

AMENDED ACTION PROGRAMME

1. IDENTIFICATION

<i>Form of programme</i>	Amended Cards National Action Programme - Bosnia and Herzegovina 2004
<i>Beneficiary country</i>	Bosnia and Herzegovina
<i>Budget year</i>	2004
<i>Budget Line</i>	19 07 01 (CARDS)
<i>Financial allocation</i>	€ 72 Million (originally € 65 million)
<i>Legal basis</i>	Council Regulation 2666/2000 as amended by Council Regulation (EC) No. 2415/2001
<i>Contracting</i>	All contracts must be concluded after the signature of the Financing Agreement and within 36 months following the date of the budgetary commitment.
<i>Implementation</i>	The implementation of projects under this proposal must be concluded by 31.12.2009 . Therefore, all technical activities provided for under this programme and all contracts must end by 31.12.2009 .
<i>Annual programming</i>	Commission Delegation or AIDCO headquarters
<i>Related CSP and MIP / NIP</i>	Country Strategy Paper for Bosnia and Herzegovina 2002 - 2006, Multi-Annual Indicative Programme 2002-2004 Regional Strategy Paper for Western Balkans 2002 - 2006, Multi-Annual Indicative Programme 2002 - 2004
<i>Remarks</i>	No administrative expenditure will be financed under this programme

2. SUMMARY OF THE PROGRAMME

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

The specific objectives of the assistance are to:

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

- Further facilitate and encourage co-operation between BiH and the other countries of the region as part of the SAP.

This proposal consists of projects in the following priority sectors:

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

3. COUNTRY UPDATE

BiH has in the past year made important progress on a number of reforms, and has moved from a situation of post-conflict to pre-transition and from stabilisation to gradual association with the EU. Following the “substantial completion” of the EU Road Map in September 2002, the European Commission undertook to assess the progress made by BiH within the Stabilisation and Association process (SAP), and a “Feasibility Report”, which considered whether BiH has made sufficient progress to permit the opening of negotiations for a Stabilisation and Association Agreement was published in late November 2003. The European Commission will decide on a recommendation for a Council decision to open negotiations for a SAA as soon as it ascertains that significant progress has been made in meeting the priorities set in the Feasibility Report. The European Commission hopes that this will be possible in the latter part of 2004, but this will depend on BiH’s own efforts and progress achieved.

In terms of the **political situation**, the general elections in October 2002 confirmed that BiH, whatever its political and institutional challenges, adheres to basic democratic principles. Following the elections, the amendments to the Law on Council of Ministers agreed in late 2002 introduced important institutional innovations. The post of Chairman of the Council of Ministers is no longer subject to eight-month rotation, but may be held for the whole legislative period. The Chairman should thus develop authority, becoming effectively a prime minister, and this should encourage long-term planning and facilitate policy consistency. In addition, new State-level ministries were established, including those for Justice, Security and Transport & Communications (important departments under any future SAA). Particularly notable was also the replacement of the Ministry of European Integration by a Directorate for European Integration (DEI) under the authority of the Chairman of the Council. Nevertheless, as regards an efficient public administration BiH still faces a major challenge and the notion of a professional, non-political civil service with recruitment and promotion based on experience and merit has had a difficult birth. However, currently within BiH, there is now a growing appreciation of the need to develop administrative capacity. A significant step in this direction was taken with the adoption of Civil Service Laws at State and Entity levels, establishing a legal framework for public administration.

In terms of political will, there also seems to be gradual improvement, even though support for reform is not universally shared.

The Council of Ministers has worked to promote consensus, and the Governments at both State and Entity levels have adopted strategic policy documents ("Reform Agendas") covering issues such as judicial and economic reform, public administration, education and

defence. In July 2003, the Governments transformed these commitments, and SAP reform requirements, into an Action Plan for the Implementation of Priority Reforms from August 2003 to March 2004. Agreement within the Indirect Tax Policy Commission (on shifting the authority of customs and taxation from the Entities to the State level) and subsequent approval by the Council of Ministers of related draft legislation also demonstrates growing consensus on key policies.

In addition, BiH is currently also engaged in a number of other crucial reforms essential to the stabilisation of the country, including the reforms of the defence and intelligence sectors and the reform of the Mostar City administration. All of these will have an important bearing on BiH's ability to function as a modern self-sustainable state in the future. However, a number of political weaknesses remain and further European integration would require BiH to mediate its own internal options and preferences in order to present a single, coherent national position to EU counterparts. BiH has as well not yet assumed full responsibility for government and the decision-making process still often depend on the High Representative's "Bonn Powers".

In terms of the **economic situation**, long-term sustainability is still far from guaranteed. Estimated GDP is still below half around 60% of its pre-war level (which BiH is not expected to reach only in before 20110 or later), even though the presence of the informal economy may distort this figure. The economic and social costs of poor internal harmonisation and co-ordination hamper the efficiency of the State and eliminate the benefits of decentralisation. Public spending has remained excessively high, though on a declining trend, but it still concentrates on current rather than investment spending. In the light of declining foreign assistance and high current account deficits, the country needs more than ever to achieve self-sustaining domestic growth, based on private sector development. while on its balance of payments BiH continues to run a deficit both in the trade and current accounts. However, positively BiH has maintained macro-economic stability, low inflation and continued its efforts towards lower fiscal deficits. Foreign direct investment (FDI) has improved, but BiH still needs to do more to attract foreign investors. There is also little evidence that BiH has addressed its chronic dependence on assistance - although this issue will present itself with increasing urgency as international aid declines.

BiH continues to pursue **structural reforms**, also with a strong involvement and support of the international community. Most progress in the past 18 months was observed in the management of public finances (including planned reform of customs and tax administration) and in the financial sector. In contrast, privatisation of strategic large-scale public companies has been stalling. Notwithstanding international support, at end 2002 only 17 of 56 strategic companies had been sold in F BiH and 4 out of 52 in RS. Lack of political will, social concerns, and problems of corporate governance have all discouraged potential foreign investors. Furthermore, issues related to the domestic single economic space persist, such as on the implementation of a consistent public procurement regime throughout the country, or the creation of a single business registration system.

The **social and economic rights** of BiH citizens remain limited by continuing economic debility. Officially, up to 40% of the population is unemployed. Around 20% live below the poverty threshold, with a further 30% close to it.

In the past year numerous strikes have been organised, reflecting mostly grievances over unpaid wages or pensions. Equally, the health sector in both Entities remains weak with inadequate funding. Large numbers are not covered by health insurance, and even for those

who are, coverage is unreliable. Parallel health systems also persist in BiH. In terms of the refugee return, BiH has recorded substantive progress during 2003, and around one million refugees and displaced people have returned to their pre-war homes. Of these, just under half are minority returnees.

Over 90% of all property claims have been resolved by the end of 2003, and as a result, all property claims could be dealt with by early 2004. Nevertheless, the sustainability of refugee returns is not yet guaranteed mostly due to the weak economic situation.

4. PAST EC ASSISTANCE AND LESSONS LEARNT

Programme / Year	Committed (€)	Contracted (€)	% Contracted
CARDS 2001	105,230,000	104,102,969	98,9 %
CARDS 2002	82,807,295	67,667,416	81,7 %
CARDS 2003	72,834,894	24,845,292	34,1 %

The lessons learnt from the previous programming exercise can be summarised as follows:

Further involvement of domestic institutions. The level of ownership on the beneficiaries' side should be further increased and domestic institutions should play a more influential role both in the definition of strategies and in the implementation of projects. This is a two-way street – the EC should facilitate this involvement and the BiH institutions should ensure their commitment to the good use of EC funding. In particular the EC's counterpart in the BiH Government, the Directorate for European Integration, should be fully involved in ensuring the above.

Institutional capacity building. The institutional capacity and expertise of the national administration should be improved, especially in the areas relevant to the SA process. In some sectors, such as regional economic development and trade development, experience from accession countries highlights the importance to raise awareness and understanding of key issues both of institutions and of relevant stakeholders.

Improved regional co-ordination between EC delegations in the Balkans. Regional co-ordination between the EC Delegations in the Balkans needs to be further strengthened to foster synergy between each country's programme.

Greater participation of civil society. In some sectors, such as environmental policy, a persistent lack of interaction between public authorities and civil society is still evident in the decision-making process. There is a need to identify NGOs and other structures to promote an effective dialogue with civil society.

In addition to CARDS, the EC has also supported the process of economic reforms in BiH through Community macro-financial assistance. After the implementation of the first package (€60 million) between May 1999 and December 2001, the Council decided in November 2002 to provide BiH with a second package (€60 million). It comprises a loan element of up to EUR 20 million (with a maturity of 15 years) and a grant element of up to EUR 40 million (Council Decision 2002/883/EC).

Like the first package, the implementation is linked to progress in economic and structural reform; the first grant tranche of €15 million has been disbursed in February 2003.

5. PROGRAMME COMPONENTS

5.1 Priority sector: Democratic Stabilisation

To achieve democratic stabilisation objectives, BiH's Action Programme 2004 will focus on the return of refugees and internally displaced persons. The objectives and strategies of the return sector have been set at the end of 2002 in the "Strategy of Bosnia and Herzegovina for the implementation of Annex VII (GFAP)" (the "*Strategy*"), endorsed by the Peace Implementation Council on the 30th January 2003, by the BiH Council of Ministers on the 3rd February 2003 and by the Presidency on the 14th September 2003. The Strategy makes reference to the Project "SUTRA" (SUstainable Transfer to Return-related Authorities), financed by the EC (under the CARDS 2002 budget), co-financed by the UNDP and the state and entity ministries. This project is directed towards promotion of capacities at State/Entity and municipal levels, with the aim of providing for planning, co-ordination and managing the process of return and reintegration in BiH, i.e. creating a system for an efficient delivery of services by the competent authorities. The *Strategy* assumes the phasing out of the OHR-RRTF by the end of 2003. Until then the BiH authorities will have to put in place all the institutional/legal arrangements needed to take over full responsibility in the sector.

In spite of these European and international initiatives, the sector faces a number of problems. Firstly, the repair of dwellings and related infrastructure still requires substantial funding from domestic and international bodies. Moreover, the presence of mines and UXO represents a risk for potential returnees. Finally, the co-ordination/exchange of information between the different government bodies, between government and non-governmental structures, and within the IC is still weak and the efficiency in the use of domestic financial resources allocated to return is still to be substantially improved.

In July 2004, the Council of the European Union adopted a Joint Action on the European Union Military Operation in Bosnia and Herzegovina, following the decision by NATO to conclude its successful SFOR-operation and the adoption by the United Nations Security Council of Resolution 1551 in which it welcomed the EU's intention to launch a military operation in that country. To this end, the EU is to deploy by the end of 2004 a robust force with a Chapter VII mission to provide deterrence, ensure continued compliance with the General Framework Agreement for Peace and to contribute to a safe and secure environment in Bosnia and Herzegovina.

The mandate assigned to SFOR in the implementation of the military aspect of the GFAP was a fundamental element in building a durable peace in the country. Its role in the stabilisation of the peace process has over the last years taken on a "civilian" dimension. This has facilitated minority return movement. On the basis of this experience, EC funds have been made available in supporting infrastructure micro-projects implemented by SFOR. With the hand-over of responsibilities between SFOR and EUFOR, the latter will be charged, where possible, with the continuation (on a new legal basis) of similar activities.

The CARDS 2004 Return Programme is consistent with the national CSP 2002-2006 principles and the priorities elaborated within the MIP, namely the need for creating the conditions for return and developing the capacities of domestic authorities, is in line with the priorities identified by the Strategy and the MARRI - Migration, Asylum, Refugee Regional Initiative of the Stability Pact. The importance of this programme lies with the

fact that it represents the last contribution of the EC in the sector and should complete the full transfer of responsibility to domestic institutions.

- **The Return of Refugees and DP**

The overall objective of the CARDS 2004 Return Programme is the democratic stabilisation in BiH and the region (Balkans). Furthermore it will support the implementation of the Annex VII (GFAP) and foster social inclusion. The specific objective is the full hand over of the return and re-integration process, as well as demining operations to domestic authorities. In addition it will help create an environment more conducive to sustainable return and social inclusion; and to enhance participation in the process by providing a more secure environment and by partaking in the reconstruction efforts alongside civilian implementers.

These aims will be pursued through the following activities: SUTRA - TA and capacity building of domestic institutions, and Housing Repair and Related Activities; de-mining and TA/support to Civil Protection (e.g. training, equipment).

The selection of beneficiaries of the Housing Repair and Related Activities will be carried out taking into account gender issues. As noted by the Stability Pact, women have been most affected during the war, many having lost their husbands and sons.

Therefore, wherever possible, the programme will promote the inclusion of women in specific programme activities. Special attention will be paid to widows and female-owned businesses and initiatives.

Concerning tendering and contracting, within the Housing Repair and Related Activities, a number of sub-activities might be implemented under a Grant of Aid directly awarded to the State Ministry for Human Rights and Refugees. Should the results of an independent, external evaluation highlight that this is not advisable because of the lack of capacity within the ministry a direct agreement will be signed with the UNDP as a continuation of the second phase of SUTRA. Funds will be set aside to support in priority sustainable return, by creation of employment opportunities for returnees, support to education and support to municipal bodies and the non-governmental sector in the implementation of projects in the return sector. Funds shall also be used to provide grants to EUFOR, where possible, in support to the return and social inclusion process.

The TA and capacity building activities will be implemented under a Grant of Aid directly awarded to the UNDP. In 2002 the Commission entered into a direct agreement with the UNDP for the implementation of this pilot EC/UNDP initiative. In line with the Commission's policy¹, UNDP has been identified as being "de jure" and "de facto" the only suitable partner for the implementation of such a specific and politically sensitive project in the field of governance. The De-mining and Civil Protection activities will be carried out by the two, entity civil protection authorities which will receive two Grants of Aid from the EC.

¹ Communication COM(2001) 231 'Building an effective partnership with the United Nations in the fields of Development and Humanitarian Affairs' of 2.5.2001

5.2 Priority sector: Administrative Capacity Building

The BiH administration is still characterised by fragmentation, under-qualified and poorly trained personnel as well as by administrative overlaps and lack of co-ordination between the different levels. In addition to the Commission's CSP and MIP, first steps towards addressing inefficiencies have been taken by State and Entities through the BiH Development Strategy (PRSP), but reform of public administration remains at different stages. Further reform is clearly needed, not least because current levels of public spending are worryingly high.

A number of problems still need to be addressed in the different sectors concerning the development of State institutions. Firstly, public procurement needs substantial assistance and maintenance as it is currently fragmented, largely untrained and has little awareness of the total costs of the procurement process. Secondly, public administration, including customs and tax reform, still needs to be modernised and upgraded to fully meet the SAP requirements. Finally, the BiH government, which is supposed to play an essential role in the development process by regulating economic agents, implementing sound economic policy and actively promoting economic development, is very often not in a position to do so and still relies on the involvement of the International Community.

Most BiH citizens, irrespective of nationality consider themselves European and as such identify themselves as future citizens of the European Union, especially since the EU is considered as offering freedom of travel, prosperity and future security. Even though the population feels European, this does not directly imply that the European agenda takes the prime role in shaping of the political future. Perception of belonging to the European family is connected to emotion rather than comprehension of the tasks required to be accomplished by the country as a whole.

Generally there is little understanding of the structure of the European Union and its institutions. Frequently people are confused between the EU, CoE, roles of the Commission, Council, Presidency and so on. Often journalists and senior politicians as well as members of the public display a lack of basic knowledge of the EU.

It is also clear that, in principle, all major political parties believe this country's future lies within the European Union. Even the strongest nationalists will not dismiss the idea of EU membership and the benefits it offers. Often this is without consideration for the compromises and solutions that will need to be addressed on the way.

The 2004 Action Programme has identified the following projects in this sector:

- **Customs and Taxation**

The main objective is to support the development of a functioning State institution capable of acting as a reliable counterpart for the international community and representing the entire country's interests effectively.

The establishment of a more efficient indirect tax system, including through the replacement of the entity and canton managed Sales Tax with an EU compliant Value Added Tax (VAT), which will generate additional revenue and reduce the level of fraud. The achievement of a proper balance between the need to protect the people from illicit

activity (e.g. drug trafficking) and the need to facilitate the legitimate trade to support economic and social development.

The specific objectives are the following:

- To support the creation of the Indirect Tax Administration (ITA).
- To merge the existing three customs services into a single State level service managed by the ITA.
- To merge the existing two customs computer systems (ASYCUDA) into a single system and to finalise the development of a replacement system which will cover all the business needs of the ITA, including VAT.
- To support the migration from Sales Tax to an EU compliant VAT at the State level.
- To support the integration of the management of Excise Duties into the ITA.

These objectives will be pursued through the following activities: on-the-job support in live working environment; training, including study visits to EU/Enlargement State Services; drafting of law and regulations; capacity-building; supply of equipment.

Tendering and contracting: due to its technical nature, the Commission will implement the programme. Implementation will be by physical and non-physical means, through a mixture of technical assistance, training and the provision of equipment.

The implementation of the programme may require supply and service contracts. Award of contracts will be carried out in accordance with the provisions of Regulation (EC) 2666/2000. Participation in invitations to tender and contracts shall be open on equal terms to all natural and legal persons from Member States, States which are recipients under this Regulation and candidate countries for accession to the European Union.

• **SAP Support Facility**

The wider objective is BiH integration with the EU. It is proposed to establish a budgetary facility within the CARDS 2004 programme. The Contracting Authority would be the EC Delegation, but the Directorate and the Delegation would jointly manage the process of identification of expert needs. The specific objectives of the facility are:

1. Emergent developments in BiH which are of high importance to the overall progress of the BiH European Integration strategy but for which critical expertise or knowledge is unavailable, and for which EC assistance has not been anticipated, are successfully supported through timely EC assistance and are not detrimentally delayed by its absence.
2. The increasing contribution of the BiH counterparts to the EC's Programming and Project development activities, and their committed ownership of the resultant programmes and projects, leads to a measurable improvement in the relevance, effectiveness, sustainability and impact of the EC's interventions.

The overall activity will be the provision of Short Term Expertise in technical areas related to European Integration. This expertise shall be applied to those BiH institutions relevant to the task defined in the individual Terms of Reference for each assignment. Specific activities may include i.a. analysis, feasibility studies, impact studies, drafting of legislation, training and study tours. In accordance with the EC's Practical Guide, tendering and contracting modalities may include Restricted International Tender, Competitive Negotiated Procedure, Framework Contract, and Direct Grant Award.

- **SAP Awareness Programme**

The SAP Awareness programme will complement the SAP support facility. The overall objective of the SAP Awareness Programme is that the BiH public, civil society, media and government actors, are sufficiently aware of the EU potentials of BiH and the reforms required by the SAP process and that a better informed public/government dialogue and debate will facilitate BiHs progress in the SAP. Better access to information will strengthen the public debate on issues important to BiH's future and clarify the role state institutions have to play in this process.

The major part of the expenditure will be dedicated to the raising awareness among BiH citizens through a communication strategy programme, implemented by the Delegation in BiH, in order to prepare for full participation to the Stabilisation and Association process by the BiH population at large and increase knowledge of the country's participation in the Stabilisation and Association process and its implications particularly among key target groups, taking into account the new European Partnership. It should increase the general understanding of the EU, its policies and programmes among the population at large. Furthermore, professional advice will be provided to the BiH government on communication issues related to EU communication and information matters.

Full involvement of BiH state institutions, particularly the Directorate for European Integration, is foreseen as to increase the BiH's authorities capacity to effectively communicate with citizens on the implication of the country's involvement in the SAP.

It will support a comprehensive communication and information programme on BiH's involvement in the SAP and finance *inter alia* the production of information material, materials for lectures and training courses in local languages, the preparation and publication of studies, research papers, seminar proceedings, strategic communication advice. A media programme will be part of this support, covering media in BiH and including support and training for journalists. This list of activities is not exhaustive

Concerning tendering and contracting, the activities will be carried out through a service contract, including supplies for equipment and the various materials. It is also envisaged to launch a call for proposals for local think tanks in the civil society (universities, professional organisations, NGO,s...) who will contribute to the effort of analysis and awareness raising.

- **Public Procurement – Phase II**

The wider objective of the project, bearing in mind the long-term partnership of BiH with the European Union, aims to contribute to progress in the Stabilisation and Association process and foster economic growth in BiH. The specific purpose of this project is to

promote efficiency and effectiveness in the use of public funds as well as contribute to reducing the potential for fraud, corruption and misappropriation in the use of public funds.

It is expected that the main activities will be: developing a modern and transparent public procurement system in BiH aligned with the EU *Acquis* and international standards; strengthening an institutional basis/capacity for the functioning of a competitive public procurement system in BiH; enhancing the ability of public institutions to spend public funds effectively; reinforcing the institutions that regulate public procurement; increasing access to information and raising awareness and knowledge amongst procuring entities, suppliers and the wider public.

Tendering and contracting: The main assistance is likely to be mobilised through service tender and/or twinning mechanisms. In all cases the procurement shall be in full accordance with the EC Practical guide.

Cross cutting issues: A sound, efficient communication system for downloading information on public tenders is a crucial element in opening up competition. Increased competition ultimately leads to lower prices for better products and services, reflecting savings for the public funds.

- **Support to the Implementation of the Public Administration Reform Strategy**

The overall objective is to strengthen the capacity of BiH to meet the SAP requirements. The specific project purpose is to increase the effectiveness, transparency and efficiency of a financially sustainable public administration.

The activities may include the following: assistance in the development of legislation and implementing regulations linked to the implementation of the BiH Strategy for Public Administration Reform; assistance in the development of a country-wide governmental website; support to the restructuring of public administration at all levels; training of civil servants in key areas of public administration reform; implementation of a modern information support programme

Tendering and contracting: The appropriate mix of service, twinning, grants and limited supplies will be defined in accordance with the activities necessitated by the implementation of the action plan, accompanying the Public Administration Reform Strategy.

- **Economic Policy Planning**

The wider objective of the project, bearing in mind the long-term partnership of BiH with the European Union, aims to contribute to progress in the Stabilisation and Association process and foster economic growth in BiH. More specifically, the purpose of this project consists of strengthening BiH governments' capacity to devise and implement economic policies as well as generating concepts and reform ideas for government's use in its reform efforts.

The main activities will be based on targeted assistance and support as identified by the Office of the Chair of the Council of Ministers, for setting up an institution (EPPU) for

provision of economic policy analysis and advice based on high quality research.²The EC assistance will also be aimed at ensuring that basic organisational and logistical conditions are met and sufficient capacity exists within EPPU for conducting the policy oriented work in areas vital to the successful development of BiH's economy.

Tendering and contracting: the main assistance is likely to be mobilised through service tender while the provision of equipment and works will be undertaken through separate tenders. The funding of short-term exchange programmes with EU scholars could be considered. In all cases the procurement shall be in full accordance with the EC Procurement guidelines.

5.3 Priority sector: Economic and Social Development

Although BiH has enjoyed the benefits of strong post-conflict growth, the basis for sustainable development remains questionable over the medium term. The pace of economic reforms aimed at creating a single economic space and improving the business environment has been slow. In particular, privatisation of strategic companies has been extremely slow and has failed to attract strategic investors. This situation is exacerbated by a rigid labour market, high levels of unemployment (estimated at 40%), underdevelopment of the education and training sector, a large amount of the population living close to the poverty line (45% estimated to earn less than 500 KM/month) and continued mass population dislocation.

Shortages of government funding to support pensions and the social safety net, further expose disadvantaged groups such as the elderly and unemployed and highlight the challenge of mitigating the social costs of transition to a market economy. Moreover, there has also been a growing disparity in living standards between regions in BiH. In the trade sector, the problem appears to lie primarily with barriers to exports of domestic products, which discourage exports and undermine the competitiveness of local goods. Many goods produced in BiH do not yet comply with the international norms and standards required by WTO and EU, which prevail in member state markets.

The project proposals for 2004 are in line with the SA Process and with the Country Strategy Paper for BiH, as well as with the National Indicative Programme. The Stabilisation and Association Process (SAP) identifies *inter alia* economic reform as an issue to be addressed by all the countries of the Western Balkans. The EC's Country Strategy Paper (CSP) for BiH recognises the importance of this approach to supporting sustainable development. The CSP identifies 'supporting sustainable local development' as one of the core priorities in order to stimulate economic revival of regions within BiH and to generate sustainable employment opportunities.

Within the 2004 Action Programme, the European Commission has identified the following projects in the area of economic and social development:

- **Implementation of a comprehensive framework for corporate governance in BiH**

The overall objective of the Corporate Governance project is to stimulate the growth and expansion of a competitive enterprise sector, which contributes to economic growth and

employment. The specific purpose of this project is the formulation and implementation of a comprehensive policy for improved corporate governance, including policies aimed at the reduction of enterprise debt and at removing labour rigidities.

These aims will be pursued through the following activities: analyse present corporate governance climate, identify problems and develop policy to address them; draft and amend relevant legislation; increase awareness and set up forum for corporate governance; support creation of creditor isolation scheme and its functioning; provide Technical Assistance to pilot number of companies under the creditor isolation scheme; provide Technical Assistance to pilot number of Privatisation Investment Funds (PIFs); support the creation of a labour severance fund.

Tendering and contracting: technical assistance is likely to be mobilised through restricted service tender while the provision of equipment will be undertaken through separate supply tender(s) as appropriate. All procedures shall be compliant with EC procurement rules.

The project will contribute to a number of cross-cutting development issues. Improving the framework for corporate governance and addressing the problems of enterprise debt and labour rigidities, are expected not only to help improve the business environment, but also help regenerate the enterprise sector, through increased competitiveness and transparency, and to have an impact on poverty alleviation through increased employment.

- **Replenishment of the Regional Economic Development Fund**

The overall objective is to contribute to creating the basis for sustainable development and prepare for EU integration through the introduction of a regional economic development framework in line with EU cohesion policy. The project purpose is to support economic regeneration in some emerging economic regions of BiH and to increase capacity for local authorities and institutions to procure and manage public funds.

The proposed activities are the following: establish criteria and guidelines for Grant Fund, linking to regional development strategies and priorities; launch two calls for proposals compliant with EC procurement rules; implement projects to support economic development in each of the emerging regions; mobilise other sources of funding via co-financing; RDAs play a role in monitoring implementation of fund.

Tendering and contracting: it is expected that at least 80 % of funds will be spent in compliance with the EC rules for Grant funds with the EC Delegation as the contracting authority on behalf of the government. The remaining 20% will be spent in accordance with the EC rules and regulations but by means other than 'grant' contracts. There may be a need to use a supply or service tender procedure in order to procure ancillary services or supplies that may be required to support Fund implementation.

The integrated nature of regional development means that there are a number of cross cutting issues that could be addressed. These will be determined in the course of drawing up the regional development strategies which are expected to be completed by summer 2004. Some issues, which may arise, could be related to vocational training, refugee return, integrating youth and dealing with unemployment.

- **Trade Development and Implementing Technical Norms and Standards**

The overall objective of the project is to expand BiH's trade, in particular to address the trade deficit by expanding exports, as well as support BiH's accession to the WTO. The specific objectives include removing technical barriers hampering BiH exporters and improving access of BiH companies to foreign markets.

The planned activities are the following: enhance capacity of key technical institutes to introduce new standards, ensure their application and set up enquiry points. devise and implement action plan to enhance export promotion capacity in relevant service providers or supporting organisations such as the Foreign Investment Promotion Agency (FIPA), the Ministry of Foreign Affairs, the Chambers of Commerce and the European Information Correspondent Centre (EICC); general awareness raising and training activities on foreign market requirements aimed at relevant institutional and BiH export staff.

Tendering and contracting: procedures for contracting of Technical Assistance are expected to include tendering through restricted tender in line with EC procurement rules, while provision of equipment is likely to be undertaken through separate supply tenders, as appropriate. In addition to TA, support to EICC may also involve a direct grant of aid contract. Given that different expertise is required for technical standards and for export promotion, it may be appropriate to tender these as separate projects.

Concerning cross-cutting issues, improving technical standards of BiH products will not only enhance BiH exports but will also improve product safety and protect consumers both in BiH and in its export markets. More competitive companies which are expanding their exports may also contribute to creating new jobs and thus help alleviate poverty.

- **Reform and Modernisation of the Insurance Sector – Phase II**

The wider objective of the project, bearing in mind the long-term partnership of BiH with the European Union, aims to contribute to progress in the Stabilisation and Association process and foster economic growth in BiH.

More specifically, the purpose of the project is to achieve a single economic space in the insurance sector by promoting the stability, integrity and effective operation of the insurance companies and brokers and ensuring that public policy does not prevent the equitable operation of a single economic space by reason of entity law, supervisory practice, or tax policy.

It is expected that the main activities will consist of the following components: supervision and the implementation of the Insurance legislation; establishment of a Motor Accident Protection Fund FbiH; Profit Tax and Cross Entity Trading; Green Card Bureau; Financial Reporting; development of Actuaries and Actuarial Techniques; development of Insurance Associations.

The main assistance is likely to be mobilised through service tender. In all cases the procurement shall be in full accordance with the EC Practical guide

- **VET System Reform Development**

The overall objective is to support economic regeneration of BIH by increasing employment through the further development of the VET system, based on LLL principles. The specific objectives are to progress and further extend the modernisation of the VET system in a LLL context and to foster and further develop local institutional capacity for VET reform, with particular reference to labour market needs.

The activities will focus on increasing local institutional capacity, while fostering ownership and sustainability of results. Training and advice will be provided. They also aim at encouraging demand and supply side to work together and to link VET and economic development in a LLL context. Further development and dissemination of results shall help to promote VET modernisation efforts from pilot to system level. CVT reform initiated and capacity of training institutions increased.

The main assistance will be mobilised through service tender procedure. Around €300,000 will be allocated for provision of equipment that will be undertaken through separate supply tender procedure. In all cases, the procurement shall be in full accordance with the EC procurement guidelines.

Crosscutting development issues for VET are social inclusion and employability of disadvantaged groups, and regional development.

- **Tempus III**

The main objective of Tempus III is to promote the development of BiH higher education systems through balanced co-operation with higher education institutions in the Member States of the European Union. A priority for higher education systems in all South-East Europe is the achievement of the objectives of the so called Bologna Declaration, which aims at the establishment of a common European higher education space by 2010. Bosnia and Herzegovina actually signed the Bologna Declaration on 18 September 2003 in Berlin.

This is considered an important step-forward since participation in the Bologna Process requires structural reforms of university governance, management and finance, in particular the strengthening of the strategic management capacities of universities through institutional integration, efficient control over standards, and the set up of a system to test compatibility across faculties or universities. Another important development is the Higher Education Framework Law which is in process of adoption. When this enters into force, it will definitely shift competences from faculties to universities contributing to a more efficient functioning of higher education in the country.

The specific objectives are: higher education policy and systems development; the reform of higher education governance, management and finance; the strengthening of links with the local and regional economy, as well as other stakeholders of the universities; curriculum development in priority areas for economic and social transition; the promotion of the mobility of students and staff; the development of administrative and institutional structures through training of staff from non-academic institutions; the strengthening of regional co-operation and networking between higher education institutions in South-East Europe.

Concerning the main activities, the programme aims at funding Joint European Projects (JEP), Individual Mobility Grants and Structural and Complementary Measures. Joint European Projects can focus on one of the following areas: University Management, Curriculum Development, Institution Building.

Tendering and contracting: Following an annual call for proposals, projects are assessed academically and technically according to general criteria and a list of national priorities established in co-operation with the partner country authorities, and taking into account the objectives of the Stabilisation and Association Process and the policy objectives of EU co-operation with the Tempus partner country. In implementing the programme, the Commission is assisted by the Tempus Committee.

5.4 Priority sector: Environmental and Natural Resources

Environmental protection and sustainable development are key topics in the European agenda and are among the main issues that the European Commission is trying to promote through its interventions in BiH. In this framework, the EC has largely supported the institutional strengthening of environmental management, particularly focusing on the upgrade of the legal framework and on technical assistance to public authorities.

Nevertheless, two main problems still need to be faced. Firstly, the increase of awareness and competence from the authorities has not resulted in public information and participation.

The lack of appropriate tools and legal mechanisms as well as of appropriate structures has reduced participation and information opportunities and, as a consequence, the possibility to involve civil society in the decision-making process.

Secondly, particular problems have been identified in the context of public support to environmental policies. The various facets of public support (awareness, involvement in decision making, regular payment of municipal fees, appropriate waste discarding and other behaviour, scrutiny of institutions as well as public or private bodies, etc) do not sufficiently contribute to the development of the sector. Environmental protection is felt as an alternative rather than as a priority to achieve sustainable economic development.

The proposals for 2004 are in line with what is foreseen in the CSP and in the MIP. The CSP highlights the need to support the entities' enforcement capacity. This is translated in the MIP by, among other things, support to measures to increase public participation in environmental issues.

- **Support to Sustainable Environmental Management**

The overall objective is to contribute to a more rational and sustainable use of BiH's natural resources and to enhance environmental protection. Addressing these issues require acting on a variety of fronts, in particular reinforcing global awareness within the authorities and the general public. The project purpose is to increase public awareness, involvement and information in the Environment sector. Public participation and awareness are indispensable to change approaches and understanding of the way the sector is managed. Without public support (including changing behaviour), the authorities will not be under pressure to increase sustainability in the sector, and any policy will not be de facto implemented.

The above mentioned objectives will be pursued through a number of activities including: *analysis* (analyse current public participation opportunities in legal framework; identify additional opportunities stemming from international agreements; gap analysis of the information and participation opportunities – propose new tools to close the gap), *information* (prepare public information action plan; prepare information brochures and training material; implement training through workshops and public discussions) and *funding* (support development of activities of the awareness fund; give publicity to availability and purpose of the fund; make fund available under small and medium scale grants focusing on civil society but targeting several sector; provide instructions for application; monitor and analyse impact of funds).

The support to civil society in environmental issues is a cross-cutting issue itself. As a cross-cutting issue, environmental awareness will have an impact on all other sectors related to economic development.

Concerning tendering and contracting, the main components of the project foresee that the EC may provide 30 to 60 % of the project allocation towards grant of aid for the awareness fund (0.42 to 0.84 MEURO). Forty to sixty percent of the project allocation may be devoted to technical support to the programme (information campaign, draft technical booklets, monitor fund, provide training) through a call for proposals to select the organisation (NGO or associated). Remaining procurement (publications, small office equipment, etc) shall be tendered through appropriate procurement procedures (2-3%).

In view of its wide expertise in the area of environment (including GMO's) the Commission's Joint Research Centre (JRC) may be asked to contribute to the various awareness raising activities.

5.5 Priority sector: Justice and Home Affairs

BiH faces multiple new challenges in policy areas such as immigration, border control and speak organised crime. In many areas BiH has performed well, for example in making successful efforts to improve its border controls and participating in anti-human trafficking actions. However, weaknesses still exist, particularly linked to confused and inadequate legal and administrative structures as well as to limited resources.

By early 2002, widespread dissatisfaction with the slow pace of *judicial reform* prompted the International Community to recommend a shift in judicial and prosecutorial appointment policy. Namely, the International Community supported the creation of three High Judicial and Prosecutorial Councils [HJPC] at BiH and Entity levels to re-select and discipline judges and prosecutors to all posts following a restructuring of the court and prosecutorial systems. The reform of the Judiciary will be complemented by a review of the Ministries of Justice. This initial review, which is due to be completed by Spring 2004, is also an integral part of the Public Administration Reform pledges adopted by the BiH authorities during the Peace Implementation Council on 28th March 2003. Finally in August 2003, the United National Security Council, in Resolution 1503, endorsed the establishment of a War Crimes Chamber within the BiH Court as an essential prerequisite for ICTY completion strategy. At a subsequent conference in The Hague on 30th October, the International Community pledged 15.7 million Euros towards the setting up of this specialized War Crimes Chamber.

As far as the *fight against organised crime* is concerned, some problems still need to be addressed, such as the lack of experience of the local authorities tasked either with administrative co-ordination (newly created Ministry of Security at State level) or supervisory/safeguarding tasks (Data Protection Commission) or law enforcement (Police forces) in the field of organised crime.

Border management is another key issue in the JHA sector. The end of the war witnessed a large increase of transborder illegal trade and movements of people, including trafficking of human beings. The legal flow of goods and people was, on the contrary, discouraged by inappropriate legal border crossing points, and diverging customs procedures and criteria applied by the respective authorities. The European Commission is finalising a set of operational instructions, so called Integrated Border Management Guidelines, which will detail the EC concept of IBM and its principles, as well as the relevant standards and criteria and which will serve as a reference for the SAp countries in the area of IBM.

The proposed interventions of the EC in the field of JHA are consistent with the CSP/ MIP for BiH, which underlines the importance of strengthening the institutions responsible for the administration of justice and the development of the requisite capacity for fighting organised crime. The CSP also states that the EC will support an integrated approach to border management in BiH in order to strengthen controls at the border and facilitate cross border trade.

The 2004 Action Programme will support the following projects:

- **Support to Administration of Justice**

The overall objective is to support state building and participation of BiH in the Stabilisation and Association process as defined in the Country Strategy Paper and in the Multi-Annual Indicative Programme. The establishment of an effective and cost-efficient Judiciary in BiH is the specific objective.

The main activities will include: support to the HJPC; development of training curricula, including train the trainers and provision of training to Judges and Prosecutors with the Centres for Judicial and Prosecutorial Training; support to the restructuring the Ministries of Justice; provision of assistance, rehabilitated premises and equipment for the Courts and Prosecutors Offices and their administration; provision of assistance to the establishment and operation of a War Crimes Chamber and associated activities with a potential focus on, a.o., detention facilities, prosecution and/or legal aid.

Tendering and contracting are expected to include Grant Agreements with the HJPC and the War Crime Registry, services, supply and works contracts as well as possibly twinning mechanisms as appropriate.

- **Building the capacity of BIH Authorities in the combat against organised crime**

The main objective is to support state-building and participation of BiH in the SAp as defined in the CSP/MIP. The specific purpose of the project includes support to the envisaged restructuring of Police forces, as well as support to the effective implementation of the national action plan on organised crime adopted by the BiH Government in October 2003.

These aims will be pursued through the following activities: training; drafting of regulatory documents; capacity-building; supply of equipment.

Tendering and contracting is expected to include: service tender/Twinning for the first three activities and a supply tender for the equipment purchase.

- **Integrated Border Management**

The wider objective is to establish and conduct integrated management of national borders, regionally co-ordinated with other SAp countries. The specific objectives are the following: supporting the implementation of a national IBM strategy in coherence with the regional Guidelines; upgrading of the border-crossing infrastructure (equipping included) capable of processing vehicular and passenger traffic in an efficient manner and with due application of the security and customs requirements of BiH; prevention of use of unauthorised crossing points.

Activities aim at the follow-up of the national IBM strategy and IBM infrastructure and will consider completion of a number of the priority actions as listed below:

1. Capacity building and training of the relevant services involved in integrated border management, following
2. Design, construction and equipping of border crossing points, mobile and inland services.

3. Smaller scale technical and equipping interventions.

The first activity listed above will be implemented through service and potentially supplies contracts and/or twinning arrangements. For the second and third activities works and supplies contracts will be concluded. Tendering and contracting shall be done in accordance with applicable EC procurement procedures.

The project includes cross cutting issues. The construction of adequate border crossing points decreases the negative environmental impact from the approaching road infrastructure and provisional border crossing points as queuing time at the border crossing is reduced and oil separators on drainage systems for the plateau are being introduced.

6. COMPLEMENTARY EC ASSISTANCE OUTSIDE THIS ACTION PROGRAMME

The Financing Proposal 2004 for Bosnia and Herzegovina will not be complemented by the CARDS Regional Programme. However, earlier regional programmes are still under implementation and to complement the present programme, e.g. in the area of Integrated Border Management.

The activities covered by this Financing Proposal will be complemented by support from LIFE-Third Country Programme in the environmental sector. The objective of LIFE-Third countries is to contribute to the establishment of capacities and administrative structures needed in the environmental sector and in the development of environmental policy and action programmes in third countries. From 1998 to 2002, the European Commission has co-financed technical assistance projects in Bosnia and Herzegovina for 2.779.228 € under LIFE-TCY.

BiH is a “focus country” for the period 2002-2004 under the European Initiative for Democracy and Human Rights. In particular, this additional support will finance projects aiming at consolidating democracy and the rule of law in BiH, as well as enhancing the respect and protection of human rights.

It is also appropriate to mention here the Commission’s macro-financial assistance to BiH: in 1999 EUR 60m in macro-financial assistance was allocated to BiH (EUR 20m loan, 40m grant) to be paid in three tranches, followed by a similar amount, similarly divided in 2002, of which the first tranche was paid in January 2003. Alongside IMF-based economic conditionality, elements of more political conditionality are applied to this assistance, specifically relating to political commitment to customs and tax reform, hence its complementarity to the CARDS assistance.

Finally, as set out in the Thessaloniki Agenda, various Community programmes including TAIEX will be open to the Western Balkans countries from 2004.

7. CO-ORDINATION WITH OTHER ACTORS

The Office of High Representative is mandated to co-ordinate the implementation of the civilian aspects of the Dayton Peace Accord. It has streamlined a framework of taskforces which focus on the core challenges facing the country, and within which the Commission plays an important role. Additionally, the Commission organises specific co-ordination meetings with the Member States in order to seek complementarity between projects and to

appraise the Member States of project progress and future programming lines. Each meeting includes a focal theme for discussion and reflects the programming of CARDS. Among the other donors, US AID, the World Bank as well as the GTZ have provided substantial funding in the area of economic development with the aim of supporting the privatisation process, the replenishment of the Regional Economic Development Fund and the trade reforms necessary to enter the WTO. The Netherlands, Japan and the UK DfID are particularly active in the area of administrative capacity building. The Netherlands, SIDA and Japan will support the return of refugees and displaced persons. In the JHA area, EC interventions are co-ordinated in particular with US interventions as well as with the World Bank and with the bilateral technical assistance of Member States.

Especially in the field of Policing and battle against organised crime, the National CARDS programme will strongly interact with the European Union Police Mission. In each area of intervention, the EC will co-ordinate with the other donors so as to ensure complementarity and synergies in the fulfilment of the set objectives. In some cases, the added value of the EC intervention consists of providing an overall framework for different donors to co-ordinate their assistance more effectively.

8. PROGRAMME IMPLEMENTATION

8.1 Time-limit for signing the financing agreement

The financing agreement must be concluded at the latest by 31 December of the year following that in which the corresponding global financial commitment was adopted. Failing this, the funds assigned to it will be cancelled.

8.2 Performance period

- (a) The implementation period of the financing agreement starts with the entry into force of the financing agreement and ends 31.12.2011
- (b) This performance period falls into two separate phases:
 - (i) Operational implementation of the main activities. This phase starts with the entry into force of the financing agreement and ends 31.12.2009
 - (ii) A closure phase during which the final audits and evaluation are carried out along with technical and financial closure of the contracts implementing the financing agreement. This phase starts with the end of the operational implementation phase and closes at the end of the performance period.
- (c) Expenditure arising from the main activities is not eligible for Community financing unless it is incurred during the operational implementation phase. Expenditure arising from final audits and evaluation and from closure activities is eligible until the end of the closure phase.
- (d) Any remaining balance of the Community contribution will be cancelled automatically six months after the end of the performance period.

8.3 Procedures for the award of contracts and of granting of subsidies

All contracts implementing the financing agreement must be awarded using the standard Commission procedures and documents for implementing external operations in force at the time the procedure is initiated.

8.4 Contracts implementing the agreement

- a) The contracts which implement the financing agreement have to be signed by the two parties within three years of the Commission's adoption of the financial commitment. This deadline may not be extended. At that date any non-contracted funds will be cancelled.
- b) Any contract that has not given rise to any payment within three years of its signing will be terminated automatically and the funds cancelled.
- c) All projects should be implemented in line with EU competition (including State aid) principles

8.5 Monitoring, evaluations and audits

Appropriate planning and regular monitoring throughout implementation in the form of regular reports will take place. Evaluation during implementation and/or at the end of the programme as well as audit of programme may also take place.

Point 8.4(a) does not apply to audit and evaluation contracts, which may be signed later.

9. COST AND FINANCING

The Programme will be financed through a Community grant of € 72 million, allocated as follows among the different actions:

Priority Sector	Million euros
1. Democratic stabilisation	7.5 (originally 4.5)
2. Administrative Capacity Building	23.5 (originally 21.5)
3. Economic and Social Development	14.1
4. Environment and Natural Resources	1.4
5. Justice and Home Affairs	25.5 (originally 23.5)
TOTAL	72.0 (originally 65)

10. GOVERNMENT COMMITMENT AND CONDITIONALITIES.

Assistance is provided on the basis of the existence of the necessary elements for the continuation of co-operation through assistance, in particular concerning the respect of democratic principles and human rights, as well as the obligations of Bosnia and

Herzegovina as set out in the Stabilisation and Association Process and the General Framework Agreement for Peace (“Dayton Agreement”).

BiH’s institutions should take over responsibility on a number of issues in order to ensure local ownership and to engender long-term sustainability.

The European Commission has expressed clearly to the BiH Authorities the importance it places on the role of Directorate for European Integration in co-ordinating and participating in the implementation of the EC assistance. Indeed this point has been underlined in the conclusions of the Feasibility Study. In particular, the CARDS assistance foreseen within the Annual Programme 2004 is conditional upon the full and active involvement of the Directorate in the project cycle management of the EC assistance and its effective co-ordination with other assistance being accepted by the BiH Government and the Entities.