

## CARDS 2003 FINANCING PROPOSAL FOR BOSNIA AND HERZEGOVINA

### 1. Identification

<i>Form of programme:</i>	<b>National Programme</b>
<i>Beneficiary Country:</i>	<b>Bosnia and Herzegovina</b>
<i>Budget year:</i>	<b>2003</b>
<i>Financial allocation</i>	<b>€ 63 million</b>
<i>Budget Line:</i>	<b>B7-541</b>
<i>Legal basis:</i>	<b>CARDS Council Regulation (EC) No.2666/2000</b>
<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 <b>31.12.2007</b> . Therefore, all technical activities provided for under this programme and all contracts must end by <b>31.12.2007</b> .
<i>Sector:</i>	<b>Democratic Stabilisation Administrative Capacity Building Social Development Environment and Natural Resources Justice and Home Affairs</b>
<i>Programming:</i>	<b>2003</b>
<i>Implementation:</i>	<b>European Commission</b>
<i>Remarks:</i>	<b>No administrative expenditure will be financed under this programme</b>

### 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 beginning of 2002, the following tendencies should be taken into account whilst analysing the political, social and economic situation in the country:

#### **1. Political scene**

In 2002, State and Entity governments managed to speed up reforms. Although significant weaknesses remain within the entire political environment, the State and Entity legislatures have improved their performance. In March 2002 the biggest political parties, under the guidance of the High Representative, reached an agreement on the implementation of the BiH Constitutional Court's summer 2000 decision on constituent peoples. The Entity parliaments subsequently adopted the decision and implementation is ongoing.

The run-up to the October 2002 elections increased the tensions within the ruling Alliance and accentuated differences in aspirations between the Entities. The respective Entity Customs Administrations were shaken by scandals, which led to the resignation or dismissal of the Ministers of Finance and the Directors of Customs Administration in both Entities. On a more positive note, since September the State Border Service covers the entire external borders of the country. This should facilitate improved collection of customs revenues and has already had a significant impact on the influx of illegal immigrants to the country.

On the international scene, accession to of the Council of Europe was significant. Relations with the neighbouring countries have improved steadily and BiH has signed free trade agreements with its neighbours. The BiH authorities have also demonstrated commitment in the struggle against terrorism. Co-operation with the ICTY, however, remains "mixed".

The outcome of the 5 October 2002 elections was decisive for BiH, not least insofar as the new government(s) have mandates for four (as opposed to two) years. If BiH is to proceed further towards integration into EU structures, it is essential that the country continues and indeed intensifies its reform efforts. In this context it should be noted that under the slogan of "Making BiH Work" the High Representative has imposed a reform of the Council of Ministers, an important element of which is the placement of European integration at the very heart of Government through the creation of a Directorate for European Integration directly under the responsibility of the Chair of the Council of Ministers. The High Representative has also suggested further reform of government services, including structural change of the customs services and the introduction of VAT at State level.

## **2. Economic policy**

A new 15-month SBA of about SDR 67.6 million was approved by the IMF Board in August 2002, for the period between August 2002 and November 2003; the first tranche of SDR 19.6 million was disbursed soon after. The programme focuses on policies to achieve post-reconstruction growth through a continued commitment to the currency board arrangement and further significant fiscal consolidation. In addition, the programme foresees structural reforms in the areas of tax policy, privatisation, trade policy and improvements to the business environment.

At the microeconomic level, the program will assist the governments in strengthening the private sector through the sale of large strategic enterprises and remaining state owned banks in both entities in 2003. These steps should be complemented by a set of business friendly policies and tax incentives, as well as by improvements in corporate governance to increase corporate savings and stimulate further private investment.

The audit reports on the 2001 budget realisation were performed and finalised in both entities of BiH. The findings of the RS Supreme Auditor showed deficiencies in the implementation of the accounting legislation, improper disclosure of the opening and the actual balance sheets accounts, irregularities in the record of claims and liabilities of state owned banks classified for privatisation and inaccurate statements on income and expenses of the budget.

At the PIC Steering Board meeting in July 2002, the BiH Government presented a "Reform Agenda" for the economy in order to demonstrate its commitment to foster necessary economic reforms. Furthermore, since the beginning of 2002 the BiH Government is preparing a Poverty Reduction Strategy Paper (PRSP) which for the first time saw a wide participation of the private sector, academia and the civil society. The new Government should adopt it in early 2003.

### **Foreign trade & payments**

Overall foreign trade turnover in 2002 slowed down in both Federation and RS compared to 2001. FBiH continues to run a trade deficit of € 361 million for first quarter 2002. A 30% drop in manufacturing exports, particularly in base metals and textiles – the two largest export items, largely causes the fall in exports. The RS also faced a decline in exports by 32 % while imports also declined but not as quickly. The total deficit for first quarter 2002 was € 145 million. Net FDI in absolute terms for 2002 is expected to be €260m for 2002, compared with €145m in 2001, but it is nonetheless vital that efforts are made to improve the investment climate given the need to attract higher levels of private capital in the context of declining aid flows.

### **Unemployment**

Unemployment changed very little over the past few months. Stagnating employment is an increasing concern 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 have pledged to take a more pro-active approach in combating unemployment, but without more widespread growth the prospects are not promising.

### **Privatisation**

The privatisation process remains slow. Whilst progress has been made in small scale privatisation, medium-sized and strategic enterprises remains relatively untouched - less than 6% of the identified strategic companies in the RS have been successfully privatised, while in the Federation performance is only marginally better. 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.

### **Customs**

Assisted by the Customs and Fiscal Assistance Office (CAFAO), a program funded by the European Union (EU), during 2002 BiH came quite far in its customs reform efforts. (This supports the development of a single economic space in BiH.). For example, a single Customs Policy Law for the entire country is now in place, as is the Tariff Law and schedules, while Entity level implementing regulations are identical. Mutual Assistance Agreements on Customs have been established between the Entities, and State level agreements with some trading partner countries are already in place. Customs officers throughout BiH have received extensive identical training. Both Entities have established Customs Enforcement Sections and are now jointly working on the establishment of a new and identical customs computer system so that by the end of this year computer will link all customs facilities throughout BiH.

Customs reform in BiH has supported a steady increase in customs revenue over the last few years. Nevertheless, as the High Representative has pointed out, the current customs system is plagued by inefficiency, fraud and corruption. Reform must therefore continue. Reform activities will cover the development of strategic plans, performance appraisal systems, internal audit, refinement of customs procedures etc.

### **Taxation**

Significant progress has been made in harmonisation and simplification of taxes so far this year. The Entities have achieved destination-oriented sales taxation since last April and sales tax rates have been equalised between the two Entities.

During 2002 a discussion on VAT took place within the International Advisory Group on taxation (IAG-T). The IAG-T concluded that a State Level VAT in accordance with the juridical point of view (one fiscal jurisdiction, single economic space) is feasible for BiH. Positioning a tax (VAT) at the State level means that the fiscal jurisdiction is that of the whole (the State) of BiH. This proposal has gained the explicit support of the High Representative.

From an efficiency, anti-corruption/fraud, enforcement and practical point of view, a State VAT Administration is the desired option. (A multi-level/entity VAT would create the wrong type of new jobs, which would be purely administrative and additionally make the compliance requirements for entrepreneurs much more difficult.)

The principal obstacles to a State level VAT are political, in particular persuading the RS to accept a State Level Law and a State Level Administration. Political support may be obtained by demonstrating the benefits of one VAT Law and Administration.

### **3. EU Integration**

EU Integration was an explicit priority of the 2000 - 2002 BiH State government. Whilst there has been "substantial completion" of the narrow set of objectives established in the Road Map, the consistent observation of those internationals involved is that the rate of progress in terms of the broader integration process is disappointingly slow. For both EU integration and economic regeneration, the development of a single economic space covering goods, services, capital and labour within BiH is of fundamental importance. Whilst technical assistance is required to assist the development of capacities required for reform, it must be recognised that the current rate of progress is largely a function of the political dis-function of the State and Entity Government structures. In the new structure of the Government this has been recognised with the promotion of the issue at the highest institutional level, the placement of European integration at the very heart of Government through the creation of a Directorate for European Integration directly under the responsibility of the Chair of the Council of Ministers.

### **4. Rule of Law and Civil Society**

#### **Judiciary**

Reform of the judiciary remains a priority. In February 2002, a new Judicial Strategy was adopted by the PIC Steering Board and has since then been implemented with the local authorities. Such Strategy encompasses the following key elements:

- Restructuring of all Courts and Prosecutors' Offices across BiH, including the determination of the number of Courts and Prosecutors' Office as well as the number of Judges and Prosecutors;
- Re-organisation of Courts and Prosecutors' Offices' administration;
- Re-selection of all Judges and Prosecutors through open public competition under the auspices of the High Judicial and Prosecutorial Councils;
- Enactment of key procedural laws;
- Establishment of Centres for Judicial and Prosecutorial training in both Entities;
- Establishment of special divisions in Courts and Prosecutors' Offices.

The re-invigorated judicial strategy departs therefore from the previous judicial reform process. It ties the selection process of Judges and Prosecutors to a complete re-organisation of the judiciary in Bosnia and Herzegovina under the authority of the High Judicial and Prosecutorial Councils. The latter are presently organised at both Entity and BiH levels, although they should be merged at the end of the restructuring process. In this context, the mandate of the Independent Judicial Commission will mostly consist of supporting the work of the High Judicial and Prosecutorial Councils.

#### **Policing**

On the 18th February 2002, the EU General Affairs Council decided to take over responsibility for the development of the BiH Police Forces from the UN Mission in BiH. The EU Police Mission started on 1<sup>st</sup> January 2003. The EUPMs consist of approximately 900 staff who will train, supervise, mentor, monitor and inspect the BiH police through to the end of 2005. As such EUPM plays a key role in the establishment of BiH Police Forces able to fulfil their role in BiH in the enforcement of the Rule of Law in accordance with EU standards. EUPM's main programmes include Crime Police, Public Order and Security, Criminal Justice, Internal Affairs, Police Administration, State Border Service, State Information and Protection Agency.

### **Civil Society**

The local NGO sector in BiH remains under-developed and the three governments have shown little interest in civil society issues. At present, the fragmented civil society sector is concentrated in areas and/or sectors, where the international community has been more active. The capacity BiH NGOs is low and the internal management very poor. The main obstacles to their development are: lack of information on donor resources, inability to write good project proposals, poor project management and fund-raising capabilities and lack of management experience.

It is also acknowledged that co-operation and the information flow between different NGOs is poor. In addition, co-operation between NGOs and government is generally not good and the relevant Ministries do not have information about the activities of the NGOs in different sectors.

There are, however, signs of improvement and strengthening the capacity of national NGOs is becoming more important for both the international community and the organisations themselves. Key topics in the discussion are the role, priorities, co-operation and the development policy in BiH, perspectives of the international community and BiH governments and the exit strategy. A good example of the enhanced local NGO co-operation is the participation in the World Bank-led Poverty Reduction Strategy Paper (PRSP) consultation process.

As an overall assessment, the local NGO sector in BiH still requires support in developing co-ordination mechanisms enabling them to act together and produce coherent development policy and advocacy.

### **Return of Refugees and internally displaced persons**

The rate of return has shown a marked increase over recent years (102,111 minority returns in 2002) in part due to the enforcement of property rights and an improved return environment. However, significant obstacles still remain particularly with regards to access to social welfare, education and employment by minorities.

According to the Property Legislation Implementation Plan (PLIP) statistics, out of 256,000 property repossession claims filed in Bosnia and Herzegovina, 67% were solved by end November 2002. The "50%" requirement of the EU Road Map was fulfilled in May 2002 but still a number of municipalities present property repossession rates well below this figure.

End 2002, 1,034,500 people are still displaced within the Balkans out of which approximately 55,000 live in collective accommodation. In order to boost the regional-return process a regional data exchange mechanism on property issues is being established by the Stability Pact and supported by a MoU proposed by BiH. In addition, the harmonisation of property legislation in BiH, Croatia and FRY is very much needed to complete regional repossession/returns.

## **5. Social Sector**

**The social welfare and child protection system** is increasingly faced with a financial crisis with an as yet unfinished transition from humanitarian relief to a more coherent and sustainable system. In both entities, in particular in the Federation, the share of social

welfare and child protection programmes in GDP is low relative to neighbouring countries. Only a small proportion of those entitled to receive support from the “social” funds actually receive benefits. A decentralised financing system allocates resources in inverse relation to the regional incidence of poverty, with only ad hoc protection for the most vulnerable in poorer areas. As a result, many areas in both Entities are effectively without a basic safety net for the poorest and the most vulnerable. Only one-quarter of the severely poor may have been receiving cash benefits in recent years. Resource constraints have affected child-protection programs particularly in the Federation, where many cantons terminated these programs. There is little interest of the international community to invest in Centres for Social Welfare and social safe nets. Small pilot projects are not enough to move the country towards a real reform process.

**Pension** reforms in both Entities, and the integration of the Federation pension system, conclude a difficult chapter in the post- conflict reform process, allowing both Entities to refocus their efforts on further improving financial discipline, transparency and accountability in their pension systems. There also remains the challenge of ensuring that pensioners in the Brcko District are successfully integrated into the existing entity schemes without further fragmenting BiH’s pension system.

BiH has one of the most extensive and generous **veterans’** entitlements in Europe. Transfers to veterans constitute the single biggest social transfer channelled by the entity budgets. These contribute to fiscal pressures and budget constraints for other social assistance programs. In both Entities, recorded budgetary transfers to veterans translate into significant spending in GDP terms, at around 3-4 percent of GDP. In addition, beneficiaries of the program receive significant indirect transfers, resulting in substantial forgone revenues from health contributions and co-payments, as well as tax and customs revenues that are subject to considerable abuse. It is clear this is unsustainable due to budget constraints in both Entities where it has led to increasing arrears. This, coupled with poor targeting, results in huge transfers that do not provide protection to its most vulnerable beneficiaries.

**Education** is recently in focus of interest of international community. However, a lack of political will among ministers on Entity and cantonal levels has resulted in at best very limited reform, so far. In August 2002, OSCE was given the mandate to lead the education reform process, and together with OHR is attempting to speed up the reform process. A series of meetings were organised during August with the aim of bringing together all the available local and international educational expertise. The outcome of their work covering all relevant fields of the education reform is a Reform Agenda on education presented by Entity Ministers of Education and endorsed by the PIC Steering Board on 21 November 2002. Although Education Reform is not a priority under the current MIP/CSP, the EC intends to capitalise the benefits acquired under its previous programme tackling the harmonisation of the curricula for primary and secondary education (Phare 1999 - 1,5 million). The TEMPUS programme continues to contribute to the reform of higher education curricula and of University Management, as well as to the training of staff of the Institutions of civil society. The Erasmus World programme of the EC will provide new, promising opportunities for students and for the training of highly educated people needed in the country.

Reform of the **health** sector is developing slowly. Health policy is the exclusive responsibility of the Entities. There are no actions leading towards common activities in the process of reform. Reform of primary health protection is hardly moving ahead and

training of family medicine teams is very poor. Other aspects of the implementation of the World Bank Basic Health Project are rather successful in both Entities. The Ministries both on the entity and cantonal level are now equipped with IT equipment. The World Bank is planning to start a new project on health insurance and pension reform. The EC's Health Reform Project was included in the CARDS 2001 Programme (€ 2 million).

## **6. Environment**

There are several major initiatives aiming at supporting sustainable environmental management. A National Environmental Action Plan (NEAP) has been prepared, the country has actively contributed to several projects under the Regional Environmental Reconstruction Programme (REReP) and a major credit for waste management has been signed with the World Bank. Simultaneously and more importantly, there have been significant evolutions in management structures. An Environmental Committee at State level has been created with the contribution of the entities, a national Global Environment Facility (GEF) secretariat has been developed with focal points for the major components, alongside a REReP working group to support the REReP co-chairman who is from BiH. This demonstrates a serious intention of the major partners to tackle the environmental problems in a co-ordinated manner according to the principle of subsidiarity. The adoption in RS of a set of 6 environmental laws (5 of which were drafted with EC support), the expectation that the FBiH will follow soon, and the creation of a working group for the development of the State level framework laws demonstrates clear commitment to developing the legal framework that is essential to manage natural resources properly.

These developments are the result of intensive preparatory work from the BiH stakeholders involved and the international community. Increased awareness that health is closely linked to the environment has contributed to the mobilisation. A critical mass of support will be necessary to ensure that the current momentum is used to its full potential.

## **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. Since 2001, assistance of € 177,15 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 Community has supported the process of economic reforms in BiH through Community macro-financial assistance. In May 1999, the Council decided to provide BiH with macro-financial assistance worth € 60 million (Decision 1999/325/EC), in the context of the IMF programme agreed in May 1998. The Community assistance was disbursed in three tranches, in line with reform progress, with the final tranche being released at the end of 2001. In the context of the new IMF programme, the Council of the European Union decided on 5 November 2002 to provide to BiH further macro-financial assistance of up to € 60 million, comprising a loan element of up to € 20 million (with a maturity of 15 years) and a grant element of up to € 40 million (Council Decision 2002/883/EC). Like the first package, the implementation is linked to progress in economic and structural reform.



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 2003 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

**Early preparations:** Project preparations were started well in advance of 2003 for three main reasons: (a) to minimise the risks associated with the preparation of a programme during a pro-longed interim period without a Government after the BiH elections on 5 October, (b) to enable a more timely and efficient execution of the Community budget, (c) to allow 'longer' implementation phases of individual projects which is crucial for the success of institution building projects.

**More time allowing enhanced participation of stakeholders in the preparation of project proposals:** The 2003 programming has been conducted in a more transparent and participatory way. More time was devoted to stakeholder consultations in BiH that took place between late June and early September 2002. In some cases, project cycle management workshops were held in order to identify problems to be addressed. Preparations in the Justice and Home Affairs area benefited largely from the analysis and recommendations of the Regional JHA Assessment mission that was undertaken in May 2002.

**Mid-term planning:** The project identification has been undertaken with a view to the programming of the 2004 Action Programme.

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

## 6. Programme Components

Within the Action Programme 2003, the Multiannual Indicative Programme for Bosnia and Herzegovina is translated in the following projects<sup>1</sup>:

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<sup>1</sup> No trade related projects are included in the 2003 Programme, given that two large projects were programmed for 2002, namely "Single Economic Space" and "Trade Liberalisation and Promotion of FDI". A project on trade liberalisation - bridging support will start in 2003 to support BiH with WTO accession. Ongoing and planned activities for trade facilitation include: industrial standards and certification, veterinarian control and integrated border management.

## **1. Democratic Stabilisation**

### **1.1. Return of Refugees and Internally Displaced persons**

Repair of dwellings and related infrastructure still requires substantial funding from domestic and international bodies. This is coupled with the fact that: a) the use of available housing stock is not efficient given the high number of double-occupancy cases and empty rehabilitated units, and b) local authorities provide limited alternative accommodation for evictees. The presence of mines and UXO represents a risk for potential returnees who, upon return, are subject to discrimination, particularly in employment, education and access to social services. The lack of employment opportunities is a major factor hampering the sustainability of return.

From the policy point of view, there is no domestic strategy-making body capable of developing and issuing universal policies and priorities. The co-ordination/exchange of information between the different government bodies, between government and non-governmental structures, and within the IC should be further enhanced. The efficiency in the use of domestic financial resources allocated to return is low (no monitoring and supervision) and this might be the result of the limited sense of “ownership” by local authorities.

To address the above problems and achieve democratic stabilisation in BiH and in the region the following activities will be undertaken:

- **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**
- **SFOR Micro Projects for social and technical infrastructure repair**

In 2002 the Commission entered into a direct agreement with the UNDP for the implementation of the pilot EC/UNDP initiative for the sustainable transfer of responsibility for the design, financing and implementation of return projects to local domestic authorities. In 2002, in line with the Commission’s policy<sup>2</sup>, UNDP has been identified as a suitable partner for the implementation of such a specific and politically sensitive project in the field of governance. On the basis of a mid-term evaluation of the 2002 pilot initiative, with the CARDS 2003 budget the Commission will scale up this specific initiative in partnership with UNDP.

With reference to the verification of reconstructed dwellings in BiH and dissemination of data on property repossession at regional level, a Grant for External Aid contract will be signed with World Vision Ireland. In 1999 both ECHO and the US BPRM identified World Vision Ireland as the most appropriate organisation available to carry out this task.

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<sup>2</sup> Communication COM(2001) 231 ‘Building an effective partnership with the United Nations in the fields of Development and Humanitarian Affairs’ of 2.5.2001

## **1.2. Support to the reform of the Public Broadcasting Services**

As recognised within the EC's CSP, an impartial and professional electronic media embodied by a state wide Public Broadcasting Service has a vital role in the development of a stable democracy in BiH. During 2002 significant progress has been made towards establishing the PBS with the final adoption of the relevant legislation. In co-ordination with the other donors to PBS, notably DFID which will provide production expertise through the BBC, the EC's 2003 programme supports the strengthening of the PBS through the provision of equipment essential for production and transmission of local content production. Through this the basic technical capacity required by the PBS should be established.

To establish informational, educational, entertainment and cultural programming for all BiH citizens reflecting their national, religious, historic, cultural, linguistic and other characteristics through, the EC support will be given in the form of:

- **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**

The CAFAO customs project, except for issues linked to integrated border management, can, on the basis of the current entity level organisation and structure, be seen as having been largely delivered at the technical level, in that the necessary skills have been transferred to local officials. However there remains a need to assist the local officials to build confidence in their ability to implement the new procedures and thus ensure self-sustainability, to provide continued support through on-the-job practical advice and support in live situations. This support will be targeted in two main areas namely (i) the implementation of the procedures required to support integrated border management and (ii) to support local efforts in the enforcement area as part of the international initiative, under the co-ordination of the Office of the High Representative, focussing on the rule of law.

The Office of the High Representative, supported by the international donor community, is currently encouraging the Governments in Bosnia and Herzegovina to review the organisation and structure of the customs function with a view to improving performance and notably to support the creation of a single economic space. This process will inevitably include the consideration of organisational change including the possibility of the creation of a single customs administration. A decision to create a single customs service would require a change in the nature of support, which would need to be provided through the CAFAO programme in the customs area.

The CAFAO taxation project will continue to develop the capacity of the local authorities to manage the existing Sales Tax. However, all projects will continue to be designed to ensure that the processes and skills developed can equally be applied to the control and management of a Value Added Tax (VAT).

The CAFAO taxation project is now in the process of enlargement to include a VAT planning and implementation team which will enable it take the lead donor role in

supporting the local authorities during the decision making process regarding the structure of the new tax and eventually in its implementation.

The CAFAO - Programme, notably through the efforts to provide modern computer based solutions for the management of customs data (the ASYCUDA and ALICE projects), will continue to ensure a clear link between the Customs Administrations and Statistical Services with a view to ensuring the availability of accurate and cohesive trade statistics for Bosnia and Herzegovina.

The 2003 Customs and Taxation programme aims at facilitating the introduction of modern customs and indirect tax services in BiH and at ensuring the uniform and consistent administration of customs and indirect taxation throughout BiH through:

- **Technical Assistance and necessary expertise**
- **Training**
- **Equipment and logistical support**
- **Feasibility studies**

## **2.2. Reform of the Public Administration in BiH**

At present, BiH Public administration reform is at different stages of development, and needs to be addressed with the incoming governments early in 2003. In general, a major public administration reform is needed, since complex, expensive and parallel public administration system cannot be financially supported in the future. Addressing problems such as an overlap of responsibilities and parallelism between different levels of administration would require structural changes, specifically targeted training of civil servants and strengthening of communication systems between different levels of administration. It is clear that the political agenda will focus on the public sector expenditure and changes in the public administration will have to be initiated. The development will require a rapid response from the European Commission.

**To improve the accountability, sustainability of the Public Administration** through:

- Technical Assistance to priority areas in the public administration of the State
- Preparation of a plan of action in close co-operation with the BiH Government, OHR and other main donors.
- Limited supplies.

## **3. Economic and Social Development**

### **3.1. Tempus**

The existence of the two entities makes it difficult to achieve an overall vision for higher education for the whole country. There are three level of education governance: (1) State, (2) Entity (RS and Federation), (3) Canton (in the Federation only). Fragmentation is therefore the main feature of higher education in BiH. Each of the cantons has the power to open higher education institutions, although not all exercise this right. There are now seven universities (compared to five prior to the war), some lacking the size, the capacity and the resources to reach the necessary academic standards. Moreover universities are rather loose associations of autonomous faculties which operate more or less separately

with little control over standards and no mechanism to test compatibility across faculties or universities.

In July 2002 upon request of the High Representative, OSCE accepted to take the lead in the education reform process in BiH. One of the resulting working groups is specifically in charge of the Quality and Modernisation of Higher Education (co-chaired by the EC Delegation in Sarajevo and the Council of Europe).

The Higher Education system in Bosnia and Herzegovina is facing a true challenge. The issues at stake are the optimisation of the faculty-university relationship, the reform of University governance, management and finance, and the strategic management of Higher Education institutions. Since 1996, the EC has supported the higher education in BiH with € 9,8 million through Tempus and continues its support within the 2003 programme through

- **Joint European Projects (JEP)**
- **Individual Mobility Grants**

#### **4. Environment and Natural Resources**

Environment is a high-ranking issue on the European agenda and increasingly so with regards to its interventions in BiH. Environmental management has largely been ignored in BiH during the post-conflict years and worrying appearances of health problems that could be environmentally related (increases of leukaemia, gastro-enteric diseases, jaundice, etc.) have greatly increased awareness and support for the sector. Appropriate management needs tools and the EC's programme is targeted towards the provision of these tools including: a legal framework, an institutional set-up (mostly related to inspections, monitoring, legal drafting), it needs information (themselves resulting from the monitoring activities), and it needs funds. Waste recycling is necessary because of the huge potential the sector has, since recycling was widespread before the conflict. The 2003 Environment Programme consists in three components:

##### **4.1. Support to sustainable environmental management** through

- Technical Assistance to the Environmental Ministries and Inspectorates,
- establishment of a pilot State Environment Fund,
- support and supplies for improved environmental monitoring, probably focused on air monitoring.

##### **4.2. Development of water quality management on the river basin level** through

- Technical Assistance to the River Basin Authorities,
- the provision of technical water quality measurement equipment to water laboratories, and
- training.

##### **4.3. Waste Recycling Pilot Project** through

- Technical Assistance to private and public stakeholders in selected Waste Allocation Districts,
- supplies in the area of separate waste collection and processing of recycled materials,
- awareness raising of private households and industrial sector.

## **5. Justice and Home Affairs**

### **5.1. Support to BiH Judiciary and the Entities' Centres for Judicial and Prosecutorial Training**

The JHA EU experts commended the new Judicial Strategy for BiH and largely endorsed its content. Such Strategy, whose content is provided under the country update, addresses the gap in judicial training institutions. Those institutions are essential to anchor the long-term benefits of the re-selection process implemented by the High Judicial and Prosecutorial Council.

The proper development of the Training Centres will require specific technical expertise both in the country and abroad. By establishing in 2000 the Interim Co-ordinating Board for Education for BiH, the Council of Europe has led the efforts over the last two years for the development of permanent judicial training institutes for this country. The Council of Europe has also developed a significant comparative expertise in the region through the development, for instance, of the Kosovo Judicial Institute and the Albanian School of Magistrates. The EC assistance will therefore be implemented through a grant with this Institution.

Inadequate staffing and insufficient training do however not constitute the only shortcomings of the BiH judicial system. In this context, the recognised need for a State Judiciary has led to the enactment of laws providing for a BiH Court and a BiH Prosecutor Office. Such State Judiciary, essential for safeguarding foreign investments or for prosecuting organised crime and trafficking in human beings, will require further support to become a concrete reality. An intervention under CARDS 2003 will allow for the proper establishment of the BiH Court and the BiH Prosecutor Office and thus, an independent, impartial and professional judiciary, through the following activities:

- **Establishment of the Centre for Judicial and Prosecutorial Training (Technical Assistance for curricula development)**
- **Renovation of premises for the BiH Court and the BiH Prosecutors Office**
- **Supporting the activities of the newly established High Judicial and Prosecutorial Councils**

### **5.2. Support to the Dayton Institutions**

Ensuring the effective respect of Human Rights in BiH, which is an essential component of the Rule of Law, requires to further support to the work of the Human Rights Chamber.

CARDS 2003 intervention is therefore designed to continue support to the activities of the Human Rights Chamber but importantly to also work out a sustainable domestic exit strategy, i.e. in principle the merger with the BiH Constitutional Court. Such merger is also one of post-accession commitments to the Council of Europe. The exit strategy will have to be supported in 2004 through a grant with either the Human Rights Chamber or the BiH Constitutional Court depending upon the outcome of the negotiations surrounding the merger.

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, the Commission will

- **Support an exit strategy for the Human Rights Chamber, i.e. in principle an effective merger with the BiH Constitutional Court by the end of the Human Rights Chamber's mandate in December 2003**

### **5.3. Support to the BiH Police Force**

The EU has emphasised the priority and importance of a professional, impartial and effective BiH Police Force through taking on this responsibility with the EUPM. The important role of policing has also been well recognised in the EC Country Strategy for BiH and this assistance will now be deployed in conjunction with the EUPM to address key issues identified by the police mission including: restructuration and reorganisation, management skills of middle and higher rank Police officers, investigative methods, co-operation with the Prosecutors Offices, equipment and procurement capacities.

To enhance the establishment and implementation of rule of law, particularly to help the BiH Police to become an impartial a professional police service, the EC will support the BiH Police Force through

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

### **5.4. Asylum and Migration**

The JHA EU experts' mission has highlighted the inadequate administrative and staffing arrangements within the administrative authorities responsible for asylum and migration. BiH's recent history has shown that it has to face three specific challenges in these areas:

- The trafficking of human beings;
- The use of BiH as a transit country towards the EU for irregular migrants;
- The abuse of their stay in BiH by third country nationals perpetrating illegal activities on its territory;

Those three key problems require an overall strengthening of BiH administrative capacities in asylum and migration as recommended by the EU experts. The intervention under CARDS 2003 is specifically addressing these gaps and aims at enforcing an asylum and migration policy aligned with EU standards through

- **Establishment of a migration management programme including technical assistance and training**
- **Establishment of a asylum management programme including technical assistance and training**
- **Introduction of BiH-wide database for aliens and machine-readable visas and residence permits.**

Both management programmes will require a strong comparative expertise and a long presence in BiH. IOM has been active over the last years in assessing the flow of illegal migrants through BiH. Besides its involvement under CARDS 2002 for the setting-up of a reception centre for third country nationals, IOM is also managing a programme of fight

against human trafficking. Finally, IOM has been a co-drafter of the new draft Law on Movement and Stay of Aliens and Asylum, whose implementation will be the core of the EC migration management programme, and by-laws on entry, stay and residence of aliens. Bearing also in mind IOM's involvement in similar programmes in other countries such as the Baltic States, IOM's choice as a recipient of an EC grant for the implementation of the migration management programme is the only option, which combines both cost-effectiveness and domestic expertise consistent with European and international legal norms, standards and best practice.

UNHCR has not only been undertaking the Refugee Status Determination (RSD) on behalf of the domestic authorities but has also developed the asylum legislation for BiH. Allocating a grant to UNHCR for the asylum management programme is the only effective and efficient implementation tool available to ensure in the coming years a proper RSD by BiH.

### **5.5. Integrated Border Management: Construction of Border Crossings**

Effective control of the BiH borders is a priority objective in order to combat illegal activities (trafficking, smuggling) and to facilitate the efficient and legally controlled passage of commercial goods and passenger traffic.

The State Border Service and Customs are the institutions responsible for the border control and customs operations and they have been progressively strengthened through equipment and training provided by a number of donors and particularly by the EC.

Whilst the operational costs of the services are to be met through the State budget, defined priority capital investments are still required to provide for basic border crossing infrastructure and to assist the SBS accommodate its headquarters.

The EC will support the State Border Service through

- **Assistance for the housing of the headquarters of the State Border Services**
- **Design, construction, supervision and refurbishment of selected Border Crossing Posts**
- **minor works (e.g. blocking of illegal crossings, marking of the borderline) and supplies**

## **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, (€ 12 million), Regional Police and Judicial Co-operation (€ 5 million), European networks for sustainable development (€ 4 million); Regional Statistical Co-operation € 5 million

**Democratic Stabilisation:** Civil Society (NGO-media/minorities) (€ 5 million) and

**Regional Infrastructure:** Regional Infrastructure Development (€ 2 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**

1. The Financing Agreement shall be concluded by 31 December of the year following that of the budgetary commitment.
2. The end of the implementation period of the Financing Agreement is hereby set at **31.12.2007**.
3. Any balance of funds remaining available under the EC Grant shall be automatically cancelled 18 months after the end of the implementation period of the Financing Agreement.

Contracts financed under this programme shall enter into force no earlier than the signature of the Financing Agreement in due form by the competent signatories, and no later than 3 years starting from the date of the budgetary commitment. 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 into force, having been signed by the signature of all the relevant parties by this expiry date will 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 programme will be implemented by the Commission Services on behalf of and in close collaboration with the relevant national and/or local authorities. The relevant Commission Services will undertake project implementation. 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), 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 and other relevant instructions.

Under *Return of Refugees and IDPs* (s. 6.1.1.) UNDP will be contracted to co-finance and support the project for the transfer of responsibility for the design, financing and implementation of return projects to local domestic authorities. World Vision Ireland will continue to implement the HVM project for the verification of reconstructed dwellings in BiH and dissemination of data on property repossession at regional level. De-mining activities will continue to be carried out by entity Civil Protection Authorities, and SFOR will be contracted to implement Micro Projects for social and technical infrastructure repair.

Under judiciary reform (s. 6.5.1. and 6.5.2.), grants will be concluded for the support to the High Judicial and Prosecutorial Council directly with the Council, for the Entities' Centres for Judicial and Prosecutorial Training with the Council of Europe, and for the Dayton Institutions with either the Human Rights Chamber or the BiH Constitutional Court, depending upon the outcome of the exit strategy. Under migration and asylum, grant support will be given to IOM and UNHCR (s. 6.5.4).

**Special Arrangements:** Procurement of services, supplies and works for the programme "Support to the BiH Police" will be assured through the procurement procedure as laid down in the Commission Decision C (2002) 1902 of 16<sup>th</sup> May 2002 on the Action Plan for CARDS 2002 in BiH.

<b>9. Cost and financing</b>
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The Programme will be financed through a Community grant of € 63 million, allocated as follows among the different sectors:

<b>CARDS Focal Area</b>	<b>M€ (*)</b>
<b>1. DEMOCRATIC STABILISATION</b>	<b>20.5</b>
1.1. Return of Refugees and Displaced Persons	19.5
1.2. Media Reform - Support to Public Broadcasting System (PBS)	1.0
<b>2. ADMINISTRATIVE CAPACITY BUILDING</b>	<b>12.0</b>
2.1. Customs and Taxation Reform	10.0
2.2. Development of State Institutions	2.0

<b>3. ECONOMIC AND SOCIAL DEVELOPMENT</b>	<b>2.4</b>
3.1. Economic Reform	0.0
3.2. Social Cohesion and Development - Tempus	2.4
<b>4. ENVIRONMENT AND NATURAL RESOURCES</b>	<b>10.1</b>
4.1. Environment	3.5
4.2 Water resources management	4.0
4.3 Solid waste management	2.6
<b>5. JUSTICE AND HOME AFFAIRS</b>	<b>12.0</b>
5.1 Administration of Justice	4.0
5.2. Support to Dayton Institutions	0.5
5.2. Policing	5.0
5.3. Asylum and Migration	2.5
<b>5.4. Integrated Border Management (Regional CARDS)</b>	<b>6.0</b>
<b>TOTAL</b>	<b>63.0</b>

*(\*) The total budget per sector has a range of +/- 20 %.*

The indicative cumulative contracting and disbursement schedule is the following:

<b>year</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
contracting	48.4	57.0	61.0	63.0	
disbursement	23.22	45.65	58.5	60.9	63.0

## **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, as well as the obligations of Bosnia and Herzegovina as set out in the Stabilisation and Association Process, the General Framework Agreement for Peace ("Dayton Agreement") and the Reform Agendas on economy, rule of law and education as agreed between Bosnia and Herzegovina and the International Community.

### **ANNEX:**

Project fiches with logframes.