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Sida Country Report
October 2003–June 2004

Bosnia-Herzegovina



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Authors: Bo Elding, Marie Larsson, Nedim Bukvic, Katica Hajrulahovic,
Elisabet Tomasinec, Slavenka Perkovic and mattias Sundholm

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Abbreviations

BiH	Bosnia and Herzegovina
BHMAC	Bosnia and Herzegovina Mine Action Centre
BAC	Business Environment Adjustment Credit
CARDS	Community Assistance for Reconstruction, Development and Stabilisation
CEDB	Council of Europe Development Bank
CSA	Civil Service Agency
CSI	Centre of Student Initiative
DFID	Department for International Development
EU	European Union
FRK	Foundation for Creative Developments
GAP	Governance Accountability Project
GDP	Gross Domestic Product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HJPC	High Judicial and Prosecutorial Council
ICTY	International Crime Tribunal Yugoslavia
IOM	International Organization for Migration
ITA	Indirect Taxation Authority
KfW	Kreditanstalt für Wiederaufbau
KM	Konvertible Mark (approx half a Euro)
LEAP	Local Environment Action Plan
MIFI	Municipal Infrastructure Finance and Implementation training
MHRR	Minister of Human Rights and Refugees
NSU	National Support Unit
PRSP/MTDS	Poverty Reduction Strategy Plan/ Medium Term Development Strategy
RS	Republika Srpska
SAA	Stabilization Association Agreement
SAP	Stabilization Association process
SHC	Swedish Helsinki Committee
USAID	United States Agency for International Development
VAT	Valued Added Tax
WB	World Bank
UN	United Nation
UNDP	United Nation Development Program

1. Summary

Bosnia and Herzegovina (BiH) continues to make progress regarding post conflict reconstruction, social integration and state building. Structural reforms, though, shows a mixed picture with the banking sector privatized, liberalization in trade policy, fiscal adjustments achieved, improvements in public finance and some reforms introduced in the social sector. However, public expenditure consumes more than half of the GDP, privatization has basically stopped and the business-enabling environment is not yet as investor friendly as it needs to be to attract necessary levels of growth as forecasted in the medium term development strategy (PRSP). GDP is still below pre-war level and income poverty encompasses 20 percent of the population while another 30 is just above the poverty line. BiH has to speed up its reforms to be able to meet the demands of EU and its acquis – the most important developmental process in BiH over the next few years-, strengthen its governance capacity on state and local level while downsizing the middle, improve its political leadership and accept a true ownership of the continued development. OHR and many other international and bilateral organizations are scaling down which may be temporarily bad for the economy but on the other hand will make it more obvious for the leaders to shoulder their responsibility and accept their ownership of the process. In addition, it will make it possible and facilitate a true coordination by the authorities of the development assistance as well as coordination between remaining donors. During the reporting period we have seen some signs of awareness and improvement in this endeavor but there is a long way to go yet.

The Swedish development cooperation is of course affected not only by the lack of capacity of the authorities on central, middle and local levels, but also by the downsizing of OHR and other important players while EU presently are elaborating functional reviews which will form the basis for its next CARDS programme. To overcome the negative effects of these changes and lack of transparency in this interim period the Swedish embassy-Sida has initiated improved coordination efforts with the main operators. The present country strategy doesn't emphasize a concentration of sectors but on the number of interventions within them. This is what we try to achieve by closing down questionable projects, emphasizing exit strategies to attract true ownership by the recipients and above all by contemplating sizeable sector programs in

close cooperation with other major donors (like EU, USAID, WB, KfW, GTZ, DFID) in most of our sectors prioritized in the country strategy. We have also succeeded in recruiting more Swedish experts in important international and national organizations as a means of strengthening the central government.

2. Strategic Country Development Trends

The international community's (IC) pressure on BiH increased during the first six months of 2004, with its peak being reached on the period's last day: The High Representative and European Union Special Representative (HR/EUSR) Lord Ashdown's decision on 30 June to, *inter alia*, remove 59 politicians and civil servants in Republika Srpska (RS). Among the individuals who had to leave was speaker of the National Assembly in RS and leader of the Serb Democratic Party (SDS), Dragan Kalinic, and Minister of Interior of RS, Zoran Djeric. This was not, however, the first decision by the HR/EUSR concerning high-level RS individuals during this time: In February, former Vice President of the SDS party Mirko Sarovic was removed from office. The purpose of all of these actions was, ultimately, to arrest Radovan Karadzic, indicted for war crimes by the International Criminal Tribunal for the former Yugoslavia (ICTY) in the Hague and to move the country closer to Euro-Atlantic integration.

During the first half of 2004, it was decided that the European Union's (EU) presence in BiH will increase dramatically: The discussion on an EU-led take-over of NATO's SFOR mission continued and was later confirmed at the NATO summit by the end of June. The EU mission, "Althea", will be in place by the end of 2004. NATO, however, will still be present in the country, as well as a bilateral American force. Yet another decision concerning BiH was reached at the NATO summit in June: the country would not be granted membership of Partnership for Peace (PfP). The main reason for this, according to NATO, was that BiH did not fulfil the criteria of full cooperation with the ICTY.

Some progress on the reform needed as identified by the European Commission's Feasibility Study report in November 2003 was made. The idea of fulfilling all criteria by June, as some national politicians and civil servants articulated, was not realized, however. Lack of reliable statistics, resources for refugee return and cooperation with the ICTY were identified as the main outstanding issues, while weak institutions and slow appointments of heads of newly created institutions were regarded as a threat to the so-called Stabilisation and Association Process. On a more general level, lack of implementation is the main obstacle to progress. In January, the HR/EUSR imposed a unification of the administration of the town of Mostar due to obstruction by local politicians.

A positive step in terms of a nucleus of reconciliation between the constituent peoples was recorded as the so-called Srebrenica commission presented its report. Stressing that guilt is not to be seen as collective just because someone claims something to be done “in the name of the Serbian people”, the RS’ authorities recognized for the first time their responsibility for the atrocities taking place in Srebrenica in July 1995.

Generally, the BiH economy is said to be better than the official figures would show, according to a common belief among economists. There is no doubt, however, that the economy is in a dire state: real GDP growth is estimated to be around three and a half per cent in 2003, while five and half per cent targets have been set under the reform scenario to achieve preconditions for a self sustainable economy; half of the population is below or close to the poverty line; estimates show that it will take some 50 years for the BiH economy to converge towards the EU average; the country has the lowest proportion of foreign investment in the region; the privatization process is very slow and has partly been associated with extensive corruption. In terms of the unemployment, the official figures deem it to be around 40 per cent, while other assessments taking into account also non-registered production claim it to be closer to 20 per cent.

On a positive note, some of the macro-economic indicators are very good: BiH has a stable currency and a very low inflation. Reform of the bank sector and its privatization process has been successful: A number of foreign banks have established a presence in the country. BiH has a relatively well educated work-force and sectors such as energy, forestry and tourism are believed to have growth potential.

However, the beginning of 2004 is proving to be a year of difficult and decisive reforms. First the government had to establish and operationalize the Indirect Taxation Authority and begin work on merging the customs and statistics administrations. Second, the defence reform has taken place with the establishment of a State level Ministry of Defence and subsequent demobilization of soldiers. Third, the establishment of commercial courts and intensive training for judges and bankruptcy administrators is proceeding but there still remains a lot of work to implement newly adopted bankruptcy legislation. Fourth, work is still ongoing on a plan to resolve outstanding internal claims on the government. It is crucial that claim settlements do not overburden the fragile fiscal balances. Fifth, corporate governance needs to be strengthened by reforming the privatization investment funds and a plan for the privatization or liquidation of remaining state enterprises needs to be completed while ensuring political stability by adopting a social mitigation package for those who represent excess labour in state enterprise. Finally, fiscal management, treasury operations and budget preparations need to continue improving. The Federation and RS need to strengthen coordination with the central government and there needs to be a review revenue allocation arrangement between the central government, cantons, and municipalities. The weak legal system is a big constraint to economic growth and the fragmented administrative structure of the country (lack of single economic space) is an even larger problem as it hampers business and places a high risk and cost on investment coming into the country.

With the PRSP (renamed to Mid Term Development Strategy) now adopted by all three governments, there exists a consolidated State level government strategy framework. However the need for improved capacity at the State level to coordinate policy with budgetary and aid resources is significant. This goes along with a general need for public administration reform in a country where the State and local government levels are abnormally weak and where the inefficient and duplicative middle levels governments consume more than 50% of the official GDP (BiH is a country with a record number of ministries compared to its size and population—the share of public expenditures in GDP at 50% is far higher than in other transition economies)

3. Swedish Development Cooperation

3.1 General orientation of the programme

The present constitution has gradually shown to be not feasible and discussions about changes needed have become more and more frequent. The number of layers and officials in the existing administration is too costly and time consuming. Awaiting an improvement in the existing constitution, Sida has started to focus on the lowest layer of administration and will as soon as EU completes its functional review also look into potential interventions at the central level.

Close cooperation with EC and the SAP, OHR, WB, UN and major bilateral donors and with a gradually increased participation of the national and local authorities. We have now established a close cooperation with EC/CARDs through repeated planning meetings in order to make our different interventions matching (Two examples are and EC's and Sida's common support of the establishment of five regional economic development agencies, and ongoing discussions regarding guarantees to commercial banks through KfW within a EC-financed grant program, see below). EC's finalization of the ongoing reviews and its next CARDs program will facilitate this coordination/cooperation further. Another way of creating real ownership by BiH authorities and facilitate its coordination of all development interventions is to develop major sector programs instead of numerous projects. Under the reporting period Sida has elaborated the GAP together with USAID in order to strengthen local governments. In addition, an agreement with Sida HQ was made to investigate agriculture and forestry as potential sectors of priority for job creation as well as strengthening of the central authorities. The scope of the Integrated Area programs are gradually being widened to encompass not only returnees but also local population and their services rendered by local authorities as well as job creation for these target groups.

3.2 The aggregate status regarding commitments and disbursements

The aggregate status regarding commitments and disbursements remains basically the same financially while the number of projects is decreasing.

3.3 Donor coordination with EU and other donors

As envisaged above Sida has devoted a lot of time and effort to create an improved and realistic coordination encompassing major donors as well as national and local authorities. This is done in addition and as a complement to the coordinating meetings among the Heads of Missions among EU-member states and as a supplement to the EC- coordinating meetings, where we now take a very active part which is expected from the biggest bilateral donor. We think there is a lot still to be improved regarding donor and recipient coordination. The international community needs a common approach/work-and time plan to carry out complementary thematic coordination with and for potent agencies and the authorities / owners to be invited to participate and gradually take over. The establishment of the Directorate for European Integration (DEI) has made a promising start and will eventually increase its coordination to bilateral cooperation in addition to the CARDS program at present.

4. Sida Programmes and Projects

Project comments are only given for special highlights and all projects can be found in the attached project list.

4.1 Human Rights

In terms of respecting Human Rights provisions and the cooperation with the International Criminal Tribunal on former Yugoslavia (ICTY), limited progress has been made since end of 2003 and was also the trigger for the High Representative to take serious step towards the RS government on June 30, removing and / or conditionally removing 59 officials in RS. It's still difficult to say how this would affect the country. The Human Rights Chamber was closed in December 2003 and about 9 000 pending cases were passed on to a Commission within the Constitutional Court. The nationalization of the ombudsman institution has been finalized and the BiH Ministry of Human Rights and Refugees has forwarded a draft law on Amendments to the Law on Ombudsman for HR in BiH to the Council of Ministers. The draft law is suggesting a two-year transitional period in which the current three institutions would continue to coexist. At the end of this period there will be a completely new, single institution for the whole BiH. Regarding trafficking of human beings, BiH has made certain changes in legislation, law implementation and within the non-governmental sector, but coordination and implementation of protective measures should be improved. Implementing NGOs, in particular the framework organisations, need to focus more on sustainability, local ownership and exit strategies in order to avoid donor dependence.

Project comments

- The Swedish Helsinki Committee has established a field office in Sarajevo which has lead to closer and improved contacts between SHC and Sida Sarajevo.
- The support to the Ombudsman Institutions in the Federation of Bosnia and Herzegovina (the Field Office in Velika Kladusa) ended in April, 2004 (Final Report 31 July) and will not be extended. The support to the RS Ombudsman (the Field Office in Foca) has been extended to include 2004. The support will not be extended.

- Support to the Press Council – The basic idea was that the Press Council was to be fully funded by the BiH press at the beginning of 2004. An exit strategy for Swedish support has been elaborated, but due to the current financial situation of most print media in BiH this goal has not been reached. Direct Sida support ended in February 2004. Discussions between the Press Council and the Swedish Helsinki Committee on possible funding are ongoing.
- The IOM Regional programme on return and reintegration of trafficked women and children – Discussions have been conducted with IOM locally as well as on HQ level on how to improve the programme. During the reporting period, the movie “Lilja 4 Ever” was screened twice in BiH (Sarajevo and Banja Luka). The screenings were followed by panel discussions focusing on the main message of the film. Although a great number of invitations were distributed, the campaign did not really succeed in reaching the intended target groups (police, judges, prosecutors etc). Discussions are ongoing with the OSCE on how to use the movie “Lilja 4 Ever” further in a nation-wide information campaign against trafficking.

4.2 Democracy, Good Governance and Gender

The strengthening of rule of law has continued to be a priority for the IC. The need for improved donor coordination is prevalent. The BiH State Court and Prosecutor’s Office are operational, but remain dependent on international funding and staff. The reselection of judges and prosecutors has been completed during the spring and finally a State level Law on a single High Judicial and Prosecutorial Council (HJPC) was adopted on March 11. Many donors in this sector leads to risks of overlapping.

Sida is following the overall progress of the European Commissions Stabilization and Association Process (SAA), which gives good guidelines for Good Governance and Democracy. The European Commission’s Feasibility study for opening SAA negotiations published in November 2003 pointed out 16 priorities for action for BiH. Already in April 2004, BiH got the European partnership approved by the European Council, which outlined short and medium term priorities which BiH need to address in order to move closer to Europe. BiH need to show during the year that significant progress has been made in order to meet these priorities if wishing European Commissions recommendation to begin negotiations for the SAA.

Even though considerable progress has been made in BiH, the country still suffers from significant structural weaknesses and is far from becoming a self-sustaining state. The existing constitution is complicated, costly and does not facilitate reforms, even though there are some good examples, for instance in the area of defense and indirect taxation.

The IC has made it clear that only BiH can initiate a change in the existing constitution. Sida together with other donors will continue to give support in strengthening the central government as well as creating good local governance on municipal level.

Municipal election, coming up on October 2nd will be very interesting to follow due to the newly adopted law¹ on direct election of heads of municipalities. Even though Sida does not expect major changes in regard to party dominance, Sida welcome the law which is another step towards a democratic state.

The Government on State level remains under-developed and tensions between the State and the Entities affect government reform. Public Administration Reform (PAR) has just begun and the EC has during the reporting period launched 8 Functional Reviews, which will feed into the PAR action Plan in beginning of 2005. The Functional Reviews include one horizontal review of Public Administration Institutions of BiH and seven vertical reviews of the Police, Minister of Justice, Return, Environment, Agriculture, Health and Economy sectors. To achieve effective administrative reform, efficient leadership and clear strategic guidance are necessary. So far only the police review has been presented, which clearly spell out the need for a state level police body.

On July 7, a Memorandum on PAR was signed, moving the Office for Public Administration Reform from the Minister of Justice to the BiH Council of Ministries, which is a clear signal of its importance.

Finally the implementation of the Law on Indirect Tax Authority (ITA) has begun. The adoption of the Law and the appointment of the director was achieved in December 2003, nevertheless, the implementation thereafter have been slow. Delays have also affected the introduction of Value Added Taxes (VAT). A VAT development team has been appointed and on July 6 the draft VAT Law was approved by the Indirect Taxation System Governing Board, including a single rate of 17%, a registration threshold of 50.000 KM² and an exemption and zero-rating regimes strictly in line with the requirements of the EU VAT directive.

The Office of the High Representatives initiated already in 2002 the need for a Civil Service Agency (CSA), which resulted in the establishment of CSA in RS in October 2002 and a CSA of BiH in February 2003. The leadership of the CSA in Federation was appointed only in March 2004 after long time of disagreement between the different parties. In order to get the FBiH CSA up and running, Sida has agreed to finance a Swedish Expert supporting the functioning of the Agency through UNDP.

The Directorate for European Integration (DEI) has developed an important role within BiH Council of Ministries and has emphasized to State and Entity bodies the importance of meeting the 16 Feasibility Study Reform Area on time. BiH has also begun work on a European Integration strategy, which will reflect BiH's declared aim of preparedness for EU accession by 2009.

Sida decided to continue support to de-mining this reporting period. Support, through a UNDP program, is not just limited to mine clearance but also institution building in civilian and military Mine Action structures.

¹ A state law on direct elections does not exist, only two entity laws. The context is though very much the same.

² KM – Convertible Mark – the local currency of Bosnia.

Project comments – Justice and Home Affairs

- The second phase of the GTZ Land Registry Project started in January 2004. Sida Sarajevo works actively to increase local ownership, institutional embedding and to coordinate with other donors.
- Implementation of anti-corruption plans (PACO IMPACT) – Council of Europe. Sida Sarajevo has worked to increase coordination with other ongoing programmes in this important sector.
- The secondment of Mr Jan-Erik Oja, President of the High Judicial and Prosecutorial Councils in BiH, was extended to 1 June 2004, due to the extension of the transitional period for the HJPCs. The law on a new single HJPC for BiH was adopted 1 June 2004. The Swedish prosecutor Mr Mats Mattsson has been seconded by Sida to the Special Department for Organized Crime, Financial Crime and Corruption in the Prosecutor's Office of BiH for 1 year.

Project comments – Local Democracy

- The NSU/MIFI project came to its scheduled close during the reporting period. New interventions are not foreseen. However Sida remains committed to supporting local government in a larger program with a comprehensive reform agenda (see below). NSU's final reports are due end of September at which time Sida will decide how to handle the remaining equipment. NSU plans to continue operations as a private company.

Project comments – Public Administration Reform

- A new 150 MSEK 3 year Governance Accountability Program (GAP) has been approved in this reporting period and will work on improving at least 40 municipalities out of BiH's 142. This program is a joint program with equal funding between Sida and USAID, improving custom service and administrative management system, expanding municipalities control over revenues, policy interventions on State and Entity levels, strengthening the common voice of local governments and facilitate municipal loan assistance will be main components of this large project. The project is to begin in July.
- IOM, Demobilisation of former soldiers. The Swedish contribution of 5 MSEK that was intended to be used up to September 2004, was already exhausted at the beginning of 2004. Based on current funding levels, IOM will have exhausted available funds by July 2004. IOM has submitted a proposal for an extension of the project. Discussions are ongoing with IOM and OSCE on how to restructure the programme and possibilities to link it with other Sida financed programmes aiming at job creation.

Project comments – Public Funding

- A new 15 million SEK 3 year UNDP Integrated Mine Action Programme has been approved in this reporting period. The project has a component of capacity building to the state BHMIC institution which manages the de-mining process. The other two components are

related to de-mining activity and building up a de-mining unit within the State level Defence Ministry. The project shall be monitored primarily through quarterly BHMACH and UNDP meetings.

4.3 Natural Resources and Environmental Protection

Rural projects

The main obstacle for improvements in agriculture sector is lack of central institutions. The responsibilities lay on entity level and in Federation being further dissolved to cantons. Enforcing the improvements, the international community initiates establishment of different bodies on the State level, such as State Agency for Water Management, State Veterinary Service etc. This segmented approach to the problem of unified legislation and responsibility has not given satisfactory results. PRSP has given recommendation and timeframe to unify the structure and the legislation in both agriculture and environment. It also recognises these as priority sectors, whereby the biggest and fastest results in trade balance could be achieved through agriculture production as the most of the imported goods are food and drinks.

One of Sida priorities in BiH is job creation, and agriculture has proven to be an instrument in this respect, as well as keeping demographic balance, developing rural areas and helping improving trade balance. During this autumn, the projects should be evaluated and recommendations for the next three-year strategy should be given.

Environment

Similar to other sectors, dissolved responsibility and not unified legislation is an obstacle for improvements in environment and natural resources management. In the donor's society, the leading role in environment is within the EU, UNDP, WB and some other bilateral donors. Currently, there is an opportunity being investigated to second a Swedish person for one of the environmental management positions at UNDP.

Sida is currently active on two projects; there are further discussions with potential partners, such as EBRD for potential infrastructure improvements with significant environmental impact.

Project comments

- *LWF Tuzla, Cow-How, Maglaj. Grolink/ECON.* The projects in general seem to be reaching more people, improving their professional level, and establishing their new market links. There are currently 24,000 families involved in Sida agricultural production projects, of which 11,500 entirely live on it.
- Last year a Swedish company Olle Swensson has, through *Econ*, bought larger quantities of raspberries from Eastern Bosnia. It led to greater interest of the company to invest into a cooling chamber in Srebrenica, which Olle Swensson finished in June 2004. Approximately 700 families shall be supported by Econ, LWF Tuzla and Caritas to start producing berries, in Srebrenica, Bratunac and Zvornik municipalities. Additionally, 30 people are employed in the chamber itself.

- *LWF Tuzla* has been recognized as the most serious producer of seedlings in the Balkans, and as such is negotiating commercial cooperation with one of the biggest world seedlings producers, the Dutch company Grow Group. The opportunities of such an arrangement are massive production of seedlings in B&H for the domestic market and for the countries around.
- Using the gained experience in *Sanus Futurum*, *Region Halland* is preparing project proposal on improvement of vocational agriculture education in Bosnia and Herzegovina. The proposal should be handed in during the fall.
- As part of the regional programme, B&H is encompassed by the preparation for potential Swedish support to *Regional Plant Genetic Resources Network and Food safety and quality control*. The Sida Sarajevo office expects further development in this respect.
- *District Heating in Živinice* – Last autumn, Sida KOMIN has approved the co-financing of the district heating in the town of Živinice, which would use excess hot water from the thermal power plant in nearby Tuzla. The envisaged partners and co-financiers of the project are Elektroprivreda, Tuzla canton and Živinice municipality. Unfortunately, the project is on hold for almost 9 months, due to unwillingness of one of the partners, Elektroprivreda, to finance their part of the project. As the response of all other co-financiers was very good, and the project has been thoroughly prepared, Sida might consider other ways of project realisation.

4.4 Economic Growth

Private Sector Development, Infrastructure,

In the Medium Term Development Strategy, the B&H government has recognized some important problems to private sector development including a) the absence of a single economic space (internally divided market) is a significant obstacle for approximation to the EU b) administrative barriers to setting up and operating businesses, and high costs of doing business (i.e. tax rates that are among the highest in Europe) c) weak business environment and judiciary capacity for commercial disputes.

More than the average transitional economy, the BiH economy is suffering from significant structural weakness and a weak enabling environment, particularly evident in the weak national government. Sida's view to economic growth is similar to its other sectors where it is aimed at increasing support to State level institutions and also interventions on the very local level aimed at the poor, which is in line with its strategy of creating the conditions for EU integration. Local or micro level economic support is exhibited in micro credit based sustainable job creation programs. Support is also directed at improving the dialogue between business and government by supporting the development of business associations (on local, regional and state level) and strengthening the business voice. State level support thus far has been limited due to lack of partner but this is now changing and the plan is to develop programs which aim to strengthen the economic and social policy analysis capacity. During the reporting period, it was also decided that Sida start looking at the forestry sector primarily as it relates to the employ-

ment generation potential (generating rural welfare) and not the development of the whole sector. Some resources are also planned for addressing the complex structural adjustment needs by complementing EU and World Bank programs.

Infrastructure support is limited to technical assistance to the State level government in drafting new legislation for the railways in line with the EU requirements. Pending success of this phase, Swederaail and Sida are interested in continuing support to railways.

Refugee return

The last statistics show slight declining in return for the period July 2003–March 2004. Nine years after the war such trend is expected. Lack of support for housing reconstruction is also a great obstacle to this process. The return focus is right now in the Eastern Bosnia, where, due to security reasons, people started to return only 2 years ago.

The Ministry for Human Rights and Refugees is being strengthened for taking over the leading role in return support. Its complementing body, State Commission for Refugees and Displaced Persons, has adopted regulations and operational procedure for returnee selection. Once the database is updated, the municipalities will be prioritised for financing.

The financing instrument- the return fund- has not completely been established; only recently a manager was appointed. The Fund shall be filled from entity budgets and by loans. Entity budgets have allocated 16 Million KM for return support through State structures, yet it has not materialised, as the fund manager shall make propositions for money transfer.

The other viable source to finance the return process is with the Council of Europe Development Bank (CEDB). According to the Bank people, the loan of approximately 12 MEUR shall be approved in October this year. Prior to that, the State Commission for Refugees and Displaced Persons shall approve of fund matching to the loan; also MHRR has to submit a satisfactory project proposal for housing support for returnees.

Project comments – Private sector development

- The World Bank Business Environment Adjustment Credit (BAC) has been extended, as has the Sida funded subproject on the reform of the BiH government inspectorates on all levels. The BAC is a complex 44 million adjustment credit program comprising several subprojects. The reform of the inspectorate system is currently at the end of the first phase of legal reform and is awaiting the passage of the laws before it will enter into the second and final phase of a training of inspectors in new procedures.
- The Poverty Reduction Strategy Paper (PRSP) has come to a scheduled close. The PRSP has been adopted and renamed as the Medium Term Development Strategy of the BiH Government. An office under the Council of Ministers called Economic Policy Planning Unit (EPPU) has been established and is tasked with the monitoring of implementation of MTDS and developing policy. The EPPU will be the partner in future works at capacity building at the State level for economic policy.

- The World Vision Eastern RS and Housing Co operative projects have been closed and a completely new redesigned project was decided on called Credit and Business Support for Housing and Economic Development which combines elements on the previous pilot projects as they relate to providing sustainable support to return communities by combining small grants with micro credit access for start ups. The grants components are small relative to the micro credit and are designed to phase out by graduating entrepreneurs to commercial viability and creditworthiness. Unlike the pilot housing cooperative project, there is no grant/subsidy element to home improvement loans.
- The pilot Home Improvement Loan Programme under the micro credit organization Rez Fond founded by CHF International ended this reporting period. After the success of the pilot, Sida is considering additional support to the micro credit organization, in order to help it to develop into full sustainability.
- Sida approved a 13 million SEK project aimed at complementing the EU Regional Economic Development program. The project is implemented by CHF International and is called Regional Economic Development Initiative (REDI). The main project goal is to support the creation of a regional economic development agency for the Central Bosnia region as one of the 5 regions defined under the EU program. CHF is well positioned as partner and implementer due to their previous experience in the central region implementing a USAID program aimed to improving governance and mobilizing local business communities for reform.
- Sida funded a consultancy assignment to explore the possibility for using guarantees and evaluate the viability of a sector based approach as opposed to direct micro credit support. The results are positive to rewarding a guarantee option for the whole sector and Sida is currently in discussion with the Swedish Guarantee Agency (EKN) on the feasibility under the BiH scenario.

Project comments – Infrastructure

- ÅF/Swederail, railway management consultants continue to be part of the legislative reform process here which has been stalled for the past several months. The reasons are political in nature but there is recent evidence of a potentially more favourable situation and compromise. Legislation will be submitted to Parliament at the end of September after which it will take an estimated 2–3 months for passage. Until the legislation is passed Swederail cannot proceed with plans to get more involved with the local railways authorities.

Project comments – Refugee return

- For the next strategy period 2006–2009 a plan shall be created to exit the IAP's. Gradually the responsibility for support to returnees shall be transferred to local institutional structure. Through current projects of Regional centres and *Council of Europe Development Bank* (CEDB) membership Sida is already involved in boosting the struc-

ture. Through other sectors and programmes, such as GAP or income generating activities, Sida can smooth the effects of reduced return funding.

- The *regional offices of the MHRR*, aiming at strengthening local institution's capacity on refugee matters, have been established and started to function. Although having problems (managers of the four offices not appointed yet, due to delays at CSA), the centres are up and running in all four areas.
- Using Sida support, B&H became member of CEDB in December 2003. Since then, there are efforts of local authorities and the Bank representatives to consolidate the local structure in terms of share of rights and responsibilities between different ministries. A credit of 8 Mil Euro from The Bank and 4 Mil Euro of local contribution shall be released until October 2004. With this money the return process should be supported by housing. If this process will be done in a satisfactory manner, the Bank is ready to discuss much larger funding. The Bank is also investigating the possibility and instruments for funding economic development. As the institutional structure this type of on-lending should be much stronger than for housing, this seems to be subject of future discussions. The Bank can also lend directly to municipalities, though this is impossible at the moment due to legislation. Sida personnel and GAP project are taking steps in improving this legislation.
- The *property law implementation project* led by CRPC in Bosnia and Herzegovina is in its final stage, and the Sida support ended in March 2004. CRPC has transferred the equipment and data base on properties to the MHRR. This has not been a smooth process, as the State has not paid the agreed amount to CRPC. As a consequence, CRPC also cease to exist as an agency in BiH, leaving behind no reports for all the interested parties. Nevertheless, the PLIP is to be evaluated as one of the most successful processes in B&H, as well as the most successful property law implementation in the entire region.

4.5 Social Development

The support to social work in BiH implemented by the Department of Social Work, University of Stockholm has been evaluated during the period. The report concluded that the ongoing project should continue and phase out during a 1,5 year period, but that more efforts should be spent on including the Sarajevo University, development of measurable indicators and to overcome the tensions between students from different levels of education. A social sector strategy will be elaborated later this year.

Project comments – Culture

- Cultural Heritage without Borders has submitted an exit strategy for the Swedish support to Sida as a basis for a gradual taking over by the owner.
- The co-operation in the field of music has been evaluated during the period. The report concluded that the relationship between the Royal

Colleague of Music in Stockholm and the Music Academy in Sarajevo and other partners has not been properly institutionalised and underlined the need for a change into one coherent programme, backed by a formal contract and a more decidedly institution-to-institution collaboration. The Royal College of Music has submitted a new proposal for continued cooperation during 2004, including a small element of institutional capacity building.

Project comments – Youth

- The support to the two local NGOs for youth, children and students (FRK and CSI) ended by January 2004. Caritas Sweden is no longer willing to work with FRK and has not submitted any proposal for continued cooperation with CSI. Due to lack of administrative capacity and the limited size of the project, Sida has decided to reject an application submitted directly by FRK. Sida will await the development of the social sector strategy, before making any further commitments in this area.
- The Balkan Children and Youth Foundation have been evaluated during the reporting period. The evaluation is expected to be the basis for assessment of possible continued support.

4.6 Miscellaneous

Visits

In March Sida's Director General Ms. Maria Norrfalk paid a visit to BiH in order to see Sida's projects and to discuss with IC a joint and harmonised support to integration of BiH into European structures. With the top level BiH officials Ms. Norrfalk discussed implementation of PRSP and continuation of Swedish support based on the three year Swedish Government Strategy for BiH.

In June, the Swedish International Development Cooperation Minister Ms. Carin Jämtin visited BiH. Programme of her visit included meetings with the top BiH state officials. Ms. Jämtin also met with High Representative Lord Ashdown and the highest EC Delegation officials.

Frame Agreement

On 30 June, the Swedish Minister for International Development Cooperation, Ms. Carin Jämtin signed the Agreement on Terms and Conditions for Development Cooperation with BiH. This agreement replaced the first one signed in 2000.

Secondment

OHR-Within the report period, under the agreement between Sida and OHR, two Swedes have had senior positions at OHR (in Anti Crime and Corruption Unit /ACCU and the Political Unit respectively). Secondment of two Swedish prosecutors at ACCU is underway.

UNDP-As a result of Sida's increased interest for secondment, Sida was offered four senior positions at UNDP. Outcome will be reported on in the next report.

5. Concluding remarks

Since April 2004 the Sida section within the embassy is fully staffed and the work load seems now to become more normal. Being the biggest bilateral donor means more time for meetings. On the other hand more efforts have been purposely devoted to contacts on high level within the government structures and with major donors since institution strengthening and reform work is increasingly important. Contacts and assistance from Sida HQ is with a few exceptions excellent and our task here would not be possible without this close cooperation. The same should be said regarding the internal cooperation within the embassy and its leadership. We will continue to trim the program, to encompass fewer and major interventions in close cooperation with BiH authorities, EC and other major donors with the long term objective of BiH being a member of the European family. In spite of all difficulties I think we all feel that we make a difference working here.

Annex: Project list

Ongoing project and disbursement statistics, implementary partners.
Currency: Swedish kronor.

Partner	Project name	PLUS	Officer	Country	Sector	Data			
						Committed for 2004	Planned for 2004	Disbursed for 2004	Planned for 2005
Caritas	IAP Eastern BiH 04	76002987	JB	BIH	RR	11 200 000	-	7 000 000	-
	IAP Sarajevo + RS	76002749	JB	BIH	RR	21 917 000	-	12 655 000	-
	IAP East BiH	76002987	JB	BIH	RR	11 200 000	-	7 000 000	-
CHF	REDI project	76002876	ALO	BIH	PSD	3 400 433	-	-	5 909 771
	REZ Fond, LIDER	76003167	ALO	BIH	PSD	4 600 000	-	-	9 200 000
GTZ	Land registry, continuation of support	76002941	SB	BIH	JHA	12 250 000	-	7 000 000	5 250 000
	Legal reforms in BiH, ownership/property	76002089	SB	BIH	JHA	3 441 260	-	-	-
Göteborg Film Fest.	Sarajevo Film Scholarships	76002039	GU	BIH	HCY	105 000	-	-	-
KfK	Women's projects, framework	76002942	EN	BIH	HRD	7 140 000	-	7 410 000	-
LWF	IAP North Eastern BiH	76002973	JB	BIH	RR	27 188 000	-	21 000 000	-
	IAP Sanski Most 2004	76002982	JB	BIH	RR	28 000 000	-	20 000 000	-
	IAP Tuzla agriculture projects	76003002	JB	BIH	RR	31 730 000	-	24 730 000	-
	IAP 2003	76002615	JB	BIH	RR	6 732 000	-	6 732 000	-
	IAP Tuzla Agriculture 2003	76002621	JB	BIH	RR	962 000	-	960 000	-
Ministry HR & Ref	Regional centres	76002911	JB	BIH	RR	1 940 000	-	1 455 000	-
OHR	Extension of secondment OHR: HJPC	76002380	SB	BIH	JHA	644 609	-	515 000	-
	Secondments	76001869	GU	BIH	MSC	5 371 802	-	1 738 765	3 000 000
PEP	Reconstruction	76002920	JB	BIH	RR	8 310 000	-	-	-
PMU	IAP BiH 2002-03	76002425	JB	BIH	RR	208 000	-	27 136	-
RPS	enhanced capacity at the Interpol office, Sarajevo	76002697	SB	BIH	JHA	2 038 000	-	234 408	-
RS Ombudsm.	Ombudsmen Republika Srpska	76003070	PB	BIH	PAR	750 000	-	375 000	-
SHA	EVIs BiH 2003-04	76002830	JB	BIH	RR	17 693	-	17 693	-
SHK	Democratisation regional, framework 2004	76002989	PB	BIH	HRD	6 650 000	-	3 325 000	-
	Democratisation regional, framework 2003	76002603	PB	BIH	HRD	135 000	-	-	-
SwedRail	Restructuring BiH Railways	76000409	JA	BIH	INF	250 000	-	-	-
UNDP	Mine Action Plan	76003085	JB	BIH	PAR	5 000 000	-	-	5 000 000
UNICEF	Health projects "The right to know"	76002546	UHe	BIH	HCY	980 000	-	-	-
USAID	Governance Accountability (med USAID)	76003104	JB	BIH	LDE	10 000 000	-	-	25 000 000
World Vision	Credit and business support, EKI	76003152	ALO	BIH	PSD	7 254 000	-	-	8 370 000
(blank)	Information material	76003077	MS	BIH	MSC	30 000	-	24 290	-
	SHA EVIs 2003-04	76002740	JB	BIH	RR	1 730 000	-	-	-
	Community Housing Credit	76001957	ALO	BIH	PSD	389 268	-	389 268	-
	Consult Support Cow How	73004877	MBr	BIH	RUR	82 000	-	69 331	-
	Agriculture Education Prep	73000558	MBr	BIH	RUR	440 000	-	87 216	-
EWI	Transfrontier S Adriatic	76002783	EW	BIH	LDE	500 000	-	-	133 333
Grolink	Organic Agriculture	73000494	MBr	BIH	RUR	2 689 133	-	1 235 270	1 500 000
Fjärrvärmebyrå AB	Zvinice District Heating prep. Consultant	71800023	IS	BIH	INF	243 544	-	-	-
Finconsult Int.	Study credit guarantee	76003049	ALO	BIH	PSD	206 000	-	182 986	-
Field Admin.	BIH-SAK-01	21250016	GK	BIH	MSC	1 600 000	-	872 012	-
	BIH-SAK-02	21250003	GK	BIH	MSC	1 700 000	-	752 773	-
	BIH-NPO	21259003	GK	BIH	MSC	645 000	-	459 668	-
REC	LEAPs in Bosnia-Hercegovina	71001566	HH	BIH	ENV	2 500 000	-	1 000 000	3 000 000
Swedish Institute	Swedish Institute	76002223	GU	BIH	HCY	360 000	-	-	-
PRONI	Youth Work	76002594	GU	BIH	HCY	2 538 400	-	-	-
Culture without Borders	Regional projects for culture preservation	76002651	GU	BIH	HCY	6 704 852	-	4 798 000	-
	Regional projects for culture preservation 2003	76002222	GU	BIH	HCY	387 507	-	387 507	-
Foundation Together	Together	76002910	GU	BIH	HCY	480 000	-	480 000	-
OFFS	Open Fun Football Schools	76003021	GU	BIH	HCY	646 000	-	646 000	-
OPIC	HR and democracy, framework 2004	76002983	PB	BIH	HRD	3 960 000	-	3 960 000	-
Reng Consulting AB	UNECE Env Per Rev	76002880	HH	BIH	ENV	66 416	-	48 794	-
Setterwalls Advokatbyrå	Draft Agreement GAP	76003088	JB	BIH	LDE	37 000	-	33 300	-
Götestam Consultant	Evaluation Social Sector	76002977	GU	BIH	HCY	178 500	-	144 154	-
COWI Consult	Mid-term Review Music Sector	76003069	GU	BIH	HCY	75 000	-	74 185	-
U-konsult	Quality group for GTZ Land registry	76003137	SB	BIH	JHA	105 000	-	105 000	-
NSU/Iteneris	Information System	76002335	EW	BIH	LDE	902 900	-	-	-
UMG	Review Inteneris	76002932	EW	BIH	MSC	135 000	-	122 215	-
Riksrevisionen	Government Audit	76002275	BO	BIH	PAR	15 058 363	-	1 348	9 000 000
WVI/EKI	(blank)	76001880	ALO	BIH	PSD	352 717	-	352 717	-
WVI	Microfinance gen	76000927	ALO	BIH	PSD	398 551	-	-	-
Viktoria Resurscentrum	Cow How Maglaj	73004681	MBr	BIH	RUR	1 095 157	-	-	-
	Cow How Maglaj II	73004870	MBr	BIH	RUR	3 000 000	-	2 000 000	3 500 000
Kenneth Hermele	Assessment Tuzla Glasshouse	73000574	MBr	BIH	RUR	49 000	-	-	-
Grand Total						267 889 705	-	105 000	139 482 940
								78 863 104	

Halving poverty by 2015 is one of the greatest challenges of our time, requiring cooperation and sustainability. The partner countries are responsible for their own development. Sida provides resources and develops knowledge and expertise, making the world a richer place.



SWEDISH INTERNATIONAL
DEVELOPMENT COOPERATION AGENCY

SE-105 25 Stockholm Sweden
Phone: +46 (0)8 698 50 00
Fax: +46 (0)8 698 56 15
sida@sida.se, www.sida.se