

**ANNUAL ACTION PROGRAMME FOR BOSNIA AND HERZEGOVINA  
CARDS 2006**

**1. Identification**

<b>Budget heading</b>	<b>22 05 01 Assistance for the Countries of the Western Balkans</b>
<b>Total cost</b>	<b>€43.8m</b>
<b>Legal basis</b>	<b>Council Regulation 2666/2000 as amended by Council Regulation (EC) No. 2415/2001</b>
<b>Year</b>	<b>2006</b>
<b>Contracting</b>	<b>All contracts must be concluded after the signature of the Financing Agreement and within 36 months following the date of the budgetary commitment.</b>
<b>Implementation</b>	<b>The Final Date of Implementation of projects under this proposal is 31.12.2014. Therefore, all activities, including contracts, payments, monitoring, audits and evaluations must end by 31.12.2014</b>

**2. Country update**

At the end of 2005 Bosnia and Herzegovina (BiH) was granted the recommendation to begin the negotiations of a Stabilisation and Association Agreement (SAA) with the European Union. This was possible after that the two remaining reform areas, police reconstruction and public broadcasting, among the 16 priority points in the Feasibility Study from 2003, had reached acceptable progress. Thereby BiH is on track and moving forward in the European Integration process.

The Council of Ministers and the BiH Parliamentary Assembly has in general been favourable to European Integration and most legislation related to the Feasibility Study has been adopted in an expeditious manner. However, some special laws have been delayed and prevented by political parties and there is occasionally strong resistance on Entity level to transfer competences to State level. The BiH Directorate of European Integration (DEI) has continued to play an important role within the BiH Council of Ministers and to promote European Integration in general. In May 2005 an Action Plan, developed by DEI, to address the European Partnership priorities was approved. DEI has also played a key role in promoting the debate of European integration and has held regular seminars and meeting with the public.

Regarding democracy and rule of law, the consolidation of the State-level ministries and agencies has continued to proceed slowly. Although the State level Ministries have become operational, many of them are still under-staffed and with e.g. limited legislative drafting abilities. The Legislation Office has been established and the General Secretariat is now operational, even if it still lacks enough staff to carry out its tasks. Despite some improvements, the BiH public administration remains slow and costly. Besides the earlier reviews, a system review of the entire public administration was published in March 2005, examining horizontal aspects such as human resources, public finance, legislative drafting, administrative procedures, IT and institutional communication. Implementation of the recommendations has so far been slow. Within the Judicial system, the War Crimes chamber was established in early 2005. There continues to be a significant backlog of cases, particularly in the field of civil and administrative law. Knowledge of EU law is still limited. The High Representative has appointed the Director of the State

Investigation and Protection Agency (SIPA) and the Director of the State Border Agency (SBS). Progress regarding the implementation of the Law on Defence has been considerable, where the Defence reform package was approved by the Entity parliaments.

In terms of strengthening human rights, there has been some progress. Certain laws have been adopted as well as transfer of some human right bodies from international to BiH control. Human rights are generally provided for in the legislation, however in practice they are not always followed up, e.g. standards of prisons, availability of legal aid, ethnically motivated religious violence, separation of children in education, minority rights. Even though returns of refugees and displaced persons has reached significant results, it has not yet been completed and to make the returns sustainable demands extra efforts in socioeconomic development. BiH has made good progress in establishing adequate structures to deal with asylum and migration. Regarding the civil society, while there is a legal basis to operate 'state-wide' NGOs still face serious difficulty in raising funds and many still act on an ethnic basis.

The economic situation continues slowly to improve, GDP growth rate for 2005 is estimated around 5–5,5 %, but external imbalances remained large, mainly due to large trade deficit. FDI inflows have increased, but officially still up to 40% of the population is unemployed. Around 20% live below the poverty line, with a further 30% close to it. Structural reforms have progressed, although in some areas at a slow pace. In May 2005 a National Fiscal Council was established. Even though few large privatisation deals have been concluded, the overall progress is slow. The financial sector, and in particular the banking sector, has continued to be strengthened and the regulatory environment has improved. Coordination of economic policies has improved, but further improvements are needed. Inflation has been slow, but is showing signs of an increase. Despite continued fiscal consolidation, public expenditure remains large. The business climate has slightly improved and some barriers have been reduced, but enterprises are still facing hurdles to grow. The banking sector is dominated by foreign-owned banks and the sector has continued to expand and deepen. The social and economic rights of BiH citizens remain limited by continuing economic debility. Large numbers are not covered by health insurance and parallel health systems still persist. A reform process is ongoing in the education sector, but nationalistic obstructions are still effective.

### **3. Objectives of the Action Programme**

The European Partnership with Bosnia and Herzegovina was adopted on 9 November 2005, on the basis of its findings in the 2005 Progress Report on BiH. This renewed European Partnership lists short- and medium-term priorities for the country's preparations for further integration with the European Union. The European Partnership priorities forms the basis for programming the financial assistance of the Community, which will continue to be provided under relevant financial instruments, in particular Council Regulation (EC) No 2666/2000 of 5 December 2000 (CARDS).

The conclusions from the 2005 progress report states that BiH has made further progress in tackling the main priorities identified within the SAP, and that progress should now be accelerated. In this respect, it is pointed out that that all the necessary public broadcasting legislation, including at Entity level, should be adopted and applied, that the agreement on the police restructuring should be properly implemented and that full co-operation with International Criminal Tribunal for Former Yugoslavia (ICTY) should be rapidly achieved. Addressing the shortcomings identified in the Progress Report is crucial in order for Bosnia and Herzegovina to make continuous progress towards the EU.

The **overall objective** of this Annual Action Programme is as per the Multi Annual Indicative Programme 2005-06, “to support the participation of Bosnia and Herzegovina in the Stabilisation and Association Process (SAP)”.

The **specific objectives** of the Multi Annual Indicative Programme (MIP) 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 build 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 environment 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 Action Programme proposal consists of projects in the following priority sectors:

### **Democratic Stabilisation**

EC support under the democratic stabilisation heading will focus on the areas of institutional strengthening, reintegration of refugees and further support to free and independent media.

By October 2005, out of an estimated 2.2 million persons forcibly displaced during the war, over one million refugees and Displaced Persons had returned to pre-war homes and municipalities. Nonetheless, the return process has not yet been completed and BiH representatives estimate that approximately half a million people still wish to return. In addition to this, the wide range of conditions required to make return sustainable and promoting reintegration. Lessons learned prove that in particular in the social field continued efforts are required to promote sustainable return and reintegration. This implies the need for BiH authorities and other non-state actors to fight discrimination and promote reintegration. The BiH Ministry of Human Rights and refugees has an increased leadership role in the whole return process and needs further institutional strengthening.

Two key media institutions in BiH need to be further supported, the Communication Regulatory Agency (CRA) and the Public Broadcasting System (PBS). The CRA needs further strengthening to be able to fulfil its task, while the weak financial situation and inefficient management of the Public Broadcasters is the main concerns for its sustainability. The reform process has started within the Public Broadcasters, but there has been a lack of progress. Now that the law has been passed, possible progress could speed up.

The European Initiative for Democracy and Human Rights covers areas which are complimentary, such as civil society development, minority rights, help to victims of torture etc.

Broadly, the following interventions are foreseen:

- Institutional strengthening of the Ministry of Human Rights and Refugees
- Grant scheme to non-state actors to diminish discrimination against returnees
- Support to independence and empowerment of Communications Regulatory Agency
- Support to the workflow of Radio Television News Production and Archiving

<p><b>Good Governance and Institution Building (Justice and Home Affairs and Public Administration Reform)</b></p>
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EC support under the good governance and institution building heading will focus on the areas of justice and home affairs, to support the establishment of state structures in order to ensure the rule of law and the state's security, as well as public administration reform, to strengthen the public administration sector and enable it to efficiently perform its public and policy-making functions.

In order to move forward in the EU integration process, it is of significant importance to continue administrative reforms and capacity building of the justice and home affairs sector. It is imperative, both for the rule of law as well as for economic development, that BiH possesses a judicial system that is capable to deliver timely and efficiently. A political agreement was reached in October 2005 on police reform, which provides a basis for continued state-building in this sector. Within Asylum and Migration there has been significant progress so far, but tight budgetary situation, fragmented administration and understaffing remains problems. A National Integrated Border Management (IBM) strategy for BiH was adopted on 4 July 2005, which needs support to be implemented

BiH has slowly begun to address the related findings of the Feasibility study, which identified public administration as a major challenge for BiH. A Coordination Office for the Public Administration Reform (PAR) was established in October 2004. The PAR Coordinator has played a role in promoting the public administration reform agenda, and after initially being hampered by the lack of budget, personnel and space, the Office has found premises in September 2005 and is supported by EC technical assistance. The PAR Strategy and Action Plan for reform will be presented shortly. The functional reviews in seven sectors (police, justice sector, education, health, agriculture, environment), together with the system review of horizontal aspects, form a basis for detailed recommendations on how to improve the BiH public administration and make it more cost effective and efficient.

In order for BiH to receive decentralised support from EC, continued assistance will be provided to build those capacities within DEI and Ministry of Finance and Treasury (MOFT).

Broadly, the following interventions are foreseen:

- **Justice and Home Affairs**
  - Judicial Reform (support to detention units, renovation of judicial premises, support to High Judicial and Prosecutorial Council (HJPC), purchase of ICT equipment/Legal Libraries),
  - Police, Organised Crime and Terrorism (support to National Security Authority, support to State Border Service, support to Ministry of Security for the implementation of the police reform (incl. Police Operational Centres), establishment of Centre for Irregular Migrants),
- **Public Administration Reform**
  - Capacity building projects (support to public procurement system phase III, Scholarship and EU integration training of civil servants, twinning with the Office

- for legislation, Energy Regulator, support to Economic Policy Planning Unit (EPPU),
- ICT infrastructure development (support to statistical institutions, Human Resources Management Information System, support to E-government),
  - Decentralised management of EC funds (introduction of Decentralised Implementation System - DIS, project preparation facility),

## **Economic and Social Development**

EC support under the economic and social development heading will be multi-faceted and focus on the areas of sustainable economic, **environmental**, **social** and regional development, trade facilitation and investment support as well as education and employment.

Economic and social development is a pre-requirement for BiH to move forward in the EU integration process. The BiH Government has already adopted an Action Plan for implementation of mid-term priorities of the European Partnership, which includes a number of measures and implementation of commitments in the areas of free trade, transport, energy, environment etc. Even if BiH has shown some signs of improvement in economic growth, there are many problems remaining. The development of Small and Medium Sized enterprises (SME) sector is faced by a host of barriers and BiH needs to intensify efforts towards business friendly environment in which enterprises can easily function, which involves creation and protection of the single economic space, developed functional institutions, as well as policies and programmes coupled with financial and fiscal support. Regarding trade, membership in World Trade Organisation (WTO) and EU, requires to ratify and implement a number of International Conventions and Treaties as well as Intellectual Property Rights provisions in the *acquis*. Substantial war destruction and lack of maintenance have rendered the BiH transport infrastructure as a constraint for at present a limited growth of economy in BiH.

Although neither the State nor the Entities have any clear environment policy, some important programmes for environmental action have been prepared and adopted in recent years. The National Environmental Action Plan (NEAP) was the first document specifically oriented to environmental problems. Capacity building as well as improved coordination is needed among environment institutions. A functional review of the administration of the education sector was conducted in 2005 and the recommendations should be implemented as part of the Public Administration Reform process. BiH has also committed to implementing the Bologna Criteria and the Lisbon process, but little progress has been made in this respect as a state-level framework law on higher education has still not been passed. While BiH has initiated steps for labour market reforms, medium- and long term employment policies and strategies needs to be developed and implemented.

Broadly, the following interventions are foreseen:

- **Investment Climate** (including operational grants to Regional Economic Development Agencies - RDAs through Direct Agreements, as well as cross-border cooperation)
- **Trade** (capacity building and protection of Intellectual Property Rights in BiH)
- **Infrastructure** (transport and environment)
- **Environment** (strengthening State capacities for environmental Management in BiH)
- **Education and Employment** (Vocational Education Training - VET system, Employment policy reform and establishment of labour information system)

## Community programmes

A further step towards EU integration will be the opening up of Community programmes.

The EU agreed in the Thessaloniki Agenda to open participation in Community programmes to the Western Balkan countries, following the enlargement model. The Commission proposed concrete steps to make this possible underlining the need for a selective and gradual approach. The BiH financial contribution ('entry ticket') required to cover the expenses of its participation in such a programme may, based on a Memorandum of Understanding (MoU) between BiH and the Commission, be partly paid through the CARDS budget.

A framework agreement with the European Community laying down the general conditions for BiH's participation in Community programmes is being ratified.

The MiP specifically provides for supporting BiH in its engagement with EC Community programmes through two measures, 1) paying part of the BiH "entry ticket" cost and, 2) co-financing of accompanying measures such as administrative preparations, communication, and training of potential applicants in the preparation of proposals.

BiH is aiming towards participation in Community programmes, such as e.g. Intelligent Energy Europe, Action programme to combat discrimination, Public Health, Daphne II and Marco Polo. Support programmes are ongoing to DEI and sectoral ministries to ensure adequate preparation. Entry-tickets are paid for by the CARDS 2006.

## Implementation

Successful implementation of the Cards 2006 programme requires the BiH government to make particular efforts to ensure the appropriate conditions for the implementation of the programme, including having the adequate endowment of qualified full-time personnel, as well as operating budgets and other necessary conditions for the effective implementation of programs.

In particular, designated Senior Programme Officers (SPOs) at an appropriate seniority level in key Ministries or Implementing Authorities at State level, will maintain the responsibility to ensure and facilitate program implementation, as well as co-ordination of actions with the European Commission and the DEI at sector level.

### 4. Past EC assistance and lessons learnt

Programme / Year	Allocated * (M€)	Contracted* (M€)	Contracted (%)
CARDS 2001	105.23	99.24	94.31%
CARDS 2002	70.30	70.10	99.71%
CARDS 2003	60.60	60.24	99.41%
CARDS 2004	69.60	61.03	87.69%
CARDS 2005	49.40	18.78	38.02%

\* at 24<sup>th</sup> January 2006; Tempus allocations not included.

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

**Focus on building effective and efficient State Institutions.** In several sectors it has been identified the need to build stronger State Institutions, as part of a wider reform agenda of finding the right balance between competencies on State and Entity level. This is important not only to build a more effective BiH, but also to enhance its capacities to negotiate with EU and to move forward in the EU integration process.

**Increased coordination of activities and policies.** Lots of sporadic and uncoordinated assistance has gone to various sectors and reform processes in BiH. The lack of proper donor coordination as well as lack of enough coordination of policies within various sectors has contributed to unclear and inefficient development processes. It is therefore important to pay specific attention to increased coordination of activities and policies.

**To move from projects to programmes.** Ever since the Dayton Peace agreement in 1995 and the huge inflow of development assistance, there has been a strong focus on project support. The shift from humanitarian assistance to development cooperation, as well as decrease of donor funds, points to the need of further introducing larger Sector Wide programmes, in order to further harmonise support and policies.

**Involvement of domestic institutions in programming.** In previous years of programming of CARDS it was recognised that the level of involvement on the government side should be significantly increased, that the domestic institutions should play a more influential role both in the definition of strategies and in the implementation of projects. During the programming of CARDS 2005 and 2006, major and significant steps have been taken to increase the local ownership and leadership in this process, with increased capacity and readiness of the Aid Co-ordination Unit of the Directorate of European Integration. The BiH authorities are on a good way to soon be ready to implement a decentralised system of aid management. However, lessons learnt also prove the importance to involve participants of all levels in BiH and in this regard it will be important to continue to establish good horizontal and especially vertical relations to entity levels in the BiH political structure.

**Greater participation of civil society.** In some sectors, a persistent lack of interaction between public authorities and civil society is still evident in the decision-making process. Whilst projects introduced in CARDS 2004 and 2005 have begun to address some of these issues, there remains a need to identify non state actors (NSAs) to promote an effective dialogue with the civil society. Involvement of civil society has benefited from the process of the BiH Development Strategy (Poverty Reduction Strategy Paper - PRSP) which has raised awareness in Government of that sector's issues.

## **5. Complementary actions**

The Financing Proposal 2006 for Bosnia and Herzegovina will be complementary to the CARDS Regional Programme, in particular in the areas of Institution Building, JHA, and infrastructure development. Earlier regional programmes are still under implementation and are used as inputs for the present programme, particularly as regards Integrated Border Management, energy and asylum and migration.

As regards customs and taxation, the Customs and Fiscal Assistance Office - CAFAO mission will continue to support the BiH Indirect Taxation Authority capacity for maximising revenue collection, reducing fraud and corruption and ensuring smooth introduction of VAT.

The European Initiative for Democracy and Human Rights (EIDHR) continues to operate in BiH and was de-concentrated in 2004. Tempus programme also provides assistance to the Higher Education reform in the country.

BiH already benefits from TAIEX and participated in a number of regional seminars covering selected areas of the *acquis communautaire* since the summer 2004. The CARDS regional programme will also allow for and finance further participation in some Community Agencies in 2005-2006.

## **6. Donor coordination**

### **With EU Bodies and Member States in BiH**

Meetings were held in Sarajevo during the development of the AP to which the European Union Special Representative (EUSR), European Union Police Mission (EUPM) and all Member States were invited and at which the priorities of the AP were presented in order to ensure complementarity with Member States' bilateral assistance plans. Proposed activities give consideration to MS projects. Specific co-ordination meetings have been conducted to inform MS of each fiche's objectives and activities and MS have advised the Delegation of any aspect where they wish to co-ordinate further. Joint actions are ongoing for the implementation of PAR.

### **With the government and donors**

BiH authorities were closely involved in programme preparation through the BiH Directorate of European Integration at all stages. The Senior Programming Officers (SPOs) have been responsible for the development of project proposals within their respective institutions. Special project preparation committees (PPC) and project management committee (PMC) have taken place regularly during the development and programming process.

The main donors involved in the respective areas of assistance were involved in the programming workshops. In particular, compatibility with the BiH's Poverty Reduction Strategy Paper was ensured. The areas of co-ordination focused on key elements of the SAP agenda, notably public administration reform and co-ordination of economic policy, which are also preconditions for progress in the wider areas of economic and social development addressed by the PRSP.

Examples of joint operational programmes include:

- Support to energy reform including the set up of a Department of Energy in Ministry of Foreign Trade and Economic Relations (MoFTER) and to the Independent System Operator and the Electricity Transmission Company (jointly with Canadian International Development Agency - CIDA, UK Department for International Development - DFID, Economic Bank for Reconstruction and Development - EBRD, United States Agency for International Development - USAID and the World Bank), complementary to the World Bank-financed electricity infrastructure improvement project;
- Public Administration Reform. The BiH PAR Coordinator is responsible for developing the PAR Strategy and coordinating its implementation once adopted. EC, Swedish International Development Cooperation Agency - Sida and DFID have coordinated its efforts to support the Office of the PAR Coordinator and it is envisaged that this collaboration will provide the starting point for a sector-wide approach (SWAP) in PAR

**7. Cost and financing - Summary of the AP 2006 allocations**

<b>Sector areas of cooperation</b>	<b>Financial Allocations (€m)</b>
<b>1. Democratic Stabilisation</b>	<b>2.9</b>
<b>2. Good Governance and Institution Building</b>	<b>18.6</b>
<b>2.1. Justice and Home Affairs</b>	8.4
<b>2.2. Public Administration Reform</b>	10.2
<b>3. Economic and Social Development</b>	<b>21.3</b>
<b>4. Opening of Community Programmes</b>	<b>1.0</b>
<b>TOTAL</b>	<b>43.8</b>

This Action Programme does not include CAFAO and Tempus for which a separate Financing Proposal will be prepared. The total amount envisaged for these two programmes in Bosnia and Herzegovina is €7.2 million: €5 million for CAFAO and €2.2 million for Tempus.