ba
- Dutch Ministry of Foreign Affairs - www.minbuza.nl

4.1.8 Norway

a. Institutional Set-up

The Ministry of Foreign Affairs has the overall responsibility for foreign policy, trade policy and aid-related relations between Norway and developing countries and between Norway and international organizations.

The Ministry of Foreign Affairs consists of eight departments, of which the Department for Regional Issues and Development is responsible for development cooperation. However, cooperation with Balkans countries is conducted by the Western-Balkan Section in the Department for Europe and Trade.

b. Policy Approach

The main goal of Norwegian development cooperation is to contribute towards lasting improvements in economic, social and political conditions for the populations of developing countries. According to the Norwegian government's aid policy, development cooperation must aim at strengthening the developing countries' own abilities to solve their poverty problems and to promote economically and environmentally sustainable development. This means that there must be emphasis on strengthening the economy, business, and industry of the developing countries, and improving their administrative, social and economic infrastructure.

The main thrust of Norwegian development cooperation is long-term assistance provided in the form of grants. The assistance should be untied – meaning granted without conditions – requiring that the funds be used for the purchase of goods and services from the donor country. A smaller portion is used for short-term emergency relief. In addition, Norway provides special assistance to business, trade and industry, which diverges from the principle of untied assistance.

Development assistance is administered with the intention of achieving a more or less equal distribution between bilateral assistance, which goes directly to the developing countries, and multilateral assistance, which is channelled through the UN system and development banks. In total, the Norwegian government provided US \$2.5 billion (€2 billion) in international development support in 2006.

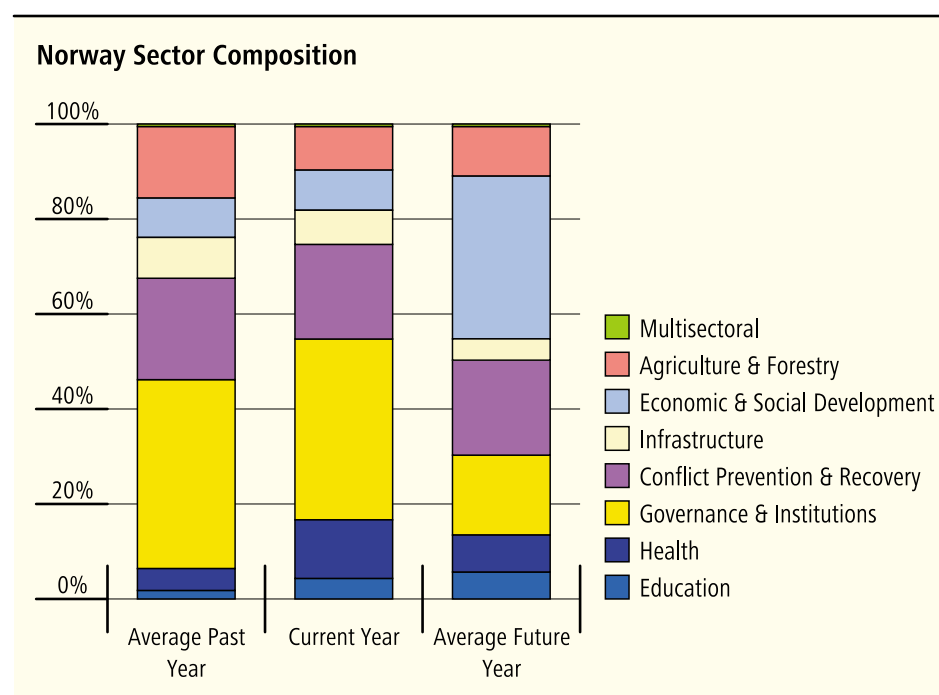
Norway provides assistance through 40 multilateral organizations. The most important are the World Bank and the regional development banks, UNDP, UNICEF, UNFPA, WFP, WHO, and IFAD.

c. Norway in Bosnia and Herzegovina

Norwegian assistance to the Western Balkan countries aims to support the governments' decision to integrate into European and North-Atlantic structures. To this end, Norway has for more than a decade provided approximately €15 million annually to Bosnia-Herzegovina in assistance. In addition, Norway supports a wide range of regional projects. Norwegian assistance has changed throughout the years in accordance

with the changing needs in BiH, from being focused on humanitarian assistance and infrastructure, to currently being concentrated on supporting reforms and processes which would bring BiH closer to the Euro-Atlantic structures. This implies support to institution building (state parliament and the judicial institutions), judicial reform, economic development/business development education and the social sector.

Chart 4.9: Norway's involvement in different sectors



Norway's largest contribution is to the judiciary, where it has for several years provided considerable support to the High Judicial and Prosecutorial Council, the BiH Court and the reconstruction of local courts. Norway will continue to give high priority to the judiciary, as well as to other parts of the security sector (police, defence and intelligence).

Furthermore, substantial assistance is given to de-mining and infrastructure. Business development, including agriculture and SME development, is the third pillar that Norway wishes to continue supporting. Finally, an equally large portion of the annual grants goes to the social/civil sector, education, human rights, conflict prevention and reconciliation. Support for the judicial and human rights sectors has been channelled through organisations like the HJPC, the BiH Court, EUPM, UNICEF, ICMP, OSCE and OHR, while assistance in other fields has predominantly been through direct execution. Over the past years, Norway has contributed an average of approximately NOK 81.6 million (€10.3 million) annually through direct execution. This increased in 2006 to NOK 109 million (€13.8 million) in direct execution. On average, 10 percent of Norwegian aid is channelled through multilateral organizations.

d. Additional Information

- Royal Norwegian Embassy in BiH - www.norveska.ba
- Norwegian Government - www.regjeringen.no

4.1.9 Spain

a. Institutional Set-up

The ministry with the responsibility for managing the programmes that constitute Spanish aid policy is the Ministry of Foreign Affairs and Cooperation. Within the Ministry of Economy and Finance, the State Secretariat for Trade, Tourism and Small and Medium-sized Businesses takes responsibility for administering the lion's share of bilateral aid due to its management of the Development Aid Fund. The Ministry of Economy and Finance also manages multilateral aid contributions to the World Bank and IMF. The Spanish Ministry of Industry, Tourism and Trade is responsible for the disbursement of soft loans. Decisions about scholarships and cultural cooperation fall under the responsibility of the Spanish Agency for International Cooperation (AECI). Spain is also responsible for coordinating humanitarian and food aid initiatives and funding NGO activities.

Within the Ministry of Foreign Affairs and Cooperation, the State Secretariat for International Cooperation (SECI) has since 1986 had responsibility for both planning and coordinating the elements of aid policy. The day-to-day implementation of aid policy is delegated by the SECI to AECI, which is responsible for the design, execution, and management of cooperation projects and programmes for development either directly, with its own resources, or through collaboration with other national or international entities and non-governmental institutions.

The Technical Cooperation Offices control and monitor the Agency's cooperation in development projects and programmes. Even though the functioning of the Technical Cooperation Offices depends on AECI as well as on their budget and staff, the offices are integrated within the organizational structure of the corresponding diplomatic mission or consular office.

There are currently 36 Technical Cooperation Offices throughout Latin America, Africa, Asia, and Eastern Europe. Twelve cultural centres and three training centres worldwide complete the Spanish Cooperation Agency's foreign activities.

b. Policy Approach

The principles and objectives of Spanish development cooperation emphasize sustainable development and poverty reduction. Spanish development cooperation is committed to country-led poverty reduction strategies.

The strategies and action plans of Spain are defined through two instruments: the Master Plan and the Annual Plans.

The Master Plan is a basic four-year plan that defines objectives, priorities and budgetary resources for the established period. The latest Master Plan for the period 2005-2008 is based on the Millennium Declaration. It defines the development policy of Spanish cooperation, for example, horizontal priorities and sector-related priorities.

The horizontal priorities must be present in all interventions carried out. The five horizontal priorities are:

- The fight against poverty;
- Protection of human rights;
- Gender equality;
- Environmental sustainability;
- Respect for cultural diversity.

The sector-related priorities or strategic objectives are the areas in which AECI Spain must operate. These are to increase:

- Social and institutional capacities (governance, institutional strengthening and public participation);
- Human capacities (covering basic social necessities);
- Economic capacities (promoting the economic and entrepreneurial fabric);
- Capacities for the improvement of environmental sustainability;
- Liberty and cultural capacities;
- Women's capacities and autonomy;
- The capacity for preventing conflicts and building peace.

c. Spain in Bosnia and Herzegovina

The presence of Spanish development cooperation in the Balkans is very recent, dating from the start of the conflict in BiH. Initially, Spanish development cooperation focused on humanitarian aid and reconstruction. In the last few years, however, interventions have been aimed at supporting the country's stabilization process and peace consolidation, as well as the political, economical and social transformations which make up BiH's road towards European integration.

The Technical Office for Cooperation with the Balkans (OTC) was inaugurated in April 2001, with its headquarters in Sarajevo. It covers Albania, BiH, Croatia, the Former Yugoslav Republic of Macedonia, Montenegro and Serbia.

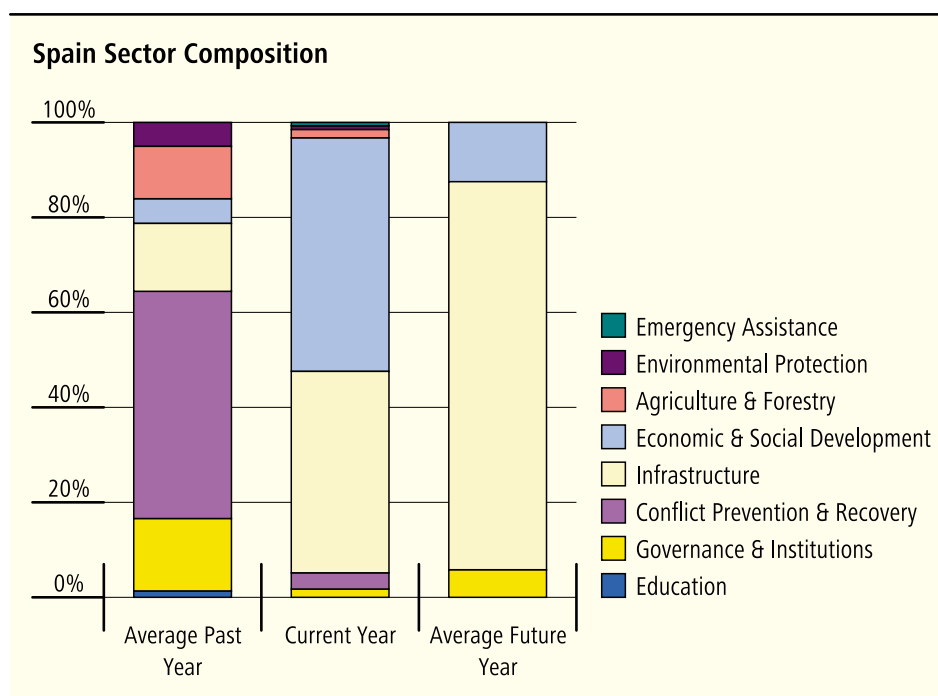
BiH receives more assistance from Spanish development cooperation than any other country in Central and Eastern Europe. The amount of official aid to development spent by the Spanish government in BiH from 1993 to 2004 amounted to €226 million.

The areas of intervention are as follows:

- Increasing social and institutional capacities: strengthening the rule of law, public administration reform, support to the process of European integration, promoting democracy, public participation, and raising the awareness of the population to exercise their rights and obligations;
- Prevention of conflicts and consolidation of peace: establishing a secure environment, normalization, coexistence, reconciliation and assistance to sustainable return through basic infrastructure reconstruction activities;

- Increasing economic capacities: support to micro and small enterprises, micro-financing and work in the agricultural sector, which is characterized under the reconciliation component.

Chart 4.10: Spain's involvement in different sectors



Spain is becoming an important actor in the infrastructure sector thanks to its soft loans programme, where they will finance the supply of passenger trains to FBiH Railways. Spain has also financed micro-credit organizations in BiH, which makes economic and social development Spain's second-largest sector of assistance. Together these two soft loans and credits programmes amount to approximately 50 percent of Spain's average assistance to BiH in 2006. This trend will continue in future years.

Spain's support to BiH is directly executed or channelled through NGOs. Spanish assistance peaked in 2006 with approximately € 32 million, mainly due to the above-mentioned programmes. These two programmes will continue dominating Spanish assistance in the future.

d. Additional information

- Spanish Ministry of Foreign Affairs and Cooperation - www.mae.es/en/Home

4.1.10 Swedish International Development Agency (Sida)

a. Institutional Set-up

The Ministry of Foreign Affairs (MFA) and the Swedish International Development Cooperation Agency (Sida), a government agency under the umbrella of the ministry, are the main actors in Swedish development cooperation. The MFA sets out the overall priorities and decides on the development cooperation programmes in the partner countries. Multi-annual cooperation strategies adopted by the Swedish government outline the priorities for Swedish bilateral assistance to a specific country.

As is the case with other Swedish government agencies, Sida works independently within a framework laid down by the government and approved by the Swedish Parliament specifying, *inter alia*, the countries with which to work, the budget frameworks and the overall orientation of the assistance. In addition to bilateral cooperation with individual countries, Sweden allocates about one-third of its aid budget to multilateral organizations, such as the UN, EU and World Bank.

b. Policy Approach

Sweden's Policy for Global Development was adopted by Parliament in December 2003. Development cooperation was given one goal – to contribute to an environment supportive of poor people's own efforts to improve their quality of life. In addition, two perspectives – the rights perspective and the perspective of the poor – shall permeate all work.

Within the frameworks established by the government and Parliament, Sida draws up policy documents and support setting out the form of methods for Sida's work. This is guided by the parliamentary decision on Sweden's Policy for Global Development,⁴² by the annual appropriations directive and by two internal documents – Perspectives on Poverty and Sida at Work.

42. 2003/04:UU3

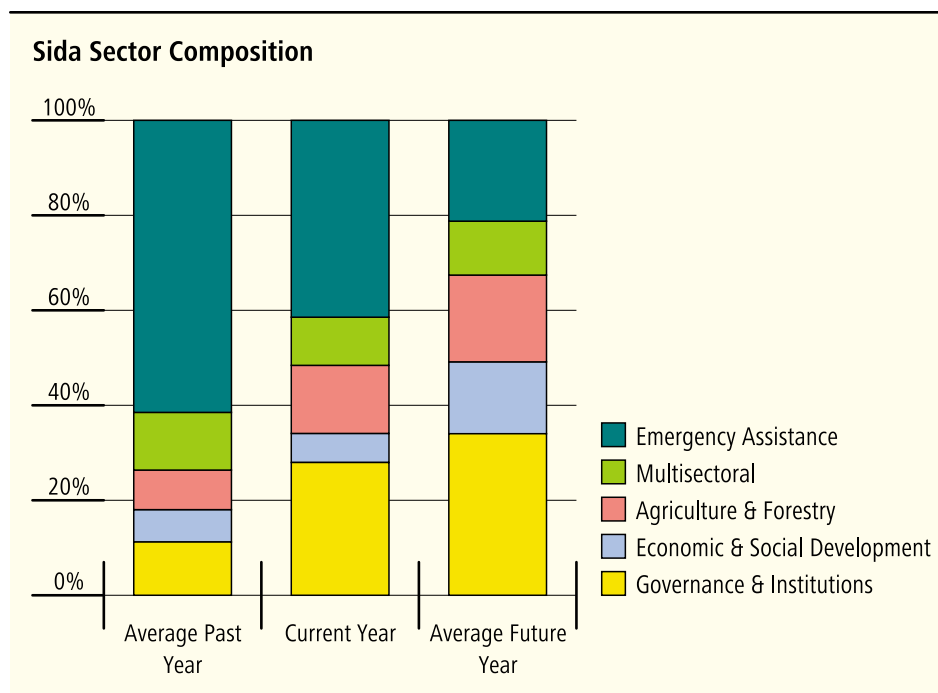
c. Sweden in Bosnia and Herzegovina

Sweden has extensive commitments to BiH. It established diplomatic relations with BiH in 1992 and received almost 60,000 refugees of the 1992-1995 war. Swedish official presence in the country was strengthened by the opening of an embassy in 1996. The country is one of BiH's largest bilateral aid donors.

The goal of Swedish development assistance is to support BiH's development plan, the MTDS, which focuses on accession to the EU and the fight against poverty. In order to achieve this goal and focus the Swedish programme, development assistance targets two main sectors: building a sustainable state and economic development. Emphasis during the strategy period (2006-2010) will be on long-term, programme-based funding in support of the EU's Stabilization and Association Process and the MTDS. Sida will seek collaboration with bilateral and multilateral donors to facilitate programming major interventions and the coordination and harmonization of development cooperation work. BiH's ownership plays a critical role in the Swedish development cooperation programme.

Swedish development assistance over the coming three-year period is expected to remain at about the same level as currently, or SEK 235 million (approximately €25 million) per annum.

Chart 4.11: Sida's involvement in different sectors



The largest components in average spending terms per year are emergency assistance, followed by the good governance and agricultural sectors. The first segment consists of three elements: a housing programme to support return; de-mining and strengthening the role and capacities of the social sector to implement national policies in the area of social work.

Approximately €11.5 million or 40 percent of the total share in 2006 was allocated to emergency assistance projects. The next segment refers to Sida's support to GAP (Governance Accountability Programme) in cooperation with USAID and PAR reform. Around €4 million has been allocated to enhance the legal and judicial systems and strengthen human rights. This is done through a variety of programmes including those in education, anti-trafficking and youth. The latter sector reflects job creation in agriculture through, among others, organic agriculture production and support to agriculture development. An average of €3 to €4 million a year has been allocated to the agriculture sector.

Sida spent €28 million in 2006. Average spending per year in the future will be reduced. Sida operates as a pure grant organization. Most of Sida's contributions are executed directly, or channelled through local NGOs. However, Sida supports de-mining actions through UNDP and anti-trafficking through IOM.

d. Additional Information

- Swedish Government - www.sweden.gov.se
- Swedish International Development Cooperation Agency - www.Sida.se

4.1.11 Switzerland

a. Institutional Set-up

Two agencies are responsible for the formulation and implementation of the Swiss development cooperation policy:

- The Swiss Agency for Development and Cooperation (SDC) is part of the Federal Department of Foreign Affairs, supporting governance, economic and environmental programmes, and coordinating Switzerland's development policy;
- The State Secretariat for Economic Affairs (SECO) is Switzerland's competence centre for all core issues relating to economic policy. In addition to domestic and foreign trade policies, the Secretariat is also involved in efforts to reduce poverty in the form of assistance to economic development assistance and infrastructure.

These two agencies manage 75 percent and 13 percent, respectively, of Swiss bilateral official development assistance. Together they also manage multilateral financial aid, which accounts for about one-third of ODA. They both came under the Federal Law of 1976 and thus operate within the same legal framework for international development cooperation, but do not have a common operational strategy.

The Swiss Embassy is responsible for political follow-up and for supporting the official representation of the Swiss programme.

b. Policy Approach

The long-term goals for cooperation with BiH are based on the values and principles of Swiss foreign policy and on the principles of cooperation with Eastern European and CIS countries. These goals coincide with the goals of BiH, namely implementing economic reforms, establishing a modern state based on the rule of law, reforming public administration and fighting poverty.

The long-term goals will mean that:

- People can pursue their own perspectives in terms of economic, social and political participation;
- Competent institutions create supportive conditions and provide adequate services;
- Public and private institutions function according to the principles of good governance.

In achieving these goals, the people of BiH will be able to rebuild their society and economy and return to decent living conditions. These goals also serve as a basis for the intended association of BiH with the EU.

In the Medium term, the Swiss programme refers to the immediate need to continue and consolidate the process of economic, political and institutional reform, as well as social re-integration. These processes require continuous support over a period of time if they are to succeed.

Furthermore, Switzerland is committed politically and financially to the Stability Pact for South-Eastern Europe and implements its programmes in close coordination with the operations of various multilateral and bilateral donor agencies. Other important international frames of reference are the Millennium Development Goals, the Poverty Reduction Strategy Paper and the Stabilization and Association Process of the European Union.

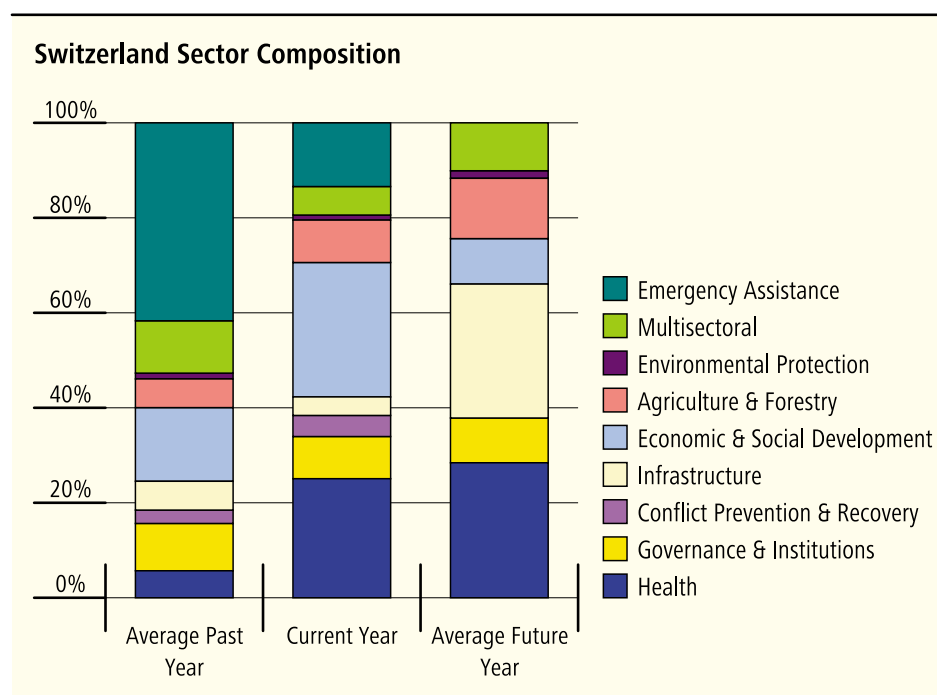
c. Switzerland in Bosnia and Herzegovina

Switzerland contributed €96.6 million during the wars in Croatia and BiH (1991-1995) for emergency assistance and humanitarian aid in both countries. From 1996 to 1999, a special programme for BiH at a total cost of €146.6 million – the single largest commitment of Swiss cooperation – was implemented, with a focus on humanitarian aid, debt relief and reconstruction.

After an initial phase of relief operations and reconstruction, the focus of support shifted towards longer-term development cooperation, with the overall goal of promoting transition and reconciliation. Based on the experiences and partially using the same implementing structure, the first Medium-term programme for BiH was implemented from 2000 to 2003, which reflected this new orientation. Both the considerable number of refugees and the objective of stabilizing the region put BiH high on the Swiss political agenda.

The Medium-Term Programme 2000-2003 of the Swiss Development Cooperation bundled a multitude of activities into four sectors focused on social and economic improvement, support to institutional reform and rehabilitation of basic infrastructure.

The goal of the Medium-Term Programme 2004-2008 is to foster conditions for self-determined reforms related to sustainable economic, institutional and social development. The programme covers three distinct fields of cooperation: a) the social domain; b) private sector development and the promotion of small and medium-sized enterprises; and c) governance and basic services. The transversal themes, 'Promotion of Changes Processes' and 'Youth' complement the programme domains.

Chart 4.12: Switzerland's involvement in different sectors

The Swiss Development Cooperation assists a multiple of programmes, the most dominant being the establishment of training centres for retraining doctors and nurses (health sector) which has been ongoing since 1998, with an average assistance of €3 to €4 million per year. In the economic and social development sector Switzerland supports corporate governance practices in private companies and SME development. The emergency assistance category includes support to minority return and the reconstruction of houses and basic infrastructure implemented by CARITAS Switzerland. Support to the latter sector will, however, decline considerably in future years.

Switzerland's support is mostly through direct execution which reached CHF18 million (€11 million) in 2006.

d. Additional Information

- Swiss Agency for Development and Cooperation - www.deza.admin.ch
- State Secretariat for Economic Affairs - www.seco-admin.ch

4.1.12 United Kingdom Department for International Development (DFID)

a. Institutional Set-up

The Department for International Development (DFID) is the UK department responsible for promoting sustainable development and reducing poverty. DFID manages the UK government's programme of development assistance, the majority of which is concentrated in the poorest countries of sub-Saharan Africa and Asia. They also work in middle-income countries, including those in Latin America and Eastern Europe.

DFID has two headquarters (in London and East Kilbride, near Glasgow), offices in many developing countries and staff based in British embassies and high commissions around the world. In 2004, the UK reported more than £5 million as ODA, making the UK the fourth-largest OECD-DAC donor on this internationally agreed classification of aid.

b. Policy Approach

The central focus of DFID's policy, based on the 1997, 2000 and 2006 White Papers on International Development, is a commitment to the internationally agreed MDGs to be achieved by 2015. DFID works in partnership with governments committed to the MDGs, with civil society, the private sector and the research community.

In 2004-05, 39 percent of DFID's assistance was channelled through multilateral organizations, in addition to its bilateral assistance. The European Community's Development Programme received the largest amount of DFID multilateral assistance, followed by the World Bank and United Nations.

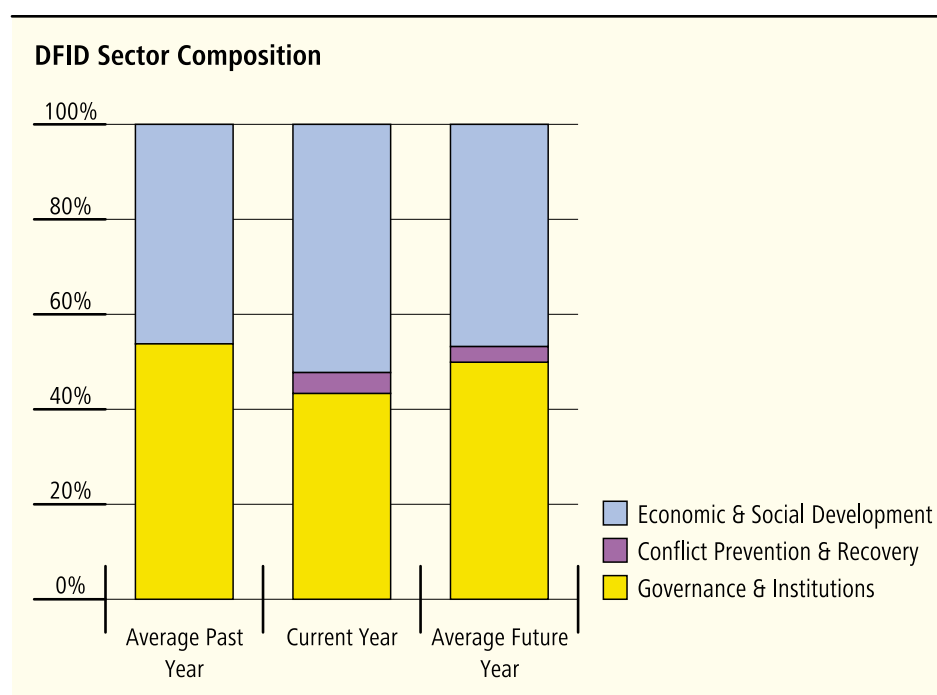
c. Great Britain in Bosnia and Herzegovina

DFID has been active in BiH since the early 1990s, when it provided humanitarian relief both bilaterally through a BiH-based emergency task force and through other international relief agencies. After the conflict ended, DFID's programme evolved from one of stabilization and reconstruction to structural reform and institutional development.

DFID is currently (2005 to 2009) implementing a regional assistance plan for the Western Balkans. The overall goal of DFID's regional strategy is poverty reduction. DFID's bilateral programme is delivered through Technical Assistance (TA), which seeks to support the activities of other donors, particularly the European Commission and World Bank. The main focus of the TA is to strengthen the government's capacity to lead in planning, implementing and financing pro-poor development. DFID places a high priority on enhancing the overall effectiveness of international assistance and aligning EU Accession and Development strategies. DFID provides support in the following core areas: public administration reform; public finance activities (e.g. Mid-Term Expenditure Framework) that strengthen the links between policy and resources; strategic planning, policy and monitoring capacity; and safety, security and access to justice.

In addition to DFID's bilateral programme, DFID supports activities funded from the UK government's Global Conflict Prevention Pool and de-mining activities.

Chart 4.5: DFID's involvement in different sectors



DFID is a pure grant organization, and channelled 9 percent of its total expenditure in 2006 to multilateral organizations (UNDP) and to EC projects that aim to increase awareness about the impact of EU integration on BiH. DFID is increasing its average direct spending per year in BiH from £3.7 million (€5.5 million) in 2006 to £4.4 million (€6.5 million) in average future years. This is because DFID has increased its support for the economic and social development sector in the form of a harmonized technical assistance fund in cooperation with Sida and the Netherlands to support the implementation of the economic recovery section of the MTDS and the medium-term conditionalities of the EU Partnership for BiH. DFID spent in total £4 million (€6 million) in 2006.

d. Additional Information

- British Embassy in BiH – www.britishembassy.gov.uk/bih
- Department for International Development - www.dfid.gov.uk
- Foreign & Commonwealth Office - www.fco.gov.uk

4.1.13 United States Agency for International Development (USAID)

a. Institutional Set-up

The US Department of State and the United States Agency for International Development (USAID) operate synchronously under a joint strategic plan. Although USAID is an independent agency, its administrator also serves as the deputy secretary of state for foreign assistance.

b. Policy Approach

USAID's work in development joins diplomacy and defence ('the three Ds') as a key piece of the nation's foreign policy apparatus. USAID promotes peace and stability by fostering economic growth, protecting human health, providing emergency humanitarian assistance and enhancing democracy in developing countries. These efforts to improve the lives of millions of people worldwide represent US values and advance US interests for peace and prosperity.

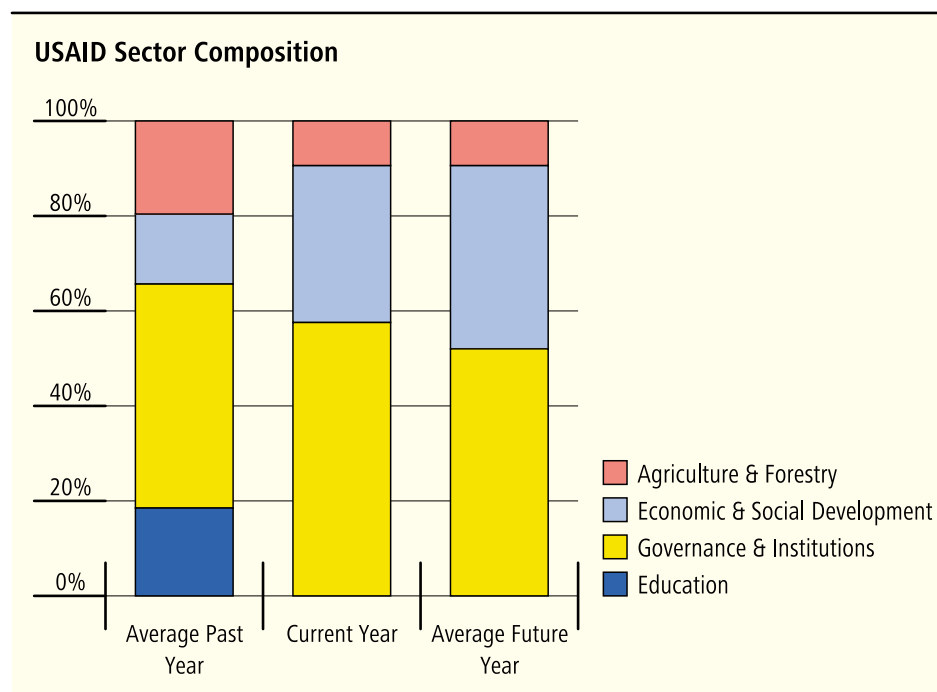
c. USAID in Bosnia and Herzegovina

USAID works to shift BiH from a source of regional instability to a peaceful, viable state on the road to European integration. It focuses on reducing weaknesses at the core of BiH's fragility – the governance structure – and builds on the current stable economic situation to support EU accession. USAID also strengthens the BiH government's capacity to combat trafficking in persons. USAID categorizes its activities into three distinct programme areas:

- **Peace and Security:** USAID strengthens the capacity of BiH's government to combat trafficking in persons and to implement the country's National Action Plan. The Agency also supports local efforts to improve legal advocacy for the victims of trafficking, strengthen victim and witness protection, support sustainable victim assistance, empower vulnerable populations, and promote public education and raise awareness.
- **Governing justly and democratically:** USAID helps reform the BiH governance system from one designed to make a patchwork country of estranged peoples into one where state and local level institutions operate like a modern democracy. It helps to establish the rule of law to ensure fair and transparent judicial processes and the development of civil society. It also assists BiH to improve the performance of municipal governments.
- **Economic Growth:** USAID aims to develop private sector-led growth and employment. It works to stimulate private investment and foster a healthy SME sector that can produce goods and services for export and domestic consumption, provide jobs, and fund a reasonable level of government services. It helps create an SME-friendly environment, enabling them to reduce their costs of doing business.

USAID implements the majority of its programmes through direct contracts and grants to non-governmental organizations and private sector firms. Much of what is defined as strengthening institutions and good governance in this report, USAID categorises as economic growth.

Chart 4.13: USAID's involvement in different sectors



USAID has been predominantly focusing on good governance and institution strengthening in BiH, which is mostly channelled through the OSCE and UNICEF. In total 57 percent of its overall contribution in 2006 went to this sector. USAID spent US\$34 million (€26 million) in 2006.

d. Additional Information

- United States Agency for International Development country office in BiH - www.usaid.ba
- United States Agency for International Development - www.usaid.gov
- US Department of State - www.state.gov

4.2 Multilateral Donors

4.2.1 European Bank for Reconstruction and Development (EBRD)

a. Institutional Set-up

The European Bank for Reconstruction and Development was established in 1991 to finance the structural projects of the former socialist countries of Central and Eastern Europe, supporting their transition towards market economies. It is owned by 60 countries and two intergovernmental institutions (the European Community and the European Investment Bank), with a subscribed capital totalling more than €20 billion. The EBRD does not directly use this solid capital base to finance projects, yet it borrows funds on the international capital markets, ensuring at all times sound banking principles.

The Bank promotes co-financing and foreign direct investments, mobilizes domestic capital and provides technical assistance, working with banks, industries and businesses, as well as with publicly-owned enterprises. It operates in 27 countries from Central Europe to Central Asia, all committed to democratic principles.

The management structure of the Bank is made up of the board of governors (where all the powers are vested), the board of directors (responsible for general operations and policies), and the president (the legal representative of the EBRD elected by the board of governors who, under the guidance of the board of directors, manages the work of the Bank).

b. Policy Approach

The EBRD's approach in addressing the complex transition challenges is based on strategies, policies and procedures. Regional diversity between the countries of operation is wide and the Bank adapts its products and sector focus so as to meet the specific market need of any particular country. Distinct country strategies are developed and followed for each of its 27 countries of operation.

Furthermore, the Bank has its sectoral policies, which formally set out the strategy in the following sectors: agri-business, energy, municipal and environmental infrastructure, natural resources, property, shipping, transport, telecom, informatics and media.

Project finance is the EBRD's core business. The Bank provides loan and equity finance, guarantees, leasing facilities, trade finance and finances professional development through support programmes. The solutions are tailored to client and project needs and to the specific situation of the country, region and sector. So far, EBRD has committed more than €30.3 billion to both private and state sector projects.

The Bank's large projects range from €5 million to €250 million (more than €20 billion is committed to more than 800 large projects). These projects have to fulfil the basic requirements, such as: to be profitable and significant to the local economy, satisfy environmental standards and be additional to funding by sponsors and other co-financiers.

Smaller projects are usually financed through financial intermediaries, such as commercial banks, micro-business banks, equity funds and leasing facilities, thus giving entrepreneurs and small firms greater access to finance. The EBRD has also launched a new Local Enterprise Facility for the Western Balkans under which it is considering direct investments in the range of €1 million to €4 million.

The trade facilitation programme provides credit facilities in the form of EBRD guarantees issued in favour of international commercial banks. The Bank also provides direct financing to banks in the region for on-lending to local companies for trade-related activities.

The EBRD is active in the following business development support programmes: the Turn-around Management Programme (TAM, which shares management know-how and develops business skills); the Business Advisory Services Programme (BAS, which develops the professional capacity of local consultants that will supply SMEs with expert advice on business performance); and the Joint Vienna Institute (which runs seminars for enterprise managers, entrepreneurs and government officials). For all its operations, the Bank follows its own corporate policies, procedures and strategies, including its public information policy, environmental policy and the independent resource mechanism.

c. EBRD in Bosnia and Herzegovina

As of 15 August 2006, the EBRD had signed 47 investments in BiH, totalling €554.5 million, more than doubling its portfolio within the past two years. This has helped to generate an additional €770 million from other sources.

A total of 30 percent of the investments were in the private sector; of these 14 percent were in agri-business and general industry and 16 percent were in the financial sector. From 1999 to 2005, the Bank signed ten SME credit lines with five local banks, with a view to channelling much-needed funds to small and medium-sized enterprises, many of which were start-ups following the end of the war. More than 300 SMEs have so far used EBRD sub-loans for investments to expand their businesses.

Around 70 percent of EBRD commitments were in infrastructure sectors, distributed as follows: transport, 35 percent (reconstruction of roads, bridges, railway lines, airports); power, 26 percent (reconstruction of transmission network, rehabilitation of hydro- and thermo-power plants, sector restructuring); and telecommunications, 9 percent (reconstruction and development of fixed and mobile networks).

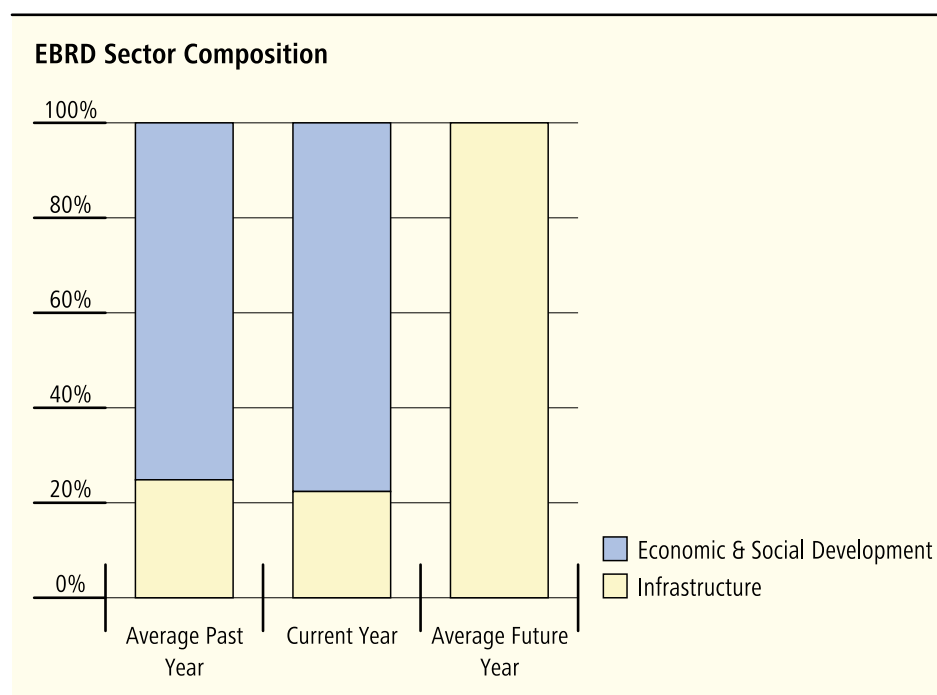
In 2005, the EBRD was one of the largest lenders in BiH, with €108 million of new investments in transport infrastructure, metals, and construction materials. In infrastructure, the EBRD invested €70 million for the upgrading of railway tracks along the north-south corridor connecting the rest of the Balkans with the port of Ploče on the Adriatic, and the east-west corridor connecting Serbia and Croatia through BiH. In addition to its regional integration, the project is also critical for the BiH economy, as it will significantly help heavy industries that need reliable transport for their goods. The Bank provided €25 million for energy efficiency and environmental investments in Mittal Steel's plant in Zenica. The EBRD also provided a €6 million loan to Croatian Nasicecement for its investment in a bricks factory outside Sarajevo. The loan will help meet demand for materials by local construction companies, reflecting the growing construction sector in BiH.

In May 2006, the Bank provided financing to VF Komerc, a leading food retailer in BiH, to upgrade its existing stores and expand its operations throughout the country. The financing package of €19 million consists of €10 million long-term secured debt and €9 million equity. Under the Western Balkans Framework facility, the Bank provided Raiffeisen Leasing a credit line of €10 million for on-lending to SMEs. On 14 August 2006, the Bank signed a €8 million loan with MIKROFIN, the largest non-bank microfinance institution in BiH.

In the power sector, the Bank has continued to play an active role in the efforts to restructure the country's electricity sector and towards facilitating the implementation of an ambitious power project co-financed with other international financial institutions and donors. Also in February 2006, the Bank signed a €55 million loan for the modernization of the electricity distribution network in BiH. In terms of policy dialogue, the Bank has contributed to the adoption of a new state railways law, the establishment of a joint independent system operator for power distribution, the establishment of energy regulators, the adoption of an air traffic management strategy, and the launch of the Telekom Srpske privatization process.

The Bank's country strategy for BiH, approved in May 2005, sets three main strategic priorities:

- Support for the development of the private sector through direct and indirect financing of small and medium-sized private enterprises, as well as large-scale privatizations and further strengthening of financial institutions;
- Continued policy dialogue and assistance to the BiH governments at all levels with key structural and institutional reforms in financial, infrastructure and corporate sectors;
- Assistance for BiH's regional integration and its progress towards EU membership through physical investments in key infrastructure projects as well as institutional development and strengthening of state institutions in line with the European Partnership Paper and the BiH European Partnership Action Plan.

Chart 4.14: EBRD's involvement in different sectors

A total of 75 percent of EBRD's contribution in 2006 went to the Economic and Social Development Sector. EBRD assists with credit lines to facilitate credit and capital market development, especially to downstream credit provision to SMEs and micro- sector companies as well as to enterprise productivity and restructuring in the privatization phase. They also give loans to commercial food preparation and processing undertakings. Support to the infrastructure sector includes loans for major transport projects, telecoms' rehabilitation paving the way for pre-privatization as well as support to rehabilitation of the energy generation and supply field.

The EBRD's annual soft loans in past years have amounted to €61 million on average. This increased to €76 million in 2006. The EBRD has already committed an average of €96 million annually for the next years.

d. Additional Information

- The European Bank for Reconstruction and Development - www.ebrd.com

4.2.2 European Commission (EC)

a. Institutional Set-up

The implementation of the EU's foreign policy, which is a shared competency with the Council of the EU, is one of the main responsibilities of the European Commission. The Commission is a collegial institution, politically independent of national governments, that embodies and defends the general interests of the European Union.

For the realization of this task, the Commission relies heavily on its over 120 delegations and offices around the world, which act not only as the eyes and ears of the Commission in their host countries, but also as its mouthpiece vis-à-vis the authorities and the general population. Their main task is to provide regular political analysis, conduct evaluations jointly with member states' embassies and contribute to the policy-making process.

The Delegation of the European Commission to BiH was established on 10 July 1996. In addition to the tasks mentioned above, this delegation plays a key role in the implementation of substantial external assistance to BiH.

b. Policy Approach

The European Community, which provides just one-third of the EU's overall aid flows, is the world's most significant aid donor. It provides €7 billion every year to external assistance, in more than 150 countries, territories and organizations around the world.

The main objective of the EU policy towards the Western Balkan countries is to bring peace, stability and economic development to the region and open the perspective of integration with the EU.

The former Yugoslavia benefited from a cooperation agreement with the EU since 1980. Subsequent to the break-up of the country in 1991 and the escalation of various conflicts in the region, the EU's political, trade and financial relations with the region focused on crisis management and reconstruction, reflecting the countries' emergency needs.

In May 1999, the EC launched the Stabilization and Association Process (SAP) for the countries of the Western Balkans, which is a part of the enlargement process and constitutes the EU's policy framework for the Western Balkans countries, all the way to their eventual accession. The SAP pursues three aims – namely stabilization and the swift transition to a market economy, the promotion of regional cooperation and the prospect of EU accession. It helps the countries of the region to build their capacity to adopt and implement European standards, including the Community *acquis*, as well as international standards.

The process aims to equip the countries of the Western Balkans with the means to maintain stable democratic institutions; to ensure that the rule of law prevails; and to sustain open, prosperous economies based on European practice and standards. Strong links are created between each country and the EU through three main mechanisms: trade, financial assistance and contractual relations.

An important pillar in the process is the conclusion of individual Stabilization and Association Agreements (SAAs). These set out the common values and principles governing the relationship between the EU and each country. The main elements of the agreements are promoting the free movement of goods; creating efficient institutions; developing a market economy; reducing crime and corruption; promoting higher education reform; developing democracy; human rights; independent media; and improving the region's transport infrastructure.

In January 2006, within the framework of the SAP, the EU set up European Partnerships with Albania, BiH, the Former Yugoslav Republic of Macedonia, and Serbia and Montenegro, including Kosovo, under UN Security Council Resolution 1244, with the aim of preparing these countries for greater integration with the EU. At the same time, Croatia received an Accession Partnership.

The political, economic, legislative and administrative reforms carried out by the countries of the region are supported by the EU not only through its financial assistance, but also through intense policy advice and dialogue. However, the responsibility for the reforms lies with the country itself and is not purely contingent upon the availability of donors' assistance.

c. EC in Bosnia and Herzegovina

Following the Dayton/Paris Peace Agreement, BiH faced the massive task of building a stable social and political structure, as well as building a functioning economy. Initially through the Regional Approach, and subsequently the SAP, the EU worked to consolidate the peace process and bring BiH closer to the EU.

Since 1991, the EC has set aside more than €2.5 billion to deal with conflict and post-conflict in BiH.

- 1991-2000: More than €2 billion of EC assistance (mainly through the ECHO, PHARE and OBNOVA programmes) focused on refugee programmes and reconstruction.
- 2001-2004: €312 million was allocated through the CARDS programme with the focus shifting from post-war to institutional capacity-building and economic development, i.e. putting BiH in a better position to fulfil its responsibilities as a state, including taking ownership of its own reforms and European integration processes.
- 2005-2006: €100 million has been allocated through CARDS. The assistance priorities reflect the priorities established in the European Partnership for BiH, with an ever-stronger focus on institutional capacity-building and economic development. For 2005, the funding amounted to €49.4 million. During the course of that year, the EC Delegation to BiH managed 472 contracts, including grants, service contracts, works contracts and supplies contracts. The 2006 Financing Agreements with BiH totalled €51 million.

Apart from the above, the EU member states have provided substantial bilateral assistance over the years.

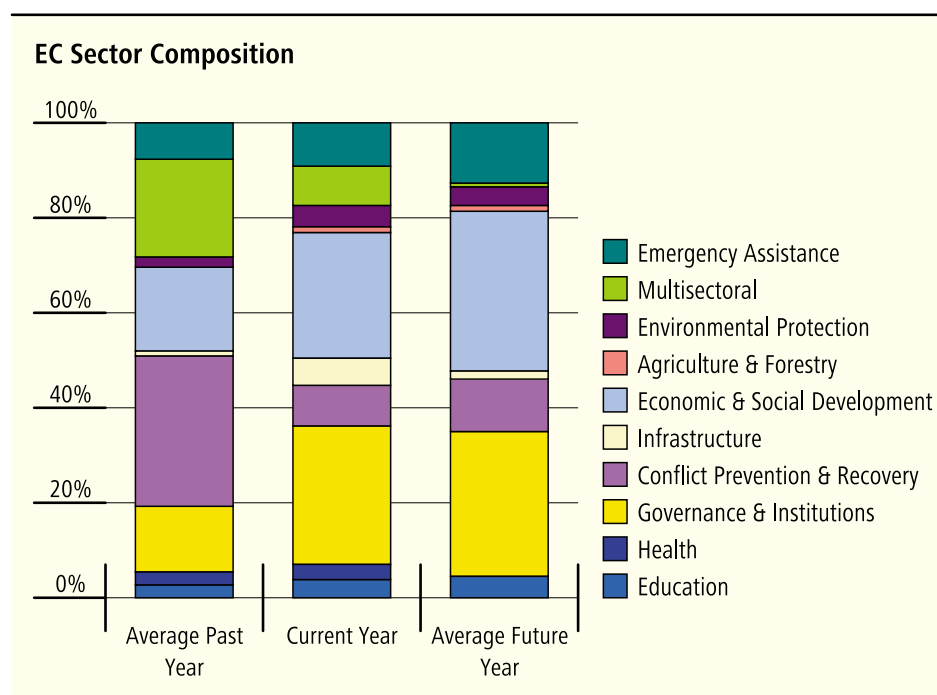
The current framework for EU assistance to BiH, adopted by the EC in 2001, is the Country Strategy for BiH for 2002-2006, which aims at supporting BiH's participation in the SAP, and, in particular, is intended to:

- Help consolidate the peace process and foster inter-Entity co-operation;
- Help ethnic reconciliation and the return of refugees and displaced persons to their homes of origin;
- Establish functioning institutions and a viable democracy, based on the rule of law and respect for human rights;
- Lay the foundations for sustainable economic development and growth;
- Bring BiH closer to EU standards and principles.

The Delegation has a wide array of partners implementing or benefiting from the projects, and no sector of society is left untouched by EU support. The public sector benefits from a wide range of technical assistance and twinning projects – which provide valuable first-hand experience on the implementation of EU laws from member state ministry staff – as well as receiving state-of-the-art equipment. A variety of measures to improve the economy and business infrastructure help develop the nascent private sector, while actions that support civil society – including the media and non-governmental organizations (NGOs) – help disseminate and support human rights and other key messages. From local NGOs implementing grassroots efforts to foreign consultants who bring pre-accession expertise to the country, from international organizations to governmental agencies, all are effective partners in bringing BiH closer to Europe.

Starting from 2007 to 2013, the assistance to BiH will be provided under the Instrument for Pre-Accession Assistance (IPA), which will be one of the EU's external relation instruments.

The assistance under the IPA will concentrate on institution building, in particular, to strengthen the effective implementation of the rule of law, enhance administrative and judicial capacity and encourage some alignment with the *acquis*. The IPA regulation also foresees investments to promote economic and social development. BiH, as a potential candidate country, will also be able to use institution building to build capacities and ensure that the correct programming and management structures are in place to start its preparation for managing the pre-structural funds once it becomes a candidate country.

Chart 4.16: The EC's involvement in different sectors

The EC supports a multiple of sectors and spent approximately €68 million in 2006 out of which 28 percent was channelled through multilateral organizations. The EC has already contracted an average of €36 million annually to be directly executed in the next years. Further the EC has already allocated additional €60 million for future projects that have not yet been contracted.

d. Additional Information

- EC Delegation in BiH - www.delbih.ec.europa.eu/en
- European Union - www.europa.eu
- European Commission - www.ec.europa.eu

4.2.3 European Investment Bank (EIB)

a. Institutional Set-up

The European Investment Bank (EIB) was created by the Treaty of Rome as a financing institution of the European Union. Its mission is to further the political and development objectives of the EU by providing long-term finance for specific capital investment projects.

As an institution of the Union, the EIB supports EU policies by financing sound public and private investment. As a bank, it works in close cooperation with the banking community both when borrowing on the capital markets and when financing capital projects. The members of the EIB are the EU member states, and the EIB's governing bodies are the board of governors, the management committee and the audit committee.

b. Policy Approach

The Bank's Corporate Operational Plan, usually for a period of three years, is the strategic document that defines the medium-term policy and sets the operational priorities in the light of the objectives assigned to the Bank by its governors. It is also an instrument for ex post evaluation of the EIB's activities.

The Corporate Operational Plan for 2005-2007 determines five operational priorities for the Bank's lending:

- Economic and social cohesion in the enlarged EU;
- Implementation of the Innovation 2010 initiative;
- Development of trans-European and access networks;
- Support of EU development and cooperation policies in partner countries;
- Environmental protection and improvement, including climate change and renewable energy.

Other operational priorities include support for small and medium-sized enterprises (SMEs), as well as mid-cap companies of intermediate size, and support for human capital, notably health.

The EIB offers various financial services to support projects, depending on the eligibility and the project category:

- Global loans, loans for SMEs through an intermediary, present a structure under which a domestic partner bank receives a credit line together with a mandate to apply the credits to EIB eligible projects. Local authorities or SMEs can benefit from the proceeds of global loans;
- Venture capital;
- Direct or individual loans;
- Structured Finance Facility (SFF).

Loans provided by the EIB are long-term loans, with repayment periods ranging from four to 20 years. The EIB finances a broad range of projects in the energy, infrastructure and industrial sectors. To be eligible, such projects have to contribute to EU economic policy objectives.

The largest part of lending takes place in the European Union, where the EIB primarily contributes towards building a closer-knit Europe, particularly in terms of economic integration and greater social cohesion. The EIB Group also promotes European venture capital finance through the European Investment Fund.

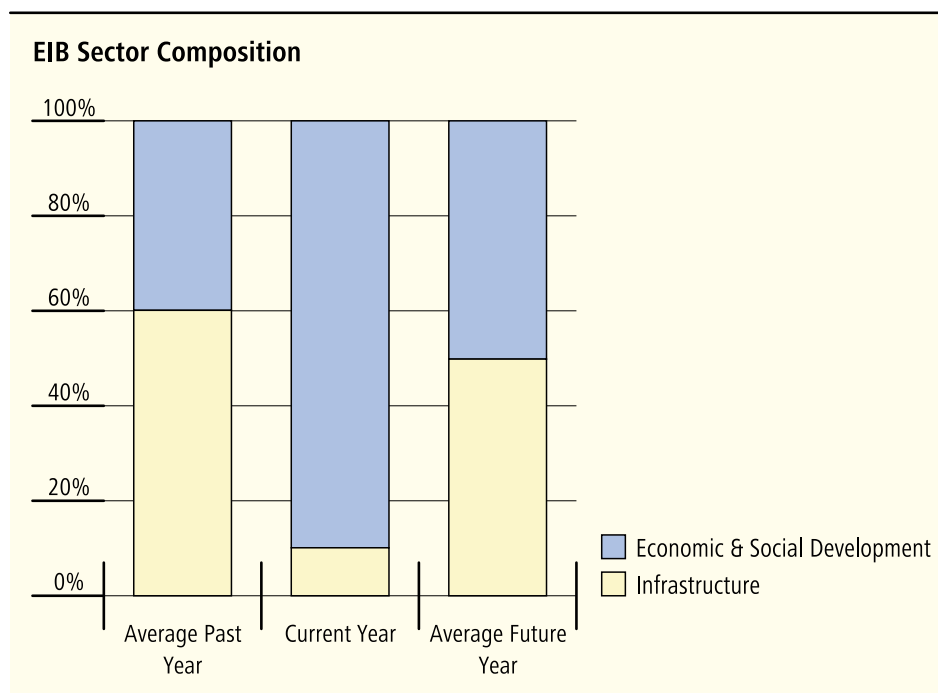
Outside the European Union, EIB's financing operations are conducted principally from the Bank's own resources, but also under a mandate from the Union or from a member state's budgetary resources. Outside the EU, the Bank also makes significant amounts available under the technical cooperation and development aid policies established by the EU for non-EU countries. In this context, the EIB supports capital investment in Central and Eastern European countries, in countries of the Euro-Mediterranean Partnership, in Asia, Latin America and South Africa. EIB operations outside the Union are pursued under regional lending mandates in parallel with the general cooperation agreements concluded between the Union and countries or groups of countries. These agreements contain financial clauses, which provide the framework for EU development aid and cooperation policies, as well as defining the scope and lending ceilings within fixed time periods for EIB. The Bank's lending can be combined with other EU sources of finance, in particular grants from the European Commission and bilateral aid from the member states.

c. EIB in Bosnia and Herzegovina

After the initial focus in the late 1990s on the urgent reconstruction and rehabilitation of basic infrastructure, EIB activity in the Western Balkans has been centred on upgrading the infrastructure networks, with an emphasis on fostering regional integration and removing bottlenecks in the road, rail and energy systems. Projects in the transport sector – mainly in roads, but also railways, aviation and air traffic control facilities – account for more than 60 percent of total loans, while projects in the energy sector represent some 13 percent of total lending over the past few years, underlining the strong need for modernizing the infrastructure networks in the countries of the region.

In recent years, the EIB has diversified into relatively new sectors such as health and education. Moreover, the Bank has expanded its activity in favour of projects aimed at improving the environment and quality of life of the local population (water and sanitation, urban renewal). Support to SMEs and small infrastructure projects has also developed significantly, through indirect financing provided by the EIB to local partner banks that on-lend funds to SMEs and municipalities. These activities represent a key sector for EIB operations in the region, with positive results in terms of job creation and economic benefits.

In BiH since 2000, loans amounting to €454 million have been signed with the public sector, and loans amounting to €105 million have been signed with the private sector. Substantial new operations are in the pipeline for years to come, both in traditional sectors and in new areas, such as municipal projects.

Chart 4.15: EIB's involvement in different sectors

The EIB's assistance through soft loan programmes peaked in 2006, with €46 million, a sum that will increase considerably to approximately €81 million annually on average in the coming years. This is due to a start up of an investment in several railway and motorway sections in Bosnia-Herzegovina.

d. Additional Information

- European Investment Bank - www.eib.org

4.2.4 United Nations Development Programme (UNDP)

a. Institutional Set-up

A cornerstone of the UN system, UNDP helps developing countries to build their capacities for human development. UNDP is the world's largest multilateral grant development assistance organization. It serves more than 170 countries and territories through its network of offices in over 130 countries, grouped in five regions: Africa, Arab States, Europe and the Commonwealth, Latin America and the Caribbean, and Asia and the Pacific.

The UNDP administrator is the third highest-ranking official in the United Nations system, after the secretary-general and the deputy secretary-general. He is appointed by the secretary-general and confirmed by the General Assembly for a term of four years.

The UNDP Executive Board is made up of representatives from 36 member states of the UN Economic and Social Council (ECOSOC). The Board oversees and supports the activities of UNDP, ensuring that the organization remains responsive to the evolving needs of programme countries.

Normally, the UNDP resident representative also serves as the resident coordinator of the development activities of the United Nations system as a whole. Through such coordination, UNDP seeks to ensure the most effective use of UN and international aid resources.

The financial rules and regulations of UNDP recognize two main categories of funding: regular (core) and other (non-core) resources. Regular resources finance the core UNDP operations. The funds derive from formal pledges by UN member states. Provisional data show that contributions to regular resources for 2004 reached US\$842 million, with the United States, Norway, the Netherlands, Japan and Sida (in that order) being the five largest donors in absolute dollar terms. However, the Netherlands is increasing its contribution to UNDP's core resources by 20 percent, to €90 million (US\$112 million) annually. This makes the Netherlands the largest current donor to UNDP.

UNDP programme activities also depend on the mobilization of other resources, which take the form of cost sharing, trust funds, or government cash counterpart contributions. Additional resources are pledged to UNDP-administered funds such as UNV, UNCDF and UNIFEM, while parallel funding and management service agreements may also contribute to UNDP's work.

a. Policy Approach

The focus of UNDP is helping countries build and share solutions to the challenges of:

- Democratic governance – developing institutions and processes that are more responsive to the needs of ordinary citizens. UNDP's support to national processes of democratic transitions can be summarized in the following categories: (a) policy advice and technical support; (b) capacity

development of institutions and individuals; (c) advocacy, communications and public information; (d) promoting and brokering dialogue; and (e) knowledge networking and sharing of good practices.

- Poverty reduction – UNDP promotes the concept of human poverty as a complement to income poverty, emphasizing that equity, social inclusion, women's empowerment and respect for human rights matter for poverty reduction. However, UNDP also works towards creating an enabling environment for the private sector.
- Crisis prevention – UNDP has a well-established background in building, consolidation, and preserving the peace and responding to natural disasters.
- Energy and environment – UNDP helps countries to address issues that are also global, such as climate change, loss of biodiversity and ozone layer depletion, which cannot be addressed by countries acting alone, and helps countries to strengthen their capacity in addressing these challenges at global, national and community levels.
- HIV/AIDS – UNDP advocates placing HIV/AIDS at the centre of national planning and budgets, helps build national capacity to manage initiatives that include people and institutions not usually involved with public health, and promotes decentralized responses that support community-level action.

The planning cycle of UNDP's country operations is part of the recently revised harmonized cycle of all UN agencies. The process starts with the preparation of a Common Country Assessment (CCA) according to which a United Nations Development Assistance Framework (UNDAF) is defined. The CCA and the UNDAF provide the basis for preparation of the Country Programme Document covering a period of four years. Thus, the activities of all UN agencies within one country jointly contribute towards the same development goals determined in the UNDAF.

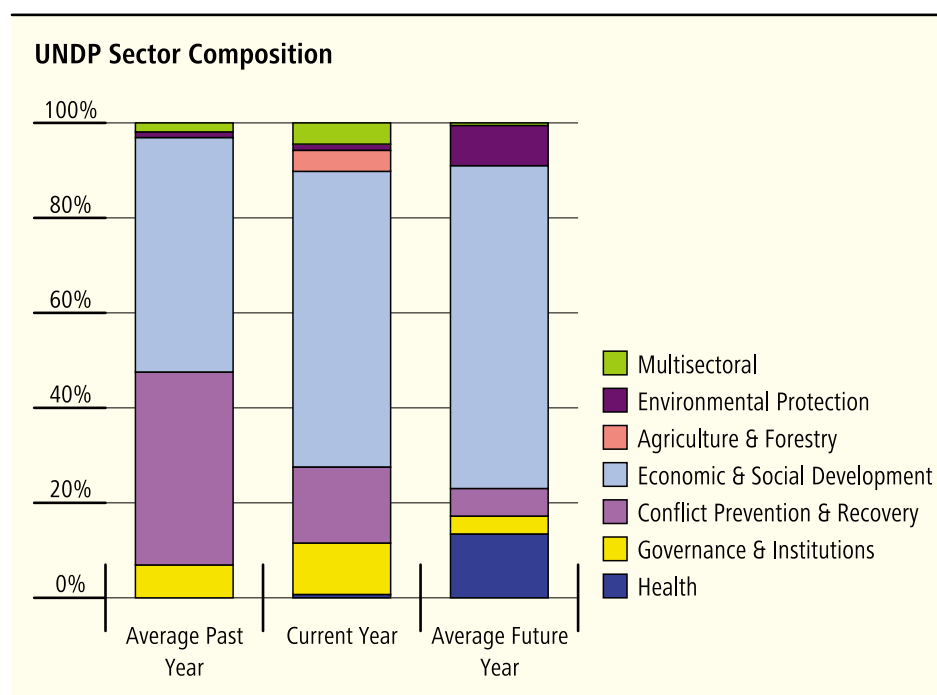
c. UNDP in Bosnia and Herzegovina

Since its establishment in BiH in 1996, UNDP has been dedicated to a wide array of development issues, from the reconstruction of houses and infrastructure for returnees, to mine action, small arms and light weapons destruction, reform of the public administration and development of other social and economic areas. In the period between 1996 and 2006 UNDP delivered more than US\$164 million.

From 2001 to 2004, UNDP placed strong emphasis on supporting the ability of the national authorities to assume greater responsibility and take the lead in policy formulation and setting the national development agenda. UNDP has continued to concentrate on supporting the sustainable return of displaced persons. This has included on the one hand, community revitalization and integration programmes, while on the other, initiatives designed to bolster national capacities to assume managerial control of the return process. The rights-based approach was adopted as the guiding principle for local governance, economic development and planning processes, and remains mainstreamed throughout all programme activities.

From 2005 to 2009, UNDP will be completing the realignment of activities away from humanitarian relief to development support within the framework of its Country Programme agreed with the government. The overarching goal of the country office's work corresponds to the core global UNDP mandate of poverty reduction, and its focus areas are fully aligned with the National Medium-Term Strategy (MTDS) and the European Union-sponsored Stabilization and Association Process (SAP). Besides focusing on alleviating poverty, UNDP will strive to improve democratic governance, enhance human security and improve environmental sustainability.

Chart 4.17: UNDP's involvement in different sectors



UNDP spent approximately US\$16 million (€12.5 million) in 2006, a trend that will continue in future years. More than 60 percent of UNDP's contribution goes to the Economic and Social Development Sector through three main programmes – Rights Based Municipal Development Programme (RMAP), a local government strategic planning project; Sustainable Transfer to Return-related Authorities (SUTRA), a returnee and local development project; and the Srebrenica Regional Recovery Programme. UNDP will administer the Global Fund from next year on, and will in this way support the national strategy to fight HIV-AIDS in BiH.

d. Additional Information

- United Nations Development Programme in BiH – www.undp.ba
- United Nations Development Programme - www.undp.org

4.2.5 The World Bank

a. Institutional Set-up

The World Bank Group is one of the world's leading institutions in the fight against poverty and the improvement of the living standards of people in the developing world. It is a development bank that provides loans, policy advice, technical assistance and knowledge-sharing services. The World Bank is not a bank in the common sense of the word. It is one of the United Nations' specialized agencies with 184 member states. Along with the rest of the development community, the World Bank centres its efforts on reaching the MDG's, agreed by UN members in 2000, and aimed at sustainable poverty reduction.

The World Bank Group consists of five closely associated institutions:

- The International Bank for Reconstruction and Development (IBRD) reduces poverty in middle-income and poorer countries by promoting sustainable development through loans, guarantees and analytical services;
- The International Development Association (IDA) funds the poorest countries to reduce poverty by providing interest-free loans and grants under certain eligibility criteria;
- The International Financial Corporation (IFC), as the largest multilateral source of loan and equity financing for private sector projects in the developing world, promotes sustainable development of the private sector, primarily by financing projects, helping private companies to mobilize finances in the international financial market and providing technical assistance to business and governments;
- The Multilateral Investment Guarantee Agency (MIGA) insures investors against political or non-commercial risks, mediates disputes between investors and governments, advises governments on attracting investments and shares information through on-line investment information services;
- The International Centre for Settlement of Investment Disputes (ICSID) settles investment disputes between foreign investors and their host countries.
- The 'World Bank' refers specifically to IBRD and IDA.

The World Bank is owned by its 184 member countries as shareholders. The number of shares that a country can have is based roughly on the size of its economy. The World Bank's government shareholders are represented by a board of governors as an ultimate policy maker that delegates specific duties to its executive directors. The president of the Bank chairs meetings of the boards of directors and is responsible for the overall management of the Bank.

Regarding its operations around the world, the Bank has three types of offices:

- Country offices work with the client government and its agencies, and are responsible only to the Bank;

- Regional offices support the Bank's country assistance programmes and cover the work programme of more than one country;
- Headquarters, based in Washington, D.C., supports regional and country offices on administrative, legal and technical issues.

b. Policy Approach

The World Bank's action plan that determines the programmes and priorities in a specific country is known as the Country Assistance Strategy (CAS). The document generally covers a period of three to four years and is prepared in a participatory way with the government and representatives of civil society.

The Bank's plans for assistance to low-income countries are usually based on PRSPs – a document prepared by the country's own experts through public dialogue. In the cases of post-conflict situations, the World Bank's strategy in the country is known as the Interim Strategy Note.

When preparing and implementing the development strategies, the World Bank follows four principles:

- Development strategies should be comprehensive and shaped by a long-term vision;
- Development goals and strategies should be 'owned' by the country, based on local stakeholder participation in shaping them;
- The country receiving assistance should lead the management and coordination of aid programmes through stakeholder partnership;
- Development performance should be evaluated through measurable results on the ground, in order to adjust the strategy to outcomes and the changing world.

The Bank has two basic types of lending instruments:

- Investment loans have a long-term focus (five to ten years) and finance goods, works and services in support of economic and social development projects in a broad range of sectors.
- Development policy loans, or so-called adjustment lending, have a short-term focus (one to three years) and provide quick-disbursing external financing to support policy and institutional reforms.

The World Bank Group offers a limited number of grants to facilitate development projects. There is a range of mechanisms through which the Bank distributes grants: the Development Marketplace; the Development Grant Facility (DGF); Grant Resources for Civil Society Organizations; the Global Environment Facility (GEF); InfoDev; Japan Policy and Human Resource Development Fund (PHRD); Japan Social Development Fund (JSDF); the Multilateral Fund for the Implementation of the Montreal Protocol; the Small Grants Programme; Official Co-financing; and Trust Funds.

The World Bank develops and finances a project at the request of the government of the country concerned. An appraisal of the project's feasibility and loan terms is followed

by negotiations. Loan or credit proposals on these projects are then submitted to the World Bank's board of executive directors for approval. The loan becomes effective after it has been ratified by the parliament or the government of the country concerned. It is important to note that the implementation of projects is managed either by the relevant ministry, or the relevant government institution, referred to as the implementing agency, which is responsible for aspects of implementation such as procurement and selection of consultants. The project cycle of World Bank projects includes: the Country Assistance Strategy; the identification phase; the preparation phase; the appraisal phase; the negotiation and approval phase; the implementation and supervision phase; the implementation completion report; and the evaluation phase.

c. The World Bank in Bosnia and Herzegovina

BiH joined the World Bank and IDA in 1996, with membership retroactive to 1993. In the immediate post-war years, the Bank's first Country Assistance Strategy (CAS) helped reinvigorate the reconstruction effort through a series of emergency projects. Financial support was provided to a wide range of sectors including transport, power, de-mining, housing, health, education, public works, agriculture and micro-credit financing. During the period of reconstruction and recovery, the Bank provided nearly 15 percent of total donor pledges (US\$5.4 billion) and leveraged another 7 percent in project co-financing.

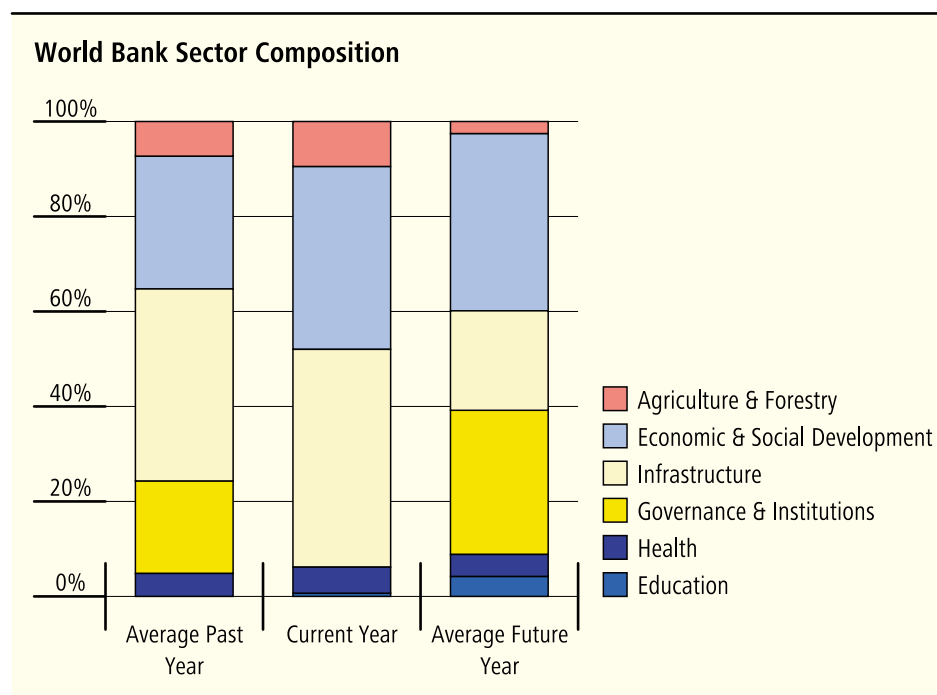
Since 2000, with most basic reconstruction work completed and infrastructure levels raised to almost pre-war levels, the Bank's second CAS, prepared in 2004, placed greater emphasis on fundamental structural reforms critical to the emergence of a market economy. World Bank assistance has focused on fostering private sector-led growth and employment, strengthening institutions and governance, reforming the public sector and fostering social sustainability.

The CAS for fiscal 2005–2007, which was adopted in August 2004, builds on the Bank's work in recent years. It is anchored in the country's first MTDS (PRSP) and links the Bank's strategy with the country's medium-term objectives. The strategy focuses on three key areas:

- Improving public finance and strengthening institutions;
- Promoting sustainable private sector-led growth;
- Investing in key social and economic infrastructure.

These three objectives are mutually reinforcing. To ensure a self-sustaining economy and a fiscally sustainable public sector in the medium to long term, the strategy strives to help government reduce the weight of the public sector in the economy. This is a prerequisite to giving the private sector room to grow and thereby stimulating productive activity, domestic private and public savings, and export growth.

Since 1996, the World Bank has committed US\$1.1 billion to BiH through 52 projects. The latest CAS for BiH aims to provide US\$30 million to US\$40 million per year from 2005 to 2007 depending on the country's performance in pursuing the reform agenda.

Chart 4.18: The World Bank's involvement in different sectors

The World Bank has provided soft loans totalling approximately US\$65 million (€51 million) in 2006. The largest beneficiaries of the loans are in the economic and social development sector and the infrastructure sector. A part of the infrastructure sector also includes support for increasing the administrative and technical capacity for solid waste management and other environmental problems, to help reduce health hazards caused by inadequate waste collection through, among other things, reducing pollution from municipal sources into the Neretva and Bosna rivers. In 2006, 46 percent of the total share went to the infrastructure sector while 38 percent went to the economic and social development sector.

d. Additional Information

- The World Bank country office in BiH - www.worldbank.ba
- The World Bank - www.worldbank.org
- The World Bank Group - www.worldbankgroup.org

CHAPTER 5: APPENDICES

5.1 Methodological Note

The idea of a donor mapping exercise was first presented at the DCF. The process of this exercise has been highly participatory. The report's quantitative data is wholly based on a survey carried out among the 17 donors participating in the DCF and the EIB. In addition, information on the state of different sectors in BiH and donor profiles has been gathered through qualitative semi-structured interviews.

In the first stage of the exercise, information on donor project activities and budgetary data were collected through questionnaires. The questionnaire requested the donors to supply the following information: a brief description of the donor intervention, start and end dates of projects, information on the geographical project location, contact details, and budget information. With regards to budget information, the donors were asked to phase project funding in past, current and future budgets to show trends in micro and macro funding. To avoid duplication of funds in areas where financial support passed through multilaterals (for example, the World Bank or UNDP), the questionnaire also differentiated between multilateral and bilateral funding. Because of the large amount of project information collected, it has been structured on the basis of the internationally-recognized Development Assistance Committee (DAC) codes for ODA.

The second phase of the exercise involved a preliminary analysis of the data received from the questionnaires by donor and DAC sector. It soon became apparent that the budget phasing into 'past, current and future' led to an inherent misinterpretation of the total project budgets, as the total 'past' budget sums naturally would be much higher than the 'current' 2006 sums or the budget allocations planned for 'future' years. Thus, the choice was made to use average phasing numbers for 'past' and 'future' budget allocations in the report, which would better show the trends of spending. This, however, implies that the report will not present information on total multi-year donor spending. For comparability, all the budget allocations have been converted into Euros using the exchange rate from September 2006.⁴³ The decision to use the Euro currency is based on its relevance in BiH.

The third phase of the exercise included the analysis by individual sectors and donors. As the DAC codes are very detailed and no classification of aggregated sectors for BiH exists, ten aggregate sectors have been identified based on the information provided by the donors and consultations with all of them. The analysis by sector is based on the quantitative data retrieved from the survey, as well as the information gathered through semi-structured interviews with donors. The donor profile on each donor participating in this exercise mainly uses the interview information but is also complemented with official published information.

43. Rates used in the report: 1 EUR = 1.438 CAD, 1 EUR = 147.487 JPY, 1 EUR = 7.952 NOK, 1 EUR = 9.193 SEK, 1 EUR = 1.578 CHF, 1 EUR = 0.676 GBP, 1 EUR = 1.276 USD

5.2 Donor Coordination Forum TOR

a. Preamble

The proposal for a DCF has evolved from a mechanism of periodic informal meetings of a limited group of donors. It is based on the agreement that a more results-based mechanism is needed and that the group needs to be extended to other important donors. The objective is to complement the government-led aid coordination process and to better streamline IC support in BiH.

In order to enable effective management of the group, it is initially proposed that membership comprises a representative group of key actors, including five to seven EU donors, five non-EU donors and the representatives of the seven multilaterals (the EC Delegation, the EBRD, UNDP and the World Bank).

b. Background

In March 2005, the ministers of 91 nations, 26 multilateral bodies and 14 international civil society organizations jointly committed themselves in the Paris Declaration⁴⁴ to undertake far-reaching reforms to better deliver and manage official development assistance (ODA). This declaration marks the latest milestone in a process which began with the aid commitments made at Monterrey 2002⁴⁵ and re-affirmed at the Rome summit⁴⁶ in 2003. It calls for a renewed focus on aid effectiveness rooted in the principles of ownership, alignment with national development strategies, harmonization, management based on results and mutual accountability.

In addition to signalling the growing international resolve to tackle these issues, the declaration enumerates a series of practical steps. At the heart of these proposals is the recognition that donors and recipients have a shared responsibility in ensuring that aid is used to best effect. Experience shows that best-case outcomes can only be secured through active steps to coordinate and harmonize the ODA process. Both government and donor action is required to achieve this.

These issues have particular resonance for BiH, as recent years have seen substantial reductions in ODA and, as a result, there is a pressing need to obtain greater value from fewer resources. Equally, considerable capital has been expended in developing the government's capacity to coordinate, yet limited attention has been given to the donor side of the equation. During the September 2004 Consultative Group meeting, the chairman of BiH's CoM expressed concern at the weakness of donor coordination and the absence of appropriate instruments. It is also clear that others within the region have advanced more rapidly to address similar inadequacies and have established functional donor alignment mechanisms.

It is important to recognize that donor coordination represents a particularly protracted challenge in the BiH environment for three key reasons:

- The complex institutional structure comprising various levels of government;

44. See <http://www1.worldbank.org/harmonization/Paris/FINALPARISDECLARATION.pdf>

45. Refers to the 2002 Monterrey Conference, where DAC nations re-committed themselves to the pre-established ODA target of 0.7 percent of GDP.

46. Refers to the Rome High Level Forum on Harmonization held in 2003.

- The extraordinary level of executive authority vested by the Dayton Peace Agreement in international community institutions and the related lack of full sovereignty of the government;
- The massive demand for, and supply of, aid in the post-conflict phase, which resulted in the rapid disbursement of aid, sometimes at the expense of effective coordination.

International best practice identifies three dimensions needed for sound aid management: coordination among donors, coordination between donors and the government, and coordination among different government ministries and official institutions. These terms of reference confine themselves to the part to be played by the donors in BiH, but it is recognized that donor coordination is a counterpart and not a substitute for the wider aid coordination effort which has to be led by national governments.

It also needs to be recognized that some efforts to enhance coordination within BiH have already taken place. Among others, the EC, DFID, UNDP, and the World Bank have been active in this area. Equally, major strategic planning processes driven by the Medium-Term Development Strategy (BiH's PRSP) and the Stabilization and Association Process (SAP) have provided some direction for the government and donors. These efforts have been complemented by tools such as the Public Investment Plan (PIP) and the aid coordination database which has enabled the government to programme and record aid resources. Moreover, DFID commissioned a review of the aid coordination institutional framework during 2004. In addition, a series of sector-specific and thematic coordination mechanisms, including the rule of law, mine action, small arms and light weapons, and energy were led by different donors. More recently, a number of development partners have begun to move towards pooled funding arrangements aimed at developing sector-wide approaches in support of national strategies. Finally, periodic informal meetings among like-minded donors on key topic areas have been convened by UNDP.

Yet these developments, however positive, do not represent a strategic approach to the challenge of donor coordination. Efforts have remained *ad hoc* in nature and equally, institutional measures, such as the MTDS, although providing some direction, do not directly target better management of aid. It is apparent that BiH falls well short of the aspirations given in the Paris Declaration. There is little harmonization between donors, while governance structures continue to exacerbate BiH's protracted ownership and accountability gaps. The picture in relation to alignment and results has been improved by the PRSP and SAP processes, but few efforts have been made to tie donor programmes in with national strategies.

Many within the donor community have therefore concluded that what is needed is a more open, inclusive and business-like arrangement among donors that would provide a platform for the systematic exchange of information on donor priorities, problems and opportunities for collaboration. This is notwithstanding the need for the National Government to assume full responsibility for overseeing BiH's development, and therefore overall ODA management efforts. Indeed, to succeed, any such donor-driven initiative must be supportive and complementary to nationally-owned processes.

c. Proposals

This paper – jointly developed by UNDP, DFID, CIDA, SDC and the Netherlands Embassy – provides an outline for the establishment of a DCF. The following sets out a basic framework for which we now invite further views and comments.

Objectives and Scope of Activities: Guided by the principles of the Paris Declaration the objective of a donor coordination forum is to enhance the efficiency of the use and allocation of official development assistance in Bosnia-Herzegovina and thus secure better aid effectiveness. The Forum will also contribute to the objective of government-led aid coordination, since improved coordination among donors will make it easier for the government to deal with the variety of international partners, and steward parallel resources. As such, the Forum is not merely a service to the donor community, but crucially to the recipient government, assisting it to obtain the maximum benefit from diminishing ODA.

It is envisaged this will be achieved by the holding of regular Forum meetings, to promote information sharing. This might be augmented by:

- The establishment of a mechanism to record aid flows with BiH;
- The adoption, by each of the donor members of the Forum, of a set of key principles governing the conduct of ODA provision, rooted in the Paris Declaration.

These additional functions are neither exhaustive nor prescriptive. The scope of work to be carried out will develop as the arrangement 'beds in' and with the consent of partners.

Meetings of the Forum: These will be the major instrument through which coordination will be delivered. Agenda points will be guided by the overall objectives, and will relate to the following categories: (a) aid modalities, especially as defined by the Paris Declaration (e.g. managing for results); (b) substantive or cross-cutting development issues (e.g. poverty, gender, human rights); (c) government or IC-agency related issues (e.g. overview of EC work and strategy); and exceptionally (d) sector-specific issues. Note it is envisaged that sectoral working groups will be established as required. The precise number and subject areas will be determined at a later stage, but might include areas such as local governance reform, energy, mine action and so forth.

Agenda points for the main forum will be prioritized on the basis of their importance and relevance for a broad range of donors. They may include issues /categories such as:

- Discussion on how donor coordination has worked so far and what were the obstacles/challenges (i.e. category a).
- Discussion on how to implement locally the Paris principles (ownership, alignment, harmonization, managing for results, and mutual accountability) and the scope of this arrangement (a).
- Discussion on the governments agenda, especially regarding MTDF and SAP, picking up on any contradictions, overlaps or synergies (a and c).

- Discussion on how to overcome the divide between “political” and “development” agencies. (a).
- Successor arrangements for OHR downsizing. What does this mean for the development community? (c).
- Discussion on how gender mainstreaming is addressed by different agencies (b).

Agenda points may also include technical issues, such as:

- Salaries of local consultants (a);
- Topping up of civil service salaries (a);
- How information sharing might be enhanced, how might the number of assessment and strategizing missions be reduced (a).

Agenda setting: At the end of each meeting agenda points for the next meeting will be solicited from the participants. A working group in charge of the agenda-setting process will be established to make the process more efficient and broadly based (bilaterals inside the EU and outside the EU would nominate two representatives each to serve as a working group together with EC and UNDP). The proposed agenda for the meeting would be set at least two weeks in advance via e-mail consultation or informal meetings.

Format of Meetings: It is planned that the DCF will meet quarterly (approximately December – March – June – September). There would be at least one meeting per year with the government (led by DEI, DEP and/or any other proposed counterpart).

Members: Membership will initially consist of around 17 members, including the five major EU members, five non-EU bilaterals and the 4 multilateral organizations in place (the EC Delegation, EBRD, UNDP and the World Bank). This is to ensure the arrangement enables effective coordination to take place. Arrangements will be discussed on how the wider international community can be briefed, and the core membership will be kept under review. Additionally, non-regular attendees may be called to participate where appropriate.

Reporting and Secretariat: A succinct report including the main conclusions from each meeting will be provided by the Secretariat, in which capacity UNDP has offered to serve. The Secretariat will arrange the meetings, facilitate agenda setting, circulate key documents, conduct a donor mapping exercise, and undertake post-meeting reporting.

Other core activities: The first meeting will receive proposals on the possible activities noted above – specifically, the collection of aid flows data and the development of a BiH set of principles covering donor conduct. Further initial considerations would be the number of sectoral groups to be set up, and the question of how other IC partners could be informed about developments.

**Austrian
Development Cooperation**



Canadian International
Development Agency Agence canadienne de
développement international



COOPERAZIONE
ITALIANA



AECI
AGENCIA ESPAÑOLA DE
COOPERACION INTERNACIONAL



SWEDISH INTERNATIONAL DEVELOPMENT
COOPERATION AGENCY



DFID Department for
International
Development



USAID
FROM THE AMERICAN PEOPLE



European Bank
for Reconstruction and Development



**European
Investment
Bank**



THE WORLD BANK

The Governments of Austria, Canada, France, Germany, Italy, Japan, the Netherlands, Norway, Spain, Sweden, Switzerland, the United Kingdom, the United States, and European Bank for Reconstruction and Development, European Commission, European Investment Bank, United Nations Development Programme and the World Bank Group.