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**ANNEX:**  
**IPA 2009 – NATIONAL PROGRAMME - BOSNIA AND HERZEGOVINA Part I**

**1. IDENTIFICATION**

Beneficiary	Bosnia and Herzegovina
CRIS number	2009/021-333
Year	2009
Cost	EUR 39 million
Implementing Authority	EUROPEAN COMMISSION by joint management with: - European Bank for Reconstruction and Development (EBRD) for Projects 1, 2 and 4 - European Investment Bank (EIB) for Projects 2 and 4 and indirect centralised management with: - Kreditanstalt für Wiederaufbau (KfW) for Projects 3 and 4
Final date for concluding the Financing Agreement	at the latest by 31 December 2010
Final date for contracting	2 years from the date of the conclusion of the Financing Agreement.  No deadline for audit and evaluation projects covered by the Financing Agreement, as referred to in Article 166(2) of the Financial Regulation.  These dates apply also to the national co-financing.
Final date for execution	2 years from the final date for contracting.  These dates apply also to the national co-financing.
Sector Code	21030, 23065, 32130, 24010, 21020, 14020
Budget lines	22.02.02
Programming Task Manager	DG ELARG C1
Implementation Task Manager	European Commission Delegation to Bosnia and Herzegovina

## **2. PRIORITY AXES / PROJECTS**

### **2.1. Priority axes**

Part I of the IPA Component I - 2009 National Programme for Bosnia and Herzegovina is in line with the Multi-annual Indicative Planning Document (MIPD) 2009-2011. The programme aims at alleviating the impact of the financial and economic crisis in Bosnia and Herzegovina as proposed in the European Economic Recovery Plan announced by the European Commission on 27 November 2008.

Part II of the IPA Component I – 2009 National Programme for Bosnia and Herzegovina, which will be presented in a separate Financing Proposal, will continue to support Bosnia and Herzegovina on the reforms required by the Stabilisation and Association Agreement.

Within the framework of the IPA 2009 Programme, the Commission increased its allocation to the socio-economic sector by designing activities aimed at sustaining economic development and employment generation. In particular, the programme will support the development of small and medium sized enterprises and provide significant investment in infrastructure in the transport, environment, and energy sectors.

The programme will be implemented in cooperation with International Financial Institutions (IFIs) and the Kreditanstalt für Wiederaufbau (KfW) and through grant contributions which will leverage significant loans for major infrastructure investments provided by them. The Commission's contribution will ensure that Bosnia and Herzegovina can conclude the loan agreements with the IFIs in the year 2009. The water supply and sewerage collection projects are part of the programme agreed under the Municipal Window of the Infrastructure Project Facility (IPF) and the energy and transport projects will complement IPF investments in these sectors.

The European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB) and the KfW as the only national development bank currently investing in Bosnia and Herzegovina's energy infrastructure have been called to propose projects, which are mature and ready to be implemented. A selection committee, composed of representatives of the European Commission Delegation to Bosnia and Herzegovina, the National IPA Coordinator (Minister of Finance) the line Ministries concerned and the Directorate for European Integration selected the proposed projects. The projects in this programme have been selected because they are well advanced in the preparatory phase, however their timely implementation would be unlikely without the EC's support. Furthermore, these projects address key economic sectors which can provide employment and income to citizens at this time of economic crisis.

The Development Strategy for small and medium size enterprises (SME) in Bosnia and Herzegovina which is currently being prepared states that education and training for entrepreneurship are important development factors for the SME sector. The SME support project, which follows the EBRD Turnaround Management (TAM)/Business Advisory Services (BAS) approach, combines direct assistance to the enterprises with systemic market development and capacity building interventions.

The European Commission will contribute EUR 1 million to cover the fees of an EBRD stand-by loan of EUR 50 million to Bosnia and Herzegovina's Deposit Insurance Agency. The loan has the objective to increase the coverage of the deposit insurance to retain deposits

within the country. Because of the currently strained budget situation Bosnia and Herzegovina cannot cover the costs for the required fees and commitment charges.

The Country Development Strategy for Bosnia and Herzegovina emphasises the need for investments in the transport sector, in particular in the Trans-European corridors and their linkages to the regional network.

Bosnia and Herzegovina policy in the energy sector favours the promotion of renewable energies, including hydro power. Therefore, the activities covered by this programme link directly with the current priorities of Bosnia and Herzegovina. The proposed hydro power project also supports the “protection from flooding” which is one of the priorities of the National Environmental Action Plan adopted in 2003.

As a co-financing body KfW has been entrusted with the management of the large-scale energy programme. The project has a volume of EUR 50 million, whereof EUR 5.5 million are financed from the Commission, the remaining part is co-financed from KfW (EUR 39.5 million) and local contributions (EUR 5,0 million). In addition, KfW, which is an accredited body for cooperation under indirect centralised management, is the only national development bank currently investing in Bosnia and Herzegovina's energy infrastructure.

The National Environmental Action Plan focuses also on water resources and waste water management, in particular the provision of sufficient quantities of high-quality water for water supply, the protection of water resources and the protection from flooding. The planned intervention is also in line the Water Protection Plan of Bosnia and Herzegovina which is a strategic document for the implementation of the EU Urban Waste Water Treatment Directive (91/271/EC).

The four projects of the programme are grouped under Axis 2 "Economic Criteria" of the MIPD.

## 2.2. Description of projects grouped per priority axis

<i>No.</i>	<i>Economic Criteria</i>	<i>EC contribution in million EUR</i>	<i>Project Description</i>
1	Support to the small and medium sized enterprises sector and Deposit Insurance Agency in Bosnia and Herzegovina	3.0	<p><i>Project Purpose:</i> To further develop the Small and Medium sized Enterprises (SME) sector in Bosnia and Herzegovina through the EBRD TurnAround Management (TAM)/Business Advisory Services (BAS) approach and to strengthen the Deposit Insurance Agency of Bosnia and Herzegovina (DIABH) to cope with unforeseen financial and economic crisis situations.</p> <p><i>Implementation:</i> the project will be implemented by joint management with the EBRD through two contribution agreements (EUR 2 million for TAM/BAS and EUR 1 million for the Deposit Insurance Agency) each to be concluded between the Commission and the EBRD, in accordance with Article 53(d) of the Financial Regulation. The signature of both contribution agreements is planned for the 4<sup>th</sup> quarter of 2009.</p>
2	Improvement of regional transport infrastructure core	14.0	<p><i>Project purpose:</i> To improve the core regional transport network in Bosnia and Herzegovina.</p>

	network in Bosnia and Herzegovina		<i>Implementation:</i> the project will be implemented by joint management through one contribution agreement with EBRD of EUR 5 million and two contribution agreements with EIB of EUR 2.5 million and EUR 6.5 million respectively to be concluded between the Commission and the two institutions, in accordance with Article 53(d) of the Financial Regulation. The signature of the contribution agreements is planned for the 4 <sup>th</sup> quarter of 2009.
3	Construction of a small hydro power plant Cijevna III	5.5	<i>Project purpose:</i> Increased hydro-power availability in Bosnia and Herzegovina and river regulation and reduction in flood events in the Dobož-Modriča area.  <i>Implementation:</i> the project will be implemented by indirect centralised management through one delegation agreement of EUR 5.5 million to be concluded between the Commission and the KfW, in accordance with Article 54(2)(c) of the Financial Regulation. The signature of the delegation agreement is planned for the 4 <sup>th</sup> quarter of 2009.
4	Rehabilitation and construction of the water supply and sewerage collection infrastructure in Bosnia and Herzegovina	16.5	<i>Project purpose:</i> Improved access to quality drinking water and decreased waste water pollution in 17 municipalities of Bosnia and Herzegovina.  <i>Implementation:</i> the project will be implemented by joint management with the EBRD and EIB through two contribution agreements of EUR 3.5 million and EUR 12 million respectively to be concluded between the Commission and the two institutions in accordance with Article 53(d) of the Financial Regulation, as well as by indirect centralised management through one delegation agreement of EUR 1 million to be concluded between the Commission and the KfW in accordance with Article 54(2)(c) of the Financial Regulation. The signature of all three agreements is planned for the 4 <sup>th</sup> quarter of 2009.
	<b>TOTAL</b>	<b>39.0</b>	

### 2.3. Overview of past and on-going assistance (EU / IFI / bilateral assistance) including lesson learned and donor coordination

Experience with previous CARDS assistance as well as the recommendations of the evaluation of the CARDS Assistance to the Western Balkan countries in 2004 and the 2008 Ad Hoc Evaluation of the CARDS programme in Bosnia and Herzegovina leads to the following considerations:

Increasing local ownership and gradual decentralisation of EC assistance to Bosnia and Herzegovina is essential for effective targeting of the support and achieving the agreed results. Significant efforts have been undertaken to involve Bosnia and Herzegovina's institutions in the planning and programming process of EC assistance.

A number of assistance projects in Bosnia and Herzegovina did not achieve the expected results because of an insufficient sense of ownership on the part of the beneficiaries. In the course of programming the IPA National Programmes 2007 and 2008, the Commission and the beneficiaries identified a number of proposed projects which carried political risks of various degrees, i.e. most of the projects to implement the European Partnership require

reforms which are not necessarily endorsed by all competent authorities in Bosnia and Herzegovina.

The lesson learned is that EC assistance must not only reflect European Partnership priorities but, in the broader sense of the Paris Declaration, must also be interlocked with Bosnia and Herzegovina's own development and action plans. The IPA National Programme 2009 aims at promoting ownership by ensuring that projects are in line with Bosnia and Herzegovina's own reform strategies and development plans, as well as by enhanced participation of future beneficiaries in the programming process. It is also prepared with due risk assessment ensuring that all the necessary implementation preconditions are met.

As concerns lesson learned in the context of specific activities covered by this programme, it has to be noted that this proposal builds on previous extensive Community and IFIs assistance to Bosnia and Herzegovina and other potential and candidate countries.

Although significant assistance has been provided to small and medium enterprises in Bosnia and Herzegovina for a number of years, there is a continued lack of managers that are market orientated. The EBRD TurnAround Management (TAM)/Business Advisory Services (BAS) programmes which follow a tailored, on-the-job approach have been more successful in introducing a new management culture and improve management skills. Both programmes follow the efforts that the EC provided under the CARDS 2001-2006. The assistance in this sector was funded so far by major contributions from the EC, the UK, the Netherlands, Norway, Portugal, Japan, Spain, Switzerland, Canada and the EBRD Multi Donor Western Balkans Fund.

In the transport sector, many rehabilitation and reconstruction programs have been implemented in Bosnia and Herzegovina since 1996. Their realisation has been supported by IFIs (WB, EIB, EBRD), EC and other bilateral donors. From 1996 to 2001, the focus of EU assistance was predominantly on rehabilitating physical infrastructure, while CARDS 2005-2006 assistance focused on institutional development and facilitating access to international lending institutions. A key lesson learned has been to fund only those projects that are ready for implementation as regards available designs, specifications, construction permits and land ownership.

In the energy sector, there were no similar hydro-power projects carried out in Bosnia and Herzegovina funded from EC, IFI or bilateral funds. Therefore, the proposed IPA 2009 project will have a pilot character.

The EC has been a lead donor in the environment sector, and in particular in the area of water management. The experience gained in particular from CARDS implementation reveals that full commitment of the beneficiary partners during all phases of the projects is a precondition for their successful completion.

The Programme, in particular the selection of implementing bodies, has been closely consulted with IFIs, EU Member States and other donors present in Bosnia and Herzegovina in order to ensure complementarity and increase effectiveness of efforts aimed at alleviating the negative impact of the global financial and economic crisis. As a result, all projects under this programme envisage cooperation with IFIs in order to maximise impact and leverage of the financial means available. The EUR 40 million available from IPA funds will facilitate the availability of additional EUR 250 million from the EBRD, EIB and KfW. The Commission has a significant track record in cooperation with the IFIs and other donors in the economic and infrastructure sectors in Bosnia and Herzegovina.

## 2.4. Horizontal issues

Equal opportunity for participation of men and women and the minority representation will be ensured in all aspects of the programme implementation. In particular, the Programme will support women entrepreneurs in Bosnia and Herzegovina through the TAM/BAS activities.

Participation in the project activities will be guaranteed on the basis of equal access regardless of racial or ethnic origin, religion or belief, disability, sex or sexual orientation.

The investments in environment and energy sectors are aimed at increasing protection of the environment from the adverse effects of urban waste water and at creating renewable energy supply in Bosnia and Herzegovina. The investments in rail infrastructure are intended at increasing the railways' traffic share, thereby reducing carbon emissions as compared to road transport. The investment in road infrastructure will be implemented with consideration of the Environmental Impact Assessment's (EIA) recommendation for an optimal solution with a minimal negative environmental impact. All the above mentioned investments will be implemented in accordance with Community standards.

## 2.5. Conditions

The programme includes the following conditionalities:

- The project fiches are formally approved by exchange of letter between the Commission and the Government of Bosnia and Herzegovina.
- The Government will ensure that the beneficiary institutions have adequate financial, material and human resources so that EC financial support is used in the most effective and sustainable manner possible.
- Beneficiary institutions will endorse the design and tender documents, including terms of reference.
- The Government shall ensure the availability of land, free of ownership claims or disputes, provision of all necessary building permits and authorisations for the construction of the planned works. The Government shall ensure long-term sustainability of the actions by allocating the necessary resources, including running costs and maintenance costs.
- The Government shall ensure that any related works funded either by the government or other donors will not impede the implementation of planned works under the IPA 2009 National Programme Part I.
- Beneficiary institutions organise, select and appoint members (respecting gender and ethnic balance) of working groups, steering and coordination committees, and seminars as required by the project activities.

Additional project specific conditions are described in the project fiches. In the event that these conditions are not met, suspension or cancellation of the project or specific activities will be considered.

## 2.6. Benchmarks

	N		N+1 (cumulative)		N+2 (cumulative)	
	EU	NF	EU	NF	EU	NF

Number of tenders launched or grant agreements signed	9		9		9	
Number of calls for proposals launched						
Contracting Rate (%)	100		100		100	

"N" being the date of the conclusion of the Financing Agreement

## **2.7. Roadmap for the decentralisation of the management of EU funds without ex ante controls by the Commission**

According to Article 8(4)(c) of the IPA Implementing Regulation, the beneficiary country shall establish a roadmap with indicative benchmarks and time limits to achieve decentralisation without ex ante controls by the Commission.

As decentralisation with ex-ante controls has not yet been conferred by the Commission, a detailed specific plan and timetable for decentralisation with ex-ante controls shall be established by the beneficiary country, in accordance with the Commission's guidance "Roadmap for DIS".

The DIS implementation Strategy of Bosnia and Herzegovina was adopted in July 2008. No nominations however were made except for the position of the National IPA Coordinator (NIPAC) which was established in the Ministry of Finance and Treasury. The CFCU (Central Finance and Contracts Unit) and National Fund (NF) are as well placed within the Ministry of Finance and Treasury and are functional although not yet fully staffed.

The authorities of Bosnia and Herzegovina are supported in their decentralisation efforts by the Commission through a number of technical assistance projects for preparation of the structures for all IPA components.



### 3. BUDGET (AMOUNTS IN EUR)

#### 3.1. Indicative budget table

Nr	Joint management / indirect centralised management	Institution Building (IB)					Investment (INV)					Total				
		Total expenditure		IPA Community contribution		National contribution*		Total expenditure		IPA Community contribution		National contribution*		Total expenditure	Total IPA	
		EUR	EUR	% <sup>(1)</sup>	EUR	% <sup>(1)</sup>	EUR	EUR	% <sup>(1)</sup>	EUR	EUR	% <sup>(1)</sup>	EUR	EUR	% <sup>(2)</sup>	
		(a)=(b)+(c)	(b)	(c)	(d)=(e)+(f)	(e)	(f)	(g)=(a)+(d)	(h)=(b)+(e)							
	<b>Priority axis 2 - Economic Criteria</b>	3 500 000	3 000 000	86	500 000	14	298 100 000	36 000 000	12.08	262 100 000	87.92	301 600 000	39 000 000	100		
1	Support to the small and medium sized enterprises sector and Deposit Insurance Agency	3 500 000	3 000 000	86	500 000	14						3 500 000	3 000 000			
2	Improvement of regional transport infrastructure core network						78 200 000	14 000 000	17.90	64 200 000	82.10	78 200 000	14 000 000			
3	Construction of small hydro power plant Cijevna III						50 000 000	5 500 000	11.00	44 500 000	89.00	50 000 000	5 500 000			
4	Rehabilitation and construction of the water supply and sewerage						169 900 000	16 500 000	9.71	153 400 000	90.29	169 900 000	16 500 000			

	collection infrastructure													
	<b>TOTAL</b>	3 500 000	3 000 000	86	500 000	14	298 100 000	36 000 000	12.08	262 100 000	87.92	301 600 000	39 000 000	<b>100</b>

\* Contribution (public and private national and/or international contribution) provided by national counterparts

(1) Expressed in % of the Total expenditure IB or INV (column (a) or (d)).

(2) Priority axis rows only. Expressed in % of the grand total of column (h). It indicates the relative weight of the priority with reference to the total IPA Community contribution of the entire FP.

### **3.2. Principle of Co-Financing applying to the projects funded under the programme**

The Community contribution, which represents 13% of the total budget allocated to this programme, has been calculated in relation to the eligible expenditure, which in the case of indirect centralized and joint management is based on the total expenditure.

The Commission will conclude contribution agreements with EBRD and EIB and delegation agreements with KfW.

The funds allocated to the Programme from the above mentioned institutions amount to EUR 262.6 million which constitutes 87% of the programme's total budget.

## **4. IMPLEMENTATION ARRANGEMENTS**

### **4.1. Method of implementation**

The Programme will be implemented by the European Commission by joint management with the EBRD and EIB in accordance with Article 53(d) and by indirect centralised management with KfW in accordance with Article 54(2)(c) of the Financial Regulation<sup>1</sup> and the corresponding provisions of the Implementing Rules<sup>2</sup>.

In case of joint management, the Commission will conclude contribution agreements with EBRD and EIB, while for the indirect centralised management it will sign delegation agreements to entrust budget-implementation tasks to KfW.

### **4.2. General rules for procurement and grant award procedures**

Procurement shall follow the provisions of Part Two, Title IV of the Financial Regulation and Part Two, Title III, Chapter 3 of its Implementing Rules as well as the rules and procedures for service, supply and works contracts financed from the general budget of the European Communities for the purposes of cooperation with third countries adopted by the Commission on 24 May 2007 (C(2007)2034).

Grant award procedures shall follow the provisions of Part One, Title VI of the Financial Regulation and Part One, Title VI of its Implementing Rules.

The Commission shall also use the procedural guidelines and standard templates and models facilitating the application of the above rules provided for in the "Practical Guide to contract procedures for EC external actions" ("Practical Guide") as published on the EuropeAid website<sup>3</sup> at the date of the initiation of the procurement or grant award procedure.

The general rules for procurement and grant award procedures shall be defined in the contribution agreements between the Commission and the EBRD and EIB respectively and the delegation agreements between the Commission and KfW.

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<sup>1</sup> Regulation 1605/2002 (OJ L 248, 16.9.2002. p.1).

<sup>2</sup> Regulation 2342/2002 (OJ L 357, 31.12.2002, p.1).

<sup>3</sup> Current address:

[http://ec.europa.eu/europeaid/work/procedures/implementation/practical\\_guide/index\\_en.htm](http://ec.europa.eu/europeaid/work/procedures/implementation/practical_guide/index_en.htm)

### **4.3. Environmental Impact Assessment and Nature Conservation**

All investment shall be carried out in compliance with relevant Community Environmental Legislation.

The procedure for environmental impact assessment as set down in the EIA-Directive<sup>4</sup> will fully apply to all investment projects and the application of the European Principles for the Environment will be ensured.

If an investment is likely to affect sites of nature conservation importance, an appropriate nature conservation assessment shall be made, equivalent to that provided for in Article 6 of the Habitats directive (Council Directive 92/43/EEC of 21 May 1992).

## **5. MONITORING AND EVALUATION**

### **5.1. Monitoring**

The Commission may undertake any actions it deems necessary to monitor the programmes concerned. These actions may be carried out jointly with the international organisations concerned.

### **5.2. Evaluation**

Programmes shall be subject to ex ante evaluations, as well as interim and, where relevant, ex post evaluations in accordance with Articles 57 and 82 of IPA Implementing Regulation, with the aim of improving the quality, effectiveness and consistency of the assistance from Community funds and the strategy and implementation of the programmes.

The results of ex ante and interim evaluation shall be taken into account in the programming and implementation cycle. The Commission may also carry out strategic evaluations.

## **6. AUDIT, FINANCIAL CONTROL AND ANTI-FRAUD MEASURES**

The accounts and operations of all parties involved in the implementation of this programme, as well as all contracts and agreements implementing this programme, are subject to, on the one hand, the supervision and financial control by the Commission (including the European Anti-Fraud Office), which may carry out checks at its discretion, either by itself or through an outside auditor and, on the other hand, audits by the European Court of Auditors. This includes measures such as ex-ante verification of tendering and contracting carried out by the Delegation in the Beneficiary Country.

In order to ensure the efficient protection of the financial interests of the Community, the Commission (including the European Anti-Fraud Office) may conduct on-the-spot checks and inspections in accordance with the procedures foreseen in Council Regulation (EC, Euratom) 2185/96<sup>5</sup>.

The controls and audits described above are applicable to all contractors, subcontractors and grant beneficiaries who have received Community funds.

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<sup>4</sup> Council Directive 85/337/EEC of 27 June 1985 on the assessment of certain public and private projects on the environment (OJ L 175, 5.7.1985, p.40).

<sup>5</sup> OJ L 292, 15.11.1996, p. 2.

## **7. NON SUBSTANTIAL REALLOCATION OF FUNDS**

The authorising officer by delegation (AOD), or the authorising officer by sub-delegation (AOSD), in line with the delegation of powers conferred upon him by the AOD, in accordance with the principles of sound financial management, may undertake non substantial reallocations of funds without an amending financing decision being necessary. In this context, cumulative reallocations not exceeding 20% of the total amount allocated for the programme, subject to a limit of EUR 4 million, shall not be considered substantial, provided that they do not affect the nature and objectives of the programme. The IPA Committee shall be informed of the above reallocation of funds.

## **8. LIMITED ADJUSTMENTS IN THE IMPLEMENTATION OF THE PROGRAMME**

Limited adjustments in the implementation of this programme affecting elements listed under Article 90 of the Implementing Rules to the Financial Regulation, which are of an indicative nature<sup>6</sup>, may be undertaken by the authorising officer by delegation (AOD), or by the authorising officer by sub-delegation (AOSD), in line with the delegation of powers conferred upon him by the AOD, in accordance with the principles of sound financial management without an amending financing decision being necessary.

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<sup>6</sup> These essential elements of an indicative nature are, for grants, the indicative amount of the call for proposals and, for procurement, the indicative number and type of contracts envisaged and the indicative time frame for launching the procurement procedures.