

CARDS 2002 FINANCING PROPOSAL FOR BOSNIA AND HERZEGOVINA

1. Identification

<i>Form of programme:</i>	National Programme
<i>Beneficiary Country</i>	Bosnia and Herzegovina
<i>Budget year:</i>	2002
<i>Financial allocation</i>	€71,9 million
<i>Budget Line:</i>	B7-541
<i>Legal basis:</i>	CARDS Council Regulation (EC) No.2666/2000
<i>Duration:</i>	Contracts financed under this programme shall enter into force no earlier than the signature of the Financing Memorandum in due form by the competent signatories, and no later than 31.12.2005
<i>Expiry dates:</i>	All contracts must be concluded by 31.12.2005 All disbursements must be made by 31.12.2006
<i>Sector:</i>	Democratic Stabilisation, Administrative Capacity Building, Economic and Social Development, Environment and Natural Resources, Justice and Home Affairs
<i>Programming:</i>	2002 – 2003
<i>Implementation:</i>	European Commission
<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;
- 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 facilitate 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;
- 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 areas:

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

3. Country update

Since the adoption of the Country Strategy Paper and the Multi-annual Indicative Programme for Bosnia and Herzegovina on 12 December 2001, the following tendencies should be taken into account whilst analysing the political, social and economic situation in the country:

Political scene

The reform of the Entity constitutions as a result of the Summer 2000 Constitutional Court decisions was contentious. Broad agreement was finally found in March/April 2002 under the auspices of the OHR, although the High Representative still had to impose certain changes in both Entities. In addition, the High Representative had to complete the lacunae in the BiH Election law in order to bring it into line with the Entity constitutions. The general elections are scheduled for October 2002. However, the financing of the elections still appears problematic, and the International Community will have to cover a large share. The presence of the International Community in BiH is being streamlined. The mandate of UNMIBH IPTF will expire by end 2002. The European Union will lead a police follow-on mission.

Economic policy

Macroeconomic performance in 2001 was characterised by a decline in GDP growth to around 5% for BiH as whole. Inflation remains subdued and the exchange rate of the Konvertible Marka (KM) stable, supported by a strict adherence to the rules of the currency board. The changeover to the Euro has resulted in a massive increase in foreign reserves, which at the end of 2001 were estimated at about KM 1.6 bn, well above what required as a backup of money supply under the currency board rules. The external debt of the country at 56 % of GDP is not particularly high by international standards. However, total debt servicing will increase substantially from this year. Debt service payments in 2001 amounted to KM 205 million, while the payments will increase to KM 296 million in 2002. In view of the envisaged reduction of donor support, together with the pressing size of the current account deficit, attracting foreign private sources of financing will in fact become a priority for BiH. These elements constitute some of the main challenges that the BiH authorities will have to face, and call for vigorous policy responses.

The budgets for 2001 were revised and executed for the State and the Federation. Adoption of 2002 budget is still ongoing and at the time of writing only the RS budget has been adopted by the RSNA. Military expenditure is still a prominent budgetary item in both Entities budget. In the RS the budget has increased significantly since last year, but mostly as a result of the inclusion of expenditure previously unaccounted for. The Federation is planning a major reduction of its armed forces in 2002 which should produce savings in the medium to long term, although requiring massive resources for 2002-2003 (severance payments and other forms of support to 10-15,000 demobilised soldiers). BiH

is currently preparing a Poverty Reduction Strategy Paper as part of the WB requirements for future credits. The emerging strategy will form a major part of the Governments medium term policy framework.

Improvements in the difficult BiH business environment is increasingly a priority for reform and an action plan of key issues (legislation and its enforcement, administrative procedures) is being established. Equally the fight against corruption remains a priority. Focus is placed on the reform of public administration, and increasingly on public finance and procurement.

In this context, following delays in policy implementation, in May 2001 the IMF favourably completed its final review for the Stand-By Arrangement (SBA) approved in May 1998. Since then, negotiations are still underway for a new SBA which is expected to be signed in the first half of 2002, and which should give BiH a sound policy framework at least for the next 18 months.

Foreign trade & payments

The FBiH trade deficit shrank slightly over the first 11 months of 2001, and it is estimated for 2001 at 20 % of GDP, compared to 22 % in 2000, but it remains high. A good performance by clothing manufacturers has driven exports, which have continued to be strong to the EU. Exports to Croatia have recovered. The RS's trade deficit is little changed with both exports and imports falling in January-September year on year. Net foreign direct investment (FDI) per capita amounted to USD 35 in 2001, but remains one of the lowest of the region

Unemployment

Unemployment has changed very little over the past few months. Both entity governments are increasingly concerned with stagnating employment and the fact that the unemployment rate of 40 - 50% is the highest in the region although it should also be noted that the substantial grey economy obscures the real estimate. Both the Federation and the RS recently pledged to take a more proactive approach in combating unemployment, but without more widespread growth the prospects are not very promising.

EU Integration

EU Integration remains a BiH government priority but progress on the EU Road Map remains modest - only around half of the 18 Road Map steps have been completed while their implementation also needs to be concretely demonstrated. The fragmentation of the BiH market along Entity lines has impeded economic development and internal and external trade. The establishment of a single economic space (covering goods, services, capital and labour) would contribute decisively to creating a more favourable climate for foreign direct investments. It is thus of crucial importance for the country's economic regeneration.

Privatisation

The privatisation process remains slow. The business environment in BiH and the enterprises themselves have not proven attractive to foreign investors and BiH political interests have further played a part in the poor progress to-date. Whilst progress has been made in small scale privatisation, the important area of medium sized and strategic enterprises remains relatively stagnant with less than 6% of the identified strategic companies in the RS being successfully privatised and the Federation performance being only marginally better. There are doubts that a significant change in the rate of progress can be expected during 2002.

Customs and Taxation reform

Once the new law on customs tariffs has been passed in Parliament in March 2002, then BiH will submit a memorandum for accession for the WTO.

Taxation reform is not as well advanced. The introduction of Value Added Tax and the establishment of the necessary capacity to ensure its collection are the paramount priority in the taxation field. The introduction of a harmonised VAT system based on the Acquis would bring the country closer to the EU and reinforce a single market in BiH.

Judiciary

Reform of the judiciary is a priority. The framework to develop the rule of law exists, but institutional strengthening and capacity building needs remain significant. The Independent Judicial Commission has been endorsed to co-ordinate a fundamental review of the employment of existing judges and prosecutors, and the restructure of the judicial system. At BiH level a State Court should soon be set up.

Policing

During 2002, the UNMIBH will implement the remaining actions within the six programmes of its strategic Mandate Implementation Plan. It will focus on structural reforms of police institutions and provision of advice to both police commanders and to the Ministries of Interior. EU has agreed to take over the police mission starting in January 2003. The approximately 500-strong mission will train, supervise, mentor, monitor and inspect police to raise its professional perspective by the end 2005.

Civil Society

The Law on Associations and Foundations was finally adopted by the BiH Parliament. The law will make a decisive contribution to consolidating civil society in BiH. It gives non-governmental organisations and foundations the possibility to register at the State level and thus potentially represent BiH in contacts with international partners. In addition, it should be noted that this Law is to a large extent in conformity with Council of Europe standards, as well as with other relevant international and domestic legislation

Return of Refugees and internally displaced persons

The rate of return has shown a marked increase over recent years (81,000 in 2001) in part due to the enforcement of property rights and an improved return environment. However, significant obstacles still remain particularly with regards security, social welfare access, education and employment. Public discontent is possible from such unpopular measures as evictions from property occupied illegally. Amendments to the property laws (12 December 2001) imposed by the High Representative will soon be effective. These amendments if combined with strong commitment and sustained action by all local authorities will help to speed up the implementation and resolution of property claims throughout Bosnia and Herzegovina.

Social Sector

Proposals for social sector reform put forward by the World Bank have met strong opposition locally, but a new law on pensions, imposed by the High Representative, came into effect on January 1st 2001. Reform of the rest of the welfare system, however, has been held up. The World Bank's next target is the overhaul of benefits for the disabled and families of the war dead. The problem is particularly acute in the Federation, where

different systems are in place in the Muslim and Bosnian Croat-majority areas. The Federation government is expected to complete a draft regulation by the end of January 2002, which will reduce the amount of benefits and will target only those with more than a 50% disability for financial assistance in future. The proposal has already received strong condemnation from veterans' associations, particularly the Bosnian Croats, but the Bank insists that reform must go ahead.

Environment

There are several initiatives aiming at supporting sustainable environmental management. With the signature of the Convention on Biodiversity Bosnia and Herzegovina has access to GEF funds. This coincides with the signature of the Kyoto Protocol and several initiatives aimed at streamlining environmental responsibilities in the country. Discussions are ongoing.

4. Past EC assistance and co-ordination with other donors

Over € 2 billion of European Community funds have been committed for Bosnia and Herzegovina since 1991. From 1991 to 2000 humanitarian assistance provided by ECHO, the Humanitarian Aid Office, totalled €1.032 billion. In the period 1996 - 2000 Bosnia and Herzegovina has received assistance under the Obnova and Phare programmes amounting to € 890.7 million. In 2001, assistance of € 105,25 million was committed under the CARDS Programme. In addition, the EU member states have contributed over €1.2 billion in assistance between 1996 and end of 2001.

The priorities and actions identified for the EC's Country Strategy for BiH for the period from 2002 – 2006 have been selected to reflect the EC's comparative advantage as a donor.

The multiplicity of donors active in BiH and their planned interventions have been taken into account so as to ensure complementarity whilst consolidating the Country Strategy, on which the Action Programme 2002 is based. Other donors as well as the BiH Authorities have participated in meetings with the EC Delegation to discuss the content of the present Financing Proposal. A number of mechanisms exist for the exchange of information between the Commission, Member State's missions, and other bilateral and multilateral donors (see Country Strategy Paper 2002 – 2006).

5. Lessons learnt

“Participatory” preparation of the project proposals: The 2002 programming has been conducted in a transparent and participatory way: the Beneficiaries have been more closely involved in project identification at State and Entity level than in the past, for instance several round table discussions have been organised with the BiH Authorities and other Donors.

Mid-term planning: The project identification has been undertaken with a view to the programming of the 2003 Action Programme.

Duration of projects: Alike to the 2001 Action Programme, the projects within the 2002 Action Programme have in average a longer project duration than within the previous programming exercises, to ensure continuity of the assistance and to avoid contract

extensions, the processing of which would lead to interruptions and thus, to damage to the performance of the assistance.

Sustainability aspects: The present Action Programme addresses sustainability aspects within each sector.

6. Programme Components

Within the Action Programme 2002, the Multiannual Indicative Programme for Bosnia and Herzegovina is translated in the following projects:

1. Democratic Stabilisation

1.1. Return of Refugees and Displaced persons

- 1.1.1 Return Programme in support of Displaced Persons
- 1.1.2 Return Programme in support of Regional Cross-border Returns
- 1.1.3 Support to Economic Regeneration in Return Areas (QIF)
- 1.1.4 Support to the Housing Verification Monitoring Mission
- 1.1.5 Financial support to De-mining Operations
- 1.1.6 Support to SFOR Micro Projects
- 1.1.7 Legal Aid and Information Network

To achieve democratic stabilisation in BiH and in the region through:

- Housing repair and related activities, sustainability measures, on-the-job capacity building of local organisations/institutions
- Monitoring and Evaluation of the housing repair and related activities
- Verification of reconstructed dwellings in BiH and dissemination of data on property repossession at regional level
- De-mining operations
- Micro Projects for social and technical infrastructure repair
- Provision of free legal assistance to refugees, displaced persons, returnees, members of minority groups and vulnerable residents

1.2. Support to the reform of the Public Broadcasting Services

To establish informational, educational, entertainment and cultural programming for all BiH citizens reflecting their national, religious, historic, cultural, linguistic and other characteristics through:

- Equipment Procurement for the Development of the PBS
- Technical assistance to strengthen technical and management capacities

2. Administrative capacity building

2.1. Customs and Taxation

To facilitate the introduction of modern customs and tax practices and their uniform and consistent application throughout BiH, to improve compliance, to increase

revenue yield, to improve trade facilitation and to support the functioning of the single market and economic reform through:

- Technical assistance and necessary expertise
- Training
- Equipment and logistical support
- Feasibility studies

2.2. Public Procurement

To improve financial accountability and efficiency of spending and investment in public funds through:

- Assistance to the State, Entity, cantonal and municipal authorities in drafting and introducing basic public procurement legislation
- Support to the establishment of a Central Unit responsible for the development and monitoring of public procurement policy at all levels
- IT assistance
- Training

3. Economic and Social Development

3.1. Single Economic Space II

To support economic development of BiH, to create a single economic space consistent with the Community *Acquis*, to facilitate BiH export to the European Union and other markets through:

- Support to the establishment of a Competition Authority and facilitation of the enactment of the institutional framework
- Technical Assistance in drafting legislation
- Training

3.2. Local Economic Development

To support sustainable economic development and alleviate poverty through

- Support to the development of local development strategies
- Training, study visits, sustainability measures
- Cost Sharing Project Funds to support SME, job creation and other measures
- Support to the development of Local Service Providers

3.3. Trade Liberalisation and Promotion of Foreign Direct Investment through

- Strengthening the capacity of MOFTER (Ministry of Foreign Trade and External Relations) with trade policy liberalisation activities in WTO accession and BTA negotiations and preparation of legislation in line with WTO requirements
- Opening up FIPA (Foreign Investment Promotion Agency) branch offices (staff recruitment, web site creation, training, awareness raising activities)

3.4. Tempus

To promote the reform of higher education institutions in Bosnia-Herzegovina, in view of improving the quality of academic teaching and learning in line with changing political, social and economic needs, through

- funding Joint European Projects (JEP) and Individual Mobility Grants

4. Environment and Natural Resources

4.1. Support to the development of a comprehensive environmental regulatory framework

through Technical Assistance to the Environmental Ministries

4.2. Development of a national environmental monitoring system

through Technical Assistance to the Environmental Institutions

4.3. River Basin Management Programme

To achieve a transparent and cost-efficient water resources management based on natural catchment areas across the Inter-Entity Boundary Line and international borders, through technical assistance to the RS and FbiH Ministries of Agriculture, Forestry and Water Management

4.4. Support for improved waste management through

Technical Assistance to the Environmental Ministries

5. Justice and Home Affairs

Activities financed in the area of Justice and Home Affairs should take account, if necessary, of the findings of the JHA assessment mission of the European Commission and Member State experts.

5.1. Support to prosecution reform

To establish a secure, stable and integrated State upon clearly defined territorial, constitutional and institutional arrangements, committed to democracy, human rights and rule of law through

- Assistance to the implementation of a new structure of prosecution office
- Assistance to the design of a training programme for prosecutors on EU legislation on prosecution and on the state level criminal procedure code
- Drafting of manuals for prosecutors based on the new state criminal procedure law
- Provision of equipment for the restructured prosecutors offices
- Renovation of premises

5.2. Support to the Independent Judicial Commission

To establish a secure, stable and integrated State upon clearly defined territorial, constitutional and institutional arrangements, committed to democracy, human rights and rule of law through

- Co-financing to the IJC: direct budgetary support to cover the cost of staff and running costs of both the HQ and the field offices
- Technical Assistance to support the restructuring process of courts
- Equipment to the restructured courts
- Renovation of premises

5.3. Support to the Commission for Real Property Claims of Displaced Persons and Refugees (CPRC)

To achieve democratic stabilisation in BiH and the region through facilitating property repossession.

5.4. Support to the Dayton Institutions

To contribute to establishment of a secure, stable and integrated State upon clearly defined territorial, constitutional and institutional arrangements, committed to democracy, human rights and rule of law through

- Co-financing to the Human Rights Chamber and the office of the Human Rights Ombudsperson: direct budgetary support to cover costs of staff and running cost of the two institutions

5.5. Support to the BiH Police Force

To enhance the establishment and implementation of rule of law through

- Technical Assistance (assistance in organisational reviews, in improvement of budget management, procurement and human resources)
- Training
- Provision of equipment
- Renovation of premises

to the BiH Police to help it to become an impartial and professional police service

5.6. Asylum and Migration

To enforce an asylum and migration policy aligned with EU standards through

- Strengthening the BiH authorities capacity to implement legislation
- Support to the implementation of legislative developments notably as regards status determination procedures of asylum seekers
- Renovation of premises

5.7. Integrated Border Management: Construction of Border Crossings

To ensure efficient movement of goods between BiH and neighbouring countries through

- Design, construction, supervision and refurbishment of selected Border Crossing Posts
- Renovation of premises

7. Complementary EC Assistance

The activities covered by this Financing Proposal will be complemented through the CARDS Regional Programme in the following sectors:

Integrated Border Management: Regional Support (networking/co-ordination, € 1 million);

Institution Building: Institution Building Facility for the SAp, (€ 8 million), Regional Police and Judicial Co-operation (€ 8 million), European networks for sustainable development (€4 million);

Democratic Stabilisation: Civil Society (NGO-media/minorities) (€7 million) and

Regional Infrastructure: Regional Infrastructure Development (€9 million), Air Traffic Control – institution building (€5 million)

Furthermore, the activities covered by this Financing Proposal will be complemented by support from the European Initiative for Democracy and Human Rights (chapter B 7/7, EIDHR). BiH is identified as a focus country for the period 2002 – 2004 under EIDHR. This financial support will be channelled mainly through civil society and will aim at helping consolidate democracy and the rule of law in BiH, as well as enhancing the respect and protection of human rights.

8. Programme Implementation

The Action Programme will be implemented as follows:

8.1 Implementation & Management

Contracts financed under this programme shall enter into force no earlier than the signature of the Financing Memorandum in due form by the competent signatories, and no later than 31.12.2005, being the expiry date of the associated Financing Memorandum. Therefore:

- Any relevant contract or grant must have entered into force, having been signed by all the relevant parties, by this expiry date.
- Any contracts or grants that have not been entered force, having been signed by the signature of all the relevant parties by this expiry date will be not be finalised but will be cancelled and considered null and void.
- Any balance of funds under this programme that has not been used to fund contracts or grants that are in force by this expiry date will be de-committed as soon as possible thereafter.
- No addenda adding funds from this programme to any contract or grant may be entered into after this expiry date.

The deadline by which all contractual activities under this programme must cease is no later than one calendar year after the expiry date of the relevant Financing Memorandum (i.e. 31.12.2005). Therefore:

- No addenda to any contract or grant funded by this programme shall be entered into after the implementation deadline¹.

The programme will be implemented by the Commission Services on behalf of and in close collaboration with the relevant national and/or local authorities. Project implementation will be undertaken by the relevant Commission Services. A Financing Agreement corresponding to this Financing Proposal will be concluded with the counterpart authorities.

8.2 Monitoring, Evaluation and Audit

This programme will be monitored and supervised by the European Commission services, who shall:

- a) monitor the implementation of the programme on the basis of regular reports, contacts with stakeholders and site visits
- b) carry out regular monitoring and evaluations to follow the progress of the programme and its components as well as ex-post evaluations after its completion

The accounts and operations of the programme components will be checked at intervals by an outside auditor contracted by the Commission without prejudice to the responsibilities of the European Commission, including the European Antifraud Office (OLAF)₂ and the European Union's Court of Auditors.

8.3 Tendering Procedures

The contracts for services, works and supplies shall be concluded in accordance with the tendering and contract award procedures laid down in the Financial Regulation, Council Regulation 2666/2000 and the "Manual of instructions for contracts concluded for the purpose of Community co-operation with third countries" (adopted by the Commission on 10 November 1999).

Special Arrangements: Procurement of services, supplies and works for the programme “**Support to the BiH Police**” will be assured through the following procurement procedure:

Through an open international tender a professional procurement contractor will be selected. The procurement contractor will have to provide continuous technical assistance to the EUPM for the procurement of services and supplies. At least two experts should be posted full time in BiH and be seconded to the operational management of the EUPM.

At the beginning of the contracting period the procurement contractor will, following an international call for the expression of interest, establish lists of interested companies from the eligible countries under the CARDS regulation for different types of services and supplies. Short-listed companies should be able to provide offers within 14 days.

¹ Note that the end date for contractual activities refers to project implementation activities, and not the date for submission of final report or final invoice.

The TA of the procurement contractor will assist in the drafting of terms of reference and technical specifications, and in the actual procurement process. For services/supplies/works up to the amount of €1 million the award of contract will be done through an accelerated procedure on the basis of three quotations. Short-listed companies will be allowed to participate on a rotating basis to give all companies on the shortlist an equal chance. The EC Delegation in Sarajevo will supervise whether demands, technical specifications and short-listed companies are duly justified. In each case, the quotations will have to be evaluated under the chairmanship of the EC Delegation in Sarajevo. The final award will be made following standard procedures.

On the decision of the Delegation to contract the selected bidder, the procurement contractor will enter into the necessary contractual arrangements with the successful tenderer for the delivery, supervise the technical conformity of the deliveries, and organise the handover. The procurement contractor will receive a fee on the services and supplies in proportion to the overall value. This fee will have to cover all costs of the procurement contractor.

Such an arrangement has to be in place by September 2002 for the whole duration of the presence of the EUPM. This service contract will be tendered as soon as possible with a suspensive clause.

9. Cost and financing

The Programme will be financed through a Community grant of **€71,9 million**, allocated as follows among the different sectors:

1. DEMOCRATIC STABILISATION	25.0
1.1. Return of Refugees and Displaced Persons	23.5
1.2. Media Reform - Support to Public Broadcasting System (PBS)	1.5
2. ADMINISTRATIVE CAPACITY BUILDING	10.5
2.1. Customs and Taxation Reform	9.0
2.2. Development of State Institutions	1.5
3. ECONOMIC AND SOCIAL DEVELOPMENT	13.4
3.1. Economic Reform	11.0
3.2. Social Cohesion and Development	2.4
4. ENVIRONMENT AND NATURAL RESOURCES	6.5
4.1. Environment	2.5
4.2 Water resources management	2.0
4.3 Solid waste management	2.0
5. JUSTICE AND HOME AFFAIRS	13.5
5.1 Administration of Justice	7.5
5.2. Policing	5
5.3. Asylum and Migration	1
5.4. Integrated Border Management (Regional CARDS)	3
Total:	€71,9 Million

The total budget per sector has a range of +/- 20 %.

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 respect of democratic principles and human rights.

ANNEX:

Project fiches with logframes.